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'Building a dialogue with donors in the current economic climate.'

I'm going to talk to you today about the potential I think there is for charities to learn something from the private sector. Some may roll their eyes at this suggestion but many I imagine would not think this claim too outlandish.

However, my argument is slightly more controversial than that. The lesson I'm going to outline today not only comes from the most scorned part of the private sector - banking and financial services – but quite possibly from one of the most contentious markets within it – credit default swaps.

Credit default swaps are one of the most toxic of financial derivatives which have caused so many problems. Derivatives most broadly have been dubbed by Warren Buffett “financial weapons of mass destruction” and credit default swaps are described by some people, including no less a believer in financial markets than George Soros, as so dangerous they should be banned in most circumstances.

So what possible lesson could I think that such instruments have for charities?

The answer lies in the value that comes from sharing information.

In February of this year, the investment bank JP Morgan did something striking. It decided to publish and give away for free the details of how it calculates prices for credit default swaps. For such an opaque and complex instrument as a CDS, this is significant. It represents a valuable step towards transparency and loss of intellectual property, by the investment bank which helped create these toxic instruments in the first place. JP Morgan has a history of doing this - publishing, for example, a manual of formulae for derivatives during the growth of the credit derivatives market.

Why on earth would JP Morgan do such things?

The simple answer is to make money. JP Morgan is not, after all, a charity.

But there is another reason.

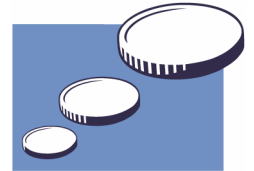
JP Morgan realised that publishing the formula would add credence to the market for credit default swaps and perhaps help stem some of the criticism of these instruments.

They also realised that sharing this information would help the market develop. Yes, it would help JP Morgan, but it would also help others who want this market to exist. From this perspective, this cooperative act represents a contribution towards a broader good.

I'm not here today to defend credit default swaps. The point I'm making is about how sharing information can help to build a stronger and more developed market.

Markets develop through a mixture of cooperation and competition. Frequently, these take place side by side. But too often when we think about the development of markets we only consider the competition and self-interest element. The reality is more nuanced.

Similar to businesses in the commercial world, operational charities often find themselves in competition with each other, both for donations and contracts. And as in the commercial work, many of these charities recognise the benefits of cooperating with each other.



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But there is one area where charities fall down. Where there is little cooperation, little sharing of information, and subsequently little visible progress. The area of measuring impact.

Before I go any further, it's best that I explain what I mean by the word impact. When I talk about impact I'm talking about what charities achieve. While some people get hung up on the distinctions between outcomes and impact, the important distinction in my opinion is between what charities do and what they achieve. I'm interested in the latter.

Many charities say they care about impact, But what does 'caring about impact' actually mean? Is it just about charities measuring their own impact? While I think that is important, I don't think it's enough. To me showing that you 'care about impact' necessarily involves other people: it's talking to funders about it, it's helping other organisations to improve the way they measure impact, and it's supporting sector-wide efforts to improve impact measurement.

Which leads me to the ImpACT coalition.

For those who are not familiar with the ImpACT coalition, it was established to promote public understanding of the work of charities and the benefits they bring to society. It aimed to achieve this goal by improving 'accountability, clarity and transparency' within the sector.

A large number of operational charities and umbrella bodies have joined ImpACT and used its toolkit. Membership of the coalition is free.

Funding came mainly from the Institute of Fundraising via a government grant, with little money coming from the sector and no money from operational charities.

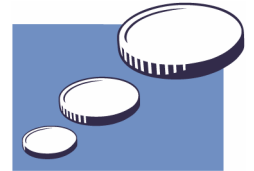
In truth, my opinion to date about the ImpACT coalition has been mixed. In the past the coalition seemed to have little to do with what I would term impact—it didn't major, or even minor, on what charities achieved. Its name to say the least was misleading. However, the organisation seemed to want to make the transition to embrace impact. NPC - the charity for which I work and which is focused on effectiveness and impact - was asked to join the Steering Group. We felt the coalition shared our long-term aspiration that the word impact needs to have substance and meaning, not just provide the wrapping for an organisation.

As of now, the ImpACT coalition is no longer an independent entity. It has been absorbed into acevo, the chief executive's body. Its one staff member is no more and its future as well as its resources are fuzzy to say the least.

This absorption resulted from the ImpACT coalition having to be bailed out after its grant from the Institute of Fundraising was cut.

How much of the bail-out cash came from operational charities do you think? A half? A quarter?

The answer is not a penny. So far as I can tell not one operational charity came forward to support an organisation that is striving to preserve public trust in the charitable sector by improving accountability—this is despite the relatively small total cost of the coalition, £50,000. This is about the same as the salary of a senior fundraiser.



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A membership body can only be as strong as its members make it. If members take but don't give, and are happy to be passive rather than active participants then an organisation won't thrive. This sadly is what appeared to be the case with the ImpACT coalition. One operational charity who is often regarded as taking results measurement seriously was described to me as a member, but a 'fairly inert' member. I suspect that description applies more widely.

Now I want you to imagine what an organisation like the ImpACT coalition could achieve, with the right support and investment. For £2,000 per member, picture a vibrant body, where the real nitty gritty of defining outcomes, measurement, organisational culture around measurement, and communications to stakeholders could take place. A forum where charities could bare their souls, their successes and their failures, and share their own experiences of how to measure, document and communicate impact.

A contribution of £2,000 in membership income would provide close to half a million pounds depending on how many members ImpACT actually has. With this investment a serious attempt could then start to share knowledge across the sector and create real progress.

I think we've missed an opportunity with the ImpACT coalition. But that doesn't mean that we can't move things forward, and prove to funders, government and the public that we, as a sector, do care about impact.

Key to this obviously is that charities invest in their own performance management.

I'm pleased that there are more impact reports out there, suggesting that charities are increasing realising the importance of being able to show their impact. But such reports do not contain enough information to help other charities.

This is where charities need to take a leaf from JP Morgan's book, regarding sharing knowledge. Instead of just telling us a charity's impact, as these reports tend to do, I want charities, especially those that see themselves as sector leaders, to go a step further—I want them also to share information on how they measure their impact.

Tell us which measurement tools and techniques they adopted.

Tell us why you chose them.

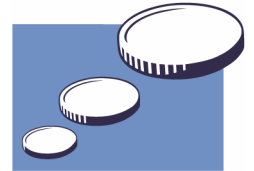
Tell us which approaches to evaluation you found successful and which worked less well.

It's like your maths teacher said to you years ago; even if you haven't found the answer yet, you get points for showing your workings.

Figures on how many lives have been changed or which policies have been improved may be impressive to funders. But this PR-friendly, high-level information on results is less useful to other charities.

Other charities want to learn how you worked out your impact, and get advice on how they might go about measuring theirs.

Publishing not only your results, but also information on how you collected and measured those results, teaches, encourages and pushes other charities to be better. And learning how others have measured their results can also help you to improve as an organisation.



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This takes resources, I am fully aware of that. But it is the way organisations will develop and learn. And, it is the way the sector will progress.

Evaluation within charities is frequently under-resourced and under-developed. Charity Navigator, the leading provider of donor information in the US, found that fewer than 10% of organisations it surveyed are measuring their outcomes in any coherent way. That is a frightening figure.

Here, recent research by the Charity Commission, showed that only 17% of all charities do research or carry out surveys to evaluate their services. This rose to 50% of large charities.

How confident can I then be when a charity asks me for money that it will be applied as effectively as possible? If the charity is large, I have the same chance as a coin toss. For any charity, the chance is less than 20%. Hardly encouraging.

What is clear from these figures and the problems with the ImpACT coalition is that impact is not a priority, either for charities on an individual level or a sector level.

We shouldn't want to be a sector stuck in a rut repeating mantras about impact and the importance of producing evidence without ever moving forward. Like an old vinyl LP, we risk end up getting stuck saying the same things over and over again but going nowhere.

More is needed to push the subject forward.

For starters, charities need more training on the very basics of evaluation and measurement. The Public Administration Select Committee identified last summer, that too many organisations, especially small ones, still struggle with the simple things, such as explaining what they want to achieve.

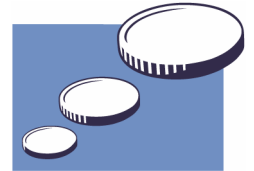
There are a number of organisations out there which can help. Charities Evaluation Services runs a number of courses, and produces several useful publications covering basic knowledge.

And at NPC, my organisation, we are carrying out work on measuring children's well-being, have plans for an online results library and are exploring setting up an Association of Nonprofit Analysts.

Our charity analysis framework, too, is published for free on our website, which we hope represents a meaningful step forward in sharing knowledge. We will publish a second edition of this - Doing good, better - in the next few months. The framework feeds into a grading grid, which sets out the conclusions of the analytical process of the framework, across five key areas;

Importance
Leadership
Ambition
Use of resources; are the first four.

The fifth factor is results, results being another word for impact in my reductive view of the world. This factor has several components, including whether an organisation has a culture of results measurement and how they use these results. Furthermore, the use of information to maximise impact, by sharing lessons and approaches with other organisations gets a big tick.



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Publishing this framework and grid is a deliberate act of sharing our best thinking to date. Note - not the right or even the best thinking - just our best thinking to date in order to help others and learn more ourselves. We want other charities to use it, learn from it and share their feedback with us.

I was asked today to talk to you about building a dialogue with donors in the current economic climate. You may think that the content of my speech thus far has been slightly off topic.

I think not. I think that a charity's dialogue with donors should be based around what really matters, namely that charity's impact. Only then can charities be rewarded on the results they achieve.

There isn't overwhelming evidence that donors care about impact. But remember that donors can only make decisions based on the information given to them by charities. At present, for every charity that discusses impact with donors, there are more that ignore it altogether. And while this is still happening, donors will continue to be confused and continue to make poor judgements about charities' effectiveness based on irrelevant factors such as brand or admin costs.

So how should one respond to this uncertainty about impact – both in terms of how to understand and measure it and its value to donors?

You can take hold of the debate, shape it and help other organisations. Devote more resources to internal impact measurement - and to external communication of this impact. Make communication both honest and clear. And set the stage for a new and better dialogue with donors.

Charities that take the lead in this way could gain new respect from donors - and perhaps resources - by improving the way they explain their work, their successes and their failures.

You never know, one day they might even point to the example of JP Morgan's derivatives team as providing inspiration. Then again, that does seem far fetched.

Martin Brookes was speaking at the CFDG annual conference 2009: 'Managing in a recession.'
19 May 2009.