

Putting your impact at the core of your charity's purpose

June 2018



Key messages

- Measuring impact is an important means of persuading or communicating with donors and for demonstrating accountability to stakeholders.
- It is an important tool for enabling organisations to improve their strategic and operational decision making by aligning these with the charity's strategic objectives.
- Measuring performance in charities is complex due to their diverse set of objectives.
- Charities are not always successful in articulating their mission in a concise and measurable way.
- The start of any performance measurement system has to be a clear strategy statement. Importantly the strategy is not only what the charity intends to do, but also what it decides not to do.
- Consider measurement needs during strategy development, focusing on a limited set of clearly articulated questions.
- Good performance measures strengthen the links between organisational and project level performance measurement.
- The theory of change has become a commonly used template for developing financial and non-financial measures for charities. There are other techniques such as outcome maps or a causal linkage map.
- In the context of charities, the balanced scorecard bridges the gap between mission and strategy to day to day operational actions. It allows strategic focus and avoiding the usual dilemma of trying to be everything to everyone.
- Impact measurement is difficult but at the very least charities should provide more information on their activities, their outcomes and an assessment of the impact they are making.
- The failure of charities to report on their impact has created a deficit gap which is being filled by flawed commentary focusing on cost and expenditure ratios.

The age of accountability and transparency

For anyone involved in any way with charities, it is clear that the operating environment for charities is more demanding than previously with increasing regulation, falling income and increasing costs. Also, there is greater scrutiny by the media and through social media channels.

The Edelman Trust Barometer for 2018 and 2017 show that trust is in crisis around the world, with a decline in trust of all four key institutions being business, government, NGOs, and media. Various studies into the UK charitable sector also reveal falling public trust and confidence in the charity sector. Populus in its research for the Charity Commission states that *“donor disillusionment appears to be rooted in more fundamental factors than the odd negative headline”*.

It goes on to explain,



“Trust is fuelled by showing the public what charities achieve, the difference that they make in communities every day. Impact assessment, previously seen as a ‘nice to have’, or something that happened on big government programmes is going to be our greatest asset in the coming years.

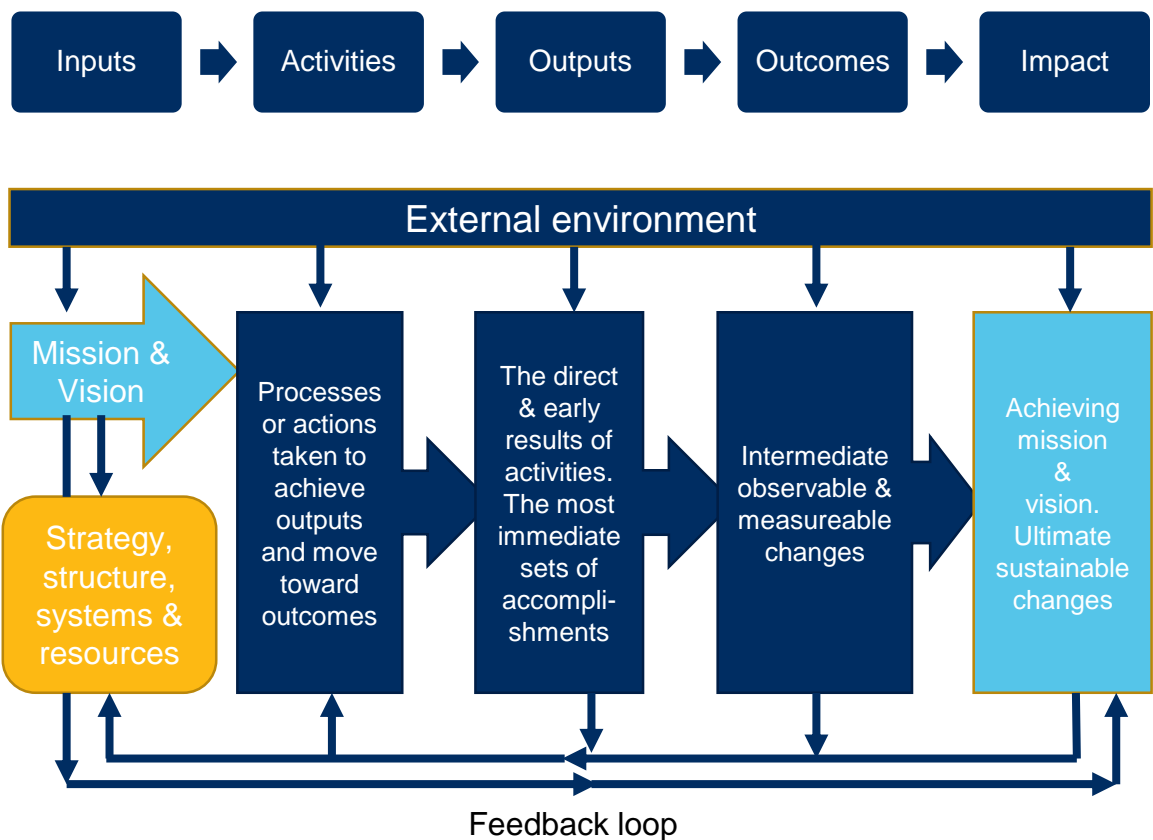
The charities that prosper in this new world will be the ones that can harness the new tools offered by social media to create a virtuous cycle which feeds back evidence of impact to the very supporters whose donations enable their work. This will make donors feel special, prove the link between donations and impact, and justify the way in which charities work. It is an ambitious goal but one worth pursuing.”

All of this means that there is now greater demands for accountability and transparency. In recent years more charities have been focusing on measuring their impact but most have tended to shy away from it because of the issues with measurement of performance. However measuring impact is not only important as a means of persuading or communicating with donors or for demonstrating accountability to stakeholders but is also important in its own right as a tool for enabling organisations to improve their strategic and operational decision making by aligning these with the charity's strategic objectives. In other words using evidence of which activities create the change that the charity was striving for to enable it to make better decisions about which service or programmes to maintain, change, expand or reduce. Furthermore it maybe an old truism but what gets measured gets managed and the same models can be used for demonstrating value for money.

So what is special about charities and their measurement of performance? The business owners or shareholders of for profit companies are primarily seeking profits and dividends and/or increased share price and use these traditional measures to evaluate the performance of companies they hold investments in. However over the past 15 years companies have increasingly recognised the importance of appropriate non-financial performance metrics in evaluating organisational success. In contrast funders and donors to charities have a more diverse set of objectives and expectations and this presents a practical problem of the complexity of working out appropriate measures to track performance against a charity's mission which can be anything from reducing or alleviating poverty or

The input-impact model

There are different models for performance measurement including the theory of change model. Below is a representation of the input-impact model adapted from a model presented by Esptein and Buhovac for performance measurement for not for profits which can be applied to any not for profit and clearly captures the elementary cause-and-effect relationships among inputs, activities/processes, outputs, outcomes and final impacts. At the core of this model is the charity's mission and vision. The charity's strategy, organisational structure, systems (as well as the internal environment) are amongst the inputs.



Adapted from: Performance Measurement of Not-For-Profit Organizations by Esptein and Buhovac.

It provides the linkage between the charity's mission and vision, putting the charity's purpose at the core of its impact and shows how the performance measures can then be used to communicate that impact to stakeholders.

Charities are value led organisations usually set up as a result of a desire to change things. At the heart of this they have a mission which defines the core purpose of the charity describing who the charity's beneficiaries are and what they value. The internal environment plays an important role in supporting achievement of the charity's mission, vision and strategic goals. Senior managers and boards need to build a culture that values organisational performance. The charity sector is already actively committed to principles of empowerment and participation and generally common values are shared among board members, management, employees, and volunteers which help ensure alignment towards the charity's mission.

All elements in the Input-Impact Model (inputs, activities, outputs, outcomes, and impacts), as well as their linkages, are influenced by the external environment. Identifying and understanding external influences is critical for designing the theory of change, as well as gaining an understanding of how these external factors may be contributing to or impeding the charity's success.

Definitions summary

Inputs are the resources that contribute to a programme or activity, including income, staff, volunteers and equipment. Many of these may be reflected in accounting records but many, such as volunteer time, are not.

Activities are what an organisation does with its inputs in order to achieve its mission.

Outputs are countable units, and are the direct products of programmes or organisations' activities. They could be children immunised, animals relocated, classes taught, training courses delivered or people attending workshops. In themselves they are not the objectives of the organisation but some reporting appears to be confusing these with objectives. The outputs are often quantifiable and lend themselves to tables and charts.

Outcomes are the benefits or changes for intended beneficiaries. They tend to be less tangible and therefore less countable than outputs. Outcomes are usually planned and are therefore set out in an organisation's objectives. The trustees' report should highlight outcomes. It is sometimes difficult to properly define outcomes and to be able to claim them as a result of a charity's activities. However, this should not prevent the reporting of outcomes.

Impact is all the changes resulting from an activity, project or organisation. It includes intended as well as unintended, negative as well as positive, and long-term as well as short-term effects. Impact reporting is difficult and many of the impact reports are in fact reporting on outcomes but most make commendable efforts in identifying, recording and reporting on what matters.

The Input-Impact model recognises that the strategy, structures, systems and resources are part of the inputs into achieving the charity's mission and vision. It therefore recognises the importance of aligning organisational structure with mission and vision and that systems should also support the mission statement, vision, and strategy. It also factors in the need for sufficient resources input into achieving the desired impact of various programmes and activities.

Importantly the feedback loop in the model is an acknowledgement of the fact that the impact of various programmes and activities will contribute back to the charity's strategy, structure, systems, and resources and finally directly impact how the charity seeks to implement its mission.

Mission – where are we going?

Charities are not always successful in articulating their mission in a concise and measurable way. This is partly as a result of the complexity of charities having multiple objectives. This makes it critical for a charity to have a clearly defined mission. One way of achieving this is by articulating the charity's mission in a clear mission statement. A clear, focused, concise mission statement defines the core purpose of the organisation, describing who the organisation's beneficiaries are and what they value.

A clear well defined mission statement helps to:

- articulate an effective strategy for achieving desired impacts and, as a consequence develop performance measures that are consistent with that strategy
- drive the entire organisation from top to bottom by declaring how it will contribute towards its goal
- drive financial decisions.

A mission statement should provide the answers to:

- who are we?
- what needs do we exist to meet?
- who are our target beneficiaries?
- how do we recognise, anticipate, and respond to their needs?
- what is our guiding philosophy and culture?
- what makes us distinctive or unique?
- how should we respond to our key stakeholders?

Four fundamental questions for boards and the leadership team with respect to a charity's mission are:

1. how well do our people understand and apply the mission?
2. have we ever succumbed to mission creep? If so, what caused that and how can we prevent it from happening again?
3. are our activities "focused" or "diversified"? Are there ways of bringing greater focus to our activities?
4. do we have the courage and willingness to turn down even very large funding opportunities in order to protect the organisation from mission creep?

Linking strategy to performance – how will we get there?

The strategy is the planned set of actions designed to achieve an organisation's mission. It describes the path towards reaching the mission over the longer term usually defined in three to five year blocks. The strategy is the link between the charity's mission and its planned actions. Importantly the strategy is not only what the charity intends to do, but also what it decides not to do. This is particularly critical for charities which have multiple objectives and limited resources. Deciding what not to do is as important as focusing on what to do to achieve the charity's mission. Some charities have difficulty in clearly defining their strategy and sometimes the strategy is a list of the charity's programmes and initiatives rather than the outcomes of what it is trying to achieve. The consequence of an unclear strategy is that it is hard to devise an effective performance measurement system which focuses on what output and outcomes the charity intends to achieve.

The start of any performance measurement system has to be a clear strategy statement. By quantifying and measuring the strategy a charity can reduce and even eliminate ambiguity and confusion about objectives and methods and gain coherence and focus in pursuit of its mission.

Measuring what matters

The following is adapted from “A guide from actionable measures” by the Bill & Melanie Gates Foundation to help explain how performance measures should be developed for charities.

1. Consider measurement needs during strategy development and review. Performance measures should be introduced at the strategy development stage. In fact they help a charity understand what is capable of being measured and what is not and helps a charity with setting its strategic priorities.
2. Identify intended audience for reporting and prioritise. There are many potential stakeholders in a charity including internal as well as external stakeholders such as beneficiaries, donors or say policymakers. It is important to identify and prioritise who the intended audience(s) is and what information they require.
3. Carefully consider the particular evaluation design or method - Decisions about evaluation design and data collection methods should be balanced against the feasibility of different approaches.
4. Focus on a limited set of clearly articulated questions – It will not be possible to measure everything so a set of clearly articulated questions helps ensure measurements are developed for priority areas or priority stakeholders.
5. Align measures and results across strategy, programmes and initiatives – Good performance measures strengthen the links between organisational and project level performance measurement. As such they can help the charity to confirm and adjust the alignment across its various objectives and strategies and between different areas of its focus.
6. Obtain information needed to inform decisions in a timely way – At the planning stage there should be an understanding of specific information needs and its availability including anticipated timelines. Particular attention should be paid to key decision points and ensure that information is available when required.
7. Allow time for reflection and the development of insight - Data and information alone do not tell us what to do. Making properly informed decisions entails building in time to interpret and reflect upon the products of results measurement, and then applying the insight gained.

Theory of change

The theory of change has become a commonly used template for developing financial and non-financial measures for charities. It shows how a charities expects outcomes to occur over the short, medium and longer term as a result of its work.

The theory of change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks—interchangeably referred to as outcomes, results, accomplishments, or preconditions is depicted on a map known as a pathway of change/change framework, which is a graphic representation of the change. It sets out a clear path from needs to activities to outcomes to impact, describing the change an organisation wants to make and the steps needed to make that happen.

The thinking is that by laying out the sequence of outputs, outcomes, and impacts that are expected to occur as the result of planned inputs and activities, a charity will be able to track in a comprehensive and systematic way whether the expected impacts are actually produced. Furthermore, the well laid out pathway will help the charity demonstrate the impact of its actions.

The diagram below sets out the key stages in developing the theory of change.



Stage 1 Identify goals

The first stage is to identify the long term goal(s) which the charity wants to achieve. This is the goal towards which everything is directed. An impact statement describing the long term difference the charity wants to see happen may help direct the process of identifying the goals.

Example: Intended impact is to see a reduction in youth unemployment.

Stage 2 Identify longer term and intermediate outcomes

The next stage is to work backward from the impact to consider the changes that need to happen in order to achieve the impact. This will help identify the root causes of the main issue which the charity is trying to address.

Example: Young people should gain some experience through work placements to increase their skills and experience. To do this young people need to have an increased knowledge of the job market.

Stage 3 Identify activities

This stage is about identifying the activities that will achieve the outcomes and the goals. It may be possible to plot existing activities and outputs for an existing project which require some revision to do what the charity wants to do. Otherwise external research and discussions with key stakeholders may help identify the activities required.

Example: Run a series of talks for young people by employers and/or run some workshops to upskill the youth hoping to enter the workforce.

Stage 4 Show the causal links

It is important to go through the link and question whether one outcome really leads to the next. Thinking through the causal links can help the process for determining the right course of action, allowing management to think about how important each of the activities is, and what resources should be invested in them.

Example: The charity is confident that the activities will work because in evaluations of previous work there was an increase of 60% of the youth the charity was engaged with who found permanent employment.

Stage 5 Examine assumptions

This stage involves documenting any assumptions made about the links between output and outcomes or examining the connections between long term and intermediate outcomes or setting out the contextual factors which may influence the achievement of the outcomes. This stage is important as it helps to identify the critical success factors and enable these to be monitored as part of the evaluation process.

Example: Young people will respond to the work shops and engage productively. There are permanent job opportunities available for young people.

Outcome map

Another way of expressing the theory of change is by way of an outcome map. An outcome map is a roadmap for articulating strategies and their relationship to outcomes providing a focused view of the landscape as well as the progression of outcomes that describes how get from “here” to “there”. It is particularly useful for advocacy organisations as it helps to highlight the organisation’s interim outcomes as well as keeping a focus on the intended impact. Moreover it helps to build consensus around the strategies that will lead to the desired outcome. It can also be a useful tool for communicating the charity’s work and its efforts.

Below is an example from the Organisational Research Services:

We promote public awareness about communicable diseases to parents and community members (Strategy)

So that

Parents increase their knowledge about prevention of communicable diseases (Outcome)

So that

Parents choose child care providers that implement sanitary practices in their child care centers or homes (Outcome)

So that

Children in child care providers and homes have fewer communicable diseases (Outcome)

So that

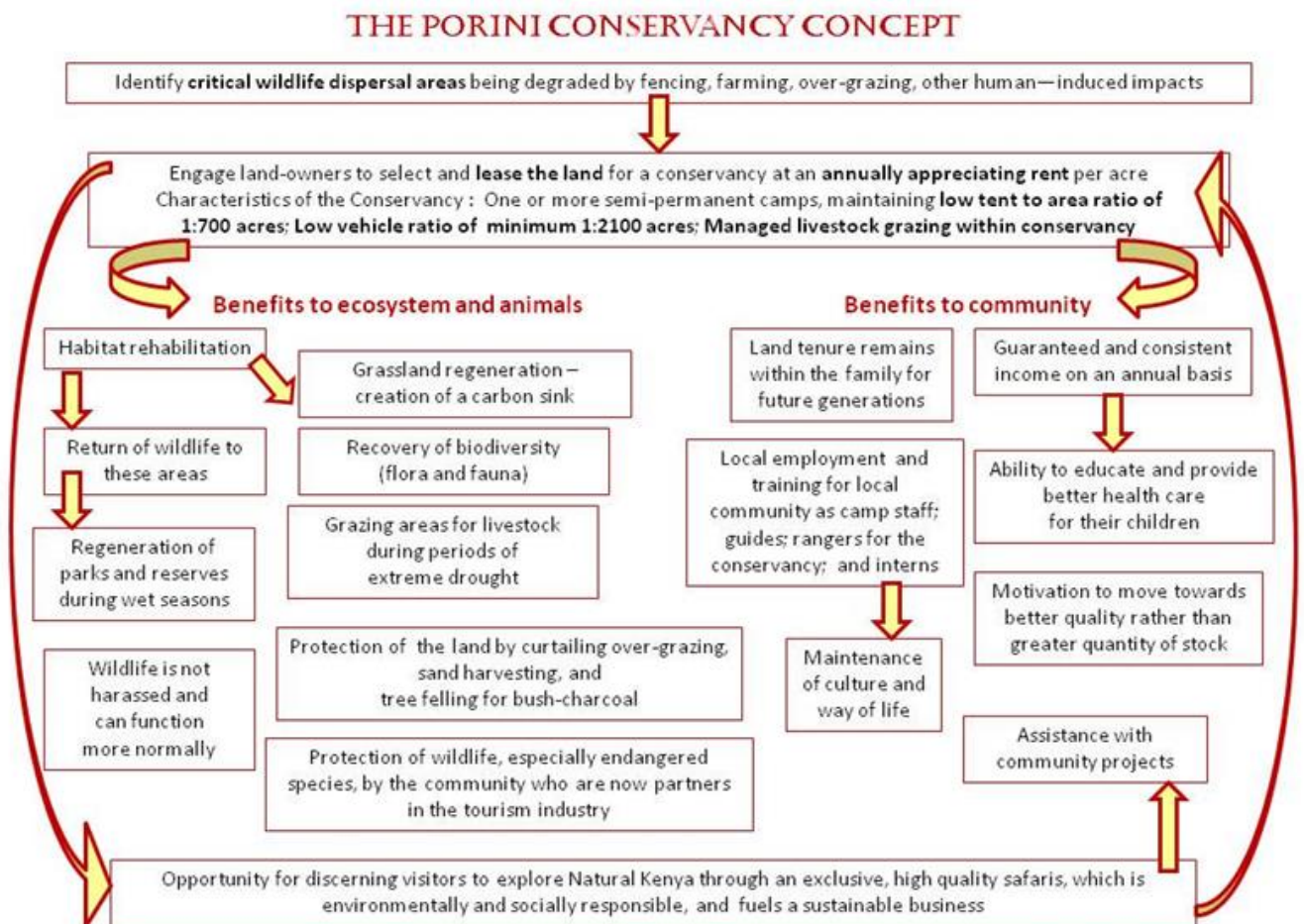
Children are healthy and safe (Goal)

To create a “so that chain” begin with the first strategy on the outcome map and create a so that chain to answer the statement: “we implement this strategy or activity so that *this outcome happens*” – repeat this until you reach the intended goal.

Casual linkage map

The causal linkage map is a framework that can demonstrate that inputs and activities have a direct impact on delivery and ultimately the charity's ability to achieve its mission and vision. Logically designed linkages can help organisations understand, monitor, manage and communicate the many cause and effect relationships such as those between the inputs, activities, outputs, outcomes and impacts. They help the organisation demonstrate how the implementation of its strategies had yielded a tangible benefit to beneficiaries and stakeholders.

Below is an example of a causal linkage map.



Reproduced with permission from Gamewatchers and Porini Camps Kenya

Performance measurement – the Balanced Scorecard

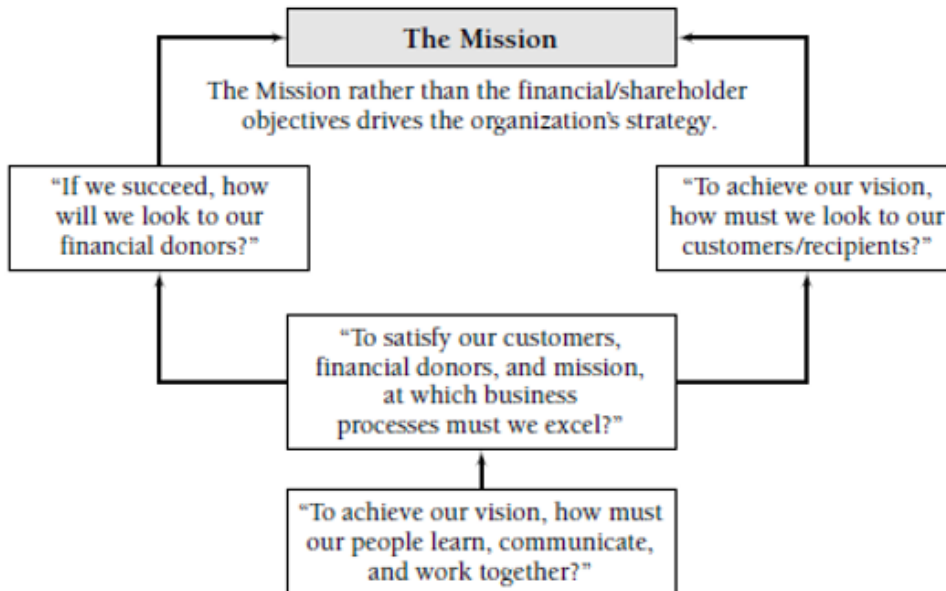
The old saying is “you get what you measure”. The purpose of developing a charity's input-impact model or the outcome map or the causal linkage map is to clarify the mission and how the strategy, structure, and systems help achieve that mission and vision and what resources (financial, human and organisational investments) are needed to generate the expected outputs, outcomes and impacts. The charity should identify financial and other measures which can measure the intermediate and ultimate success of the strategy. The success of a charity should be measured by how effectively and efficiently it has met the needs of its beneficiaries and those it has been set up to serve. Yet most reports of a performance of a charity focus merely on past financial reports which communicate little about the impact of the charity.

To counter this deficiency, Kaplan and Norton introduced a new performance management system called the Balanced Scorecard for private sector organisations. This system retained financial measurements but complemented these with measures from three other perspectives: that of the customer, the internal process, and learning and growth.

The balanced scorecard forces managers to focus on the handful of measures that are most critical by allowing them to look at the 'business' from four important perspectives.

1. How do customers see us? (customer perspective)
2. What must we excel at? (internal perspective)
3. Can we continue to improve and create value? (innovation and learning perspective)
4. How do we look to shareholders? (financial perspective)

This was later adapted by them for charities and is depicted in the diagram overleaf. For non profits, the overarching mission objective is placed at the top of their scorecard. This is because it's the mission that drives the organisations strategy. Another adaption is the expansion of the definition of the customer to put in parallel the donor and the recipient perspectives.



Strategic Performance Measurement and Management in Non Profit Organizations
by Robert S. Kaplan

In the context of not for profit organisations, the balanced scorecard bridges the gap between mission and strategy to day to day operational actions. It enables the not for profit's focus to shift from focusing on programmes and initiatives to the outcomes which the programmes or initiatives are supposed to accomplish thereby aligning initiatives, departments and individuals to work to reinforce each other and accomplish the organisational objectives. In brief it allows strategic focus and avoiding the usual dilemma of trying to be everything to everyone.

In most contexts, knowledge about the impacts produced by an intervention requires an attempt to gauge what would have occurred in the absence of the intervention and a comparison with what has occurred with the intervention implemented i.e measuring the counterfactual. In some contexts this can be very difficult and needs careful consideration

Impact reporting

Charities cannot focus solely on their annual report to communicate information about the good work that they do. Many have good systems for capturing the positive nature of their work, but not necessarily the positive outcomes and impacts they lead to. Impact measurement is difficult but at the very least charities should provide more information on their activities, their outcomes and an assessment of the impact they are making. To do this as explained earlier, it means planning early and putting the charity's purpose at the core of its impact and then communicating that impact to the key stakeholders.

SORP (FRS102) states, *"In reviewing achievements and performance, charities may consider the difference they have made by reference to terms such as inputs, activities, outputs and impacts, with impact viewed in terms of the long-term effect of a charity's activities and outputs on both individual beneficiaries and at a societal level."*

Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations."

There is a recognition that there is a lots of good theory around impact reporting and indeed many examples of good practice. However in some instances terms are used loosely and often what is reported as outcome is in fact output and what is reported as impact is often outcome. However it is important that charities are not put off by the myriad of challenges and look beyond the obvious focusing on:

- what is really measurable?
- why are we trying to measure it?
- what conclusions can be drawn?

The failure of charities to provide this information has created a deficit gap which is being filled by flawed commentary focusing on cost and expenditure ratios.

The Principles of Good Impact Reporting - For charities and social enterprises <https://www.thinknpc.org/publications/the-principles-of-good-impact-reporting-2/> published by NPC, ACEVO, NCVO, CFG and others sets out six specific principles that define what organisations should communicate about their impact. This is as laid out in the table overleaf:

Principles of Good Impact Reporting - For charities and social enterprises

1 Clear purpose

- Why do we exist?
What issue are we ultimately trying to tackle?
- What overall impact do we want to leave?
What change do we seek?
- What impact do our key stakeholders want us to have?

2 Defined aims

- What are our specific short and long term aims?
- How does achieving these aims help us achieve our overall purpose impact?

3 Coherent activities

- What activities do we carry out to achieve our aims?
- What resource do we use to make these activities happen?
- What are the outputs of these activities?
- How do our activities help us achieve our aims and create change?
- Are our activities part of a coherent plan?

4 Demonstrated results

- What outcomes/impact are we achieving against our aims?
- What impact are we achieving against the overall change we seek?

5 Evidence

- How do we know what we are achieving?
- Do we have relevant proportionate evidence of our outcomes and impact?
- Are we sharing evidence to backup the claims we make?
- Are we seeking feedback, review and input where appropriate?

6 Lessons learned

- What are we learning about our work?
- How are we communicating what we learn?
- How are we improving and changing from what we learn?
- What has happened that we didn't expect (positive and negative)?
- Are we allocating resources to best effect?

The Code of Good Impact Practice which has been developed through a sector-wide public consultation and the input of a working group of 17 organisations and was produced by NCVO as part of Inspiring Impact sets out the are eight general principles that define good practice throughout the impact cycle. These are:

1. Take responsibility for impact and encourage others to do so too.
2. Focus on purpose.
3. Involve others in your impact practice.
4. Apply proportionate and appropriate methods and resources.
5. Consider the full range of the difference you actually make.
6. Be honest and open.
7. Be willing to change and act on what you find.
8. Actively share your impact plans, methods, findings and learning.

Principle 8 focuses on communicating a charity's "impact plans, methods, findings and learning to ensure others know what you're trying to achieve and to contribute to a wider view of what does or doesn't work." It goes on to explain that a charity should "acknowledge and describe the limitations of your findings, such as the effects of people, place and timing, on how transferable or replicable the lessons are."



Start the conversation

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