

Through a glass DARKLY

*The case for accelerating
the drive for
accountability,
clarity and
transparency
in the charity sector*

Time to let the light shine in

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This collection of think pieces was produced by the ImpACT Coalition, a movement of over 400 voluntary sector organisations that seeks to improve accountability and transparency in the charity sector, and increase public understanding of how charities work.

Charities enjoy amazing levels of trust with the British public, and partly as a result, people give generously to them. But as Alan Gosschalk and Ceri Edwards highlight in chapter 1, in reality the public also knows very little about how modern charities actually operate today, and so public trust in charities rests precariously on misconceptions about how those charities work. The risk is that unless as a sector we are more transparent about how we operate and make the case for why, for instance, we pay staff what we pay them, invest in fundraising and make the business decisions that we do, suspicion and scepticism about the charity sector will harden to the point where it starts to damage public trust and levels of giving.

The more we (try to) hide, the more trust we risk losing. And as Alistair McLean argues in chapter 2, across Europe, the fundraising community is reporting increasing demands from donors for transparency and accountability, with the result that accountability and transparency are “no longer key principles to aspire to, but essentials for every charity’s survival pack.” In a tough economic and fiscal environment, the sector is under

pressure to demonstrate worth, and those tax reliefs and other trust-based benefits central to fundraising and governmental support for the sector are being questioned.

In chapter 3, Ian MacQuillin argues that communicating the need to fundraise is just as important as being transparent about how charities spend the resultant money. Public and media hostility to various forms of fundraising has been around for a long time, with many people happy to give to charity, but less happy to be asked to give. And yet the evidence is clear that fundraising works – that if you don’t ask, you don’t get. The challenge is for charities to convince people that it is ok, and indeed necessary, to ask. That asking is based on sound business decision making. Nowhere is this challenge more obvious than with face-to-face fundraising.

In chapter 4, David Pritchard looks beyond outward perceptions and argues that a lack of transparency is holding the charity sector back from being as effective as it could be, because by not being open and honest about where they have succeeded and where they have not, charities make it harder for themselves and others to learn about what works. For many charities, producing rigorous evidence on results is difficult and costly; but lack of transparent information on achievements is partly a consequence of the conventional wisdom that to attract funds and motivate staff and stakeholders, you need all your results to be positive. Somehow, we need to shift

The case for **Accountability, Clarity and Transparency**

Useful resources

Charities interested in improving their accountability and transparency can find useful resources on the ImpACT Coalition website (www.impactcoalition.org.uk). These include the ImpACT Toolkit, which helps organisations assess how transparent and accountable they are and suggests ways forward, and the ImpACT Manifesto, which organisations can sign up to.

The Principles of Good Impact Reporting sets out 6 principles for charities to follow, and was published in 2012 by ACEVO, the Charity Finance Group, the Institute of Fundraising, NCVO, New Philanthropy Capital, the Small Charities Coalition, Social Enterprise UK and the SROI Network.

A range of tools and publications are also available via the Inspiring Impact programme (inspiringimpact.org) for charities interested in focusing more on the impact they have.

that culture to one that sees adding to the collective knowledge of what works and what doesn't as being just as important as getting credit for success.

As Ralph Michell argues in chapter 5, the case for increased transparency in the charity sector is getting stronger as the world around us changes. A 'quiet revolution' is under way in the public sector, with state agencies increasingly required to be more transparent about how they spend their money and with what results. These changes are likely only to add to the pressure for charities to become more transparent, with the danger that if we do not, we will either be left behind or have transparency foisted upon us.

Delivering on transparency requires leadership from chief executives and boards. But as Kate Lee argues in chapter 6, for a variety of reasons that leadership is not in evidence in too many organisations.

In chapter 7, Katherine Smithson argues that efforts to improve transparency in the charity sector are not helped by the framework on which charities base their reporting cycle. Traditional financial reporting concentrates on principles and values of less relevance to the charity sector, instead encouraging charities to report on what money comes in and what outputs they deliver in terms of expenditure, rather than what has been achieved as a result or the way they operate to achieve it. She argues that the future development of financial reporting standards in a charity context, including

a new SORP this year – 2013 – gives the sector an opportunity to move in the right direction and lay the right foundations in their basic reporting framework.

Finally, following the case for increased transparency in the charity sector, Prof. Adrian Sargeant argues that this needs to be accompanied by a 'public education initiative' to help people understand what the unveiled numbers mean – explaining how fundraising works, how investment decisions should be taken and what patterns of performance might normally be expected. Otherwise, he warns, "greater transparency will serve only to lower the public's trust as they routinely bump up against yet another unexpected reality".

Five key questions emerge from the collection of think pieces, which we believe need further debate across the charity sector:

1. How as a sector can we achieve a step change in transparency, in response to the growing demands for such change likely to result from shifting attitudes, the tight financial climate, and greater transparency in other sectors?
2. Building on the work of organisations such as the PFRA, how can charity leaders and fundraisers be supported to put their heads above the parapet and explain and defend to the public how modern charities work, championing transparency in their own organisations?
3. How could funders support charities to produce higher-quality evidence on the impact of what they do, and actively encourage charities to learn from their mistakes in an open and honest way?
4. How can we increase the relevance of financial information charities report to stakeholders (e.g. through changes to the Charities SORP)?
5. Does the sector need a 'public education initiative' to ensure people understand how modern charities work and why?

Trust me, I'm a charity worker

Alan Gosschalk,
Fundraising Director at
Scope and Chair of the
ImpACT Coalition, and
Ceri Edwards of the
Institute of Fundraising,
argue that public trust
is essential for the
sector's future

Charities enjoy amazing levels of trust with the British public. Partly as a result, people give incredibly generously. This is vital because as the state slashes funding, and as the cuts begin to bite hard – and many have yet to hit the sector – charities will rely on this voluntary income more and more to meet the needs of their beneficiaries, needs which will continue to increase in the worsening economic climate.

But has something changed in the minds of the public that we need to be aware of? Are we trusted as much as we used to be? If you scratch the surface you find that the public actually knows very little about how charities operate today, and the techniques used to fundraise effectively. Could this be a problem?

What the public really thinks: perceptions and misconceptions

The stories that hit the headlines seem to indicate that there is a lot of poor fundraising practice out there, and that much of the money raised goes into administration rather than helping vulnerable people. This kind of media and political hype can blow a story out of all proportion, bearing little relation to the reality – it's all about perception.

For example, face-to-face (F2F) fundraising, both door-to-door and street fundraising, has been in the headlines a lot.

According to the media coverage people are bullied and harassed into giving money in their own homes and

on the streets of their towns and cities, and the public appears to believe this too.

So, maybe we need to challenge not only the perceptions held by the public, but also our own perception of what we think about our supporters. Dig a little deeper and maybe the charity sector might find that we do not have that cosy relationship with donors that we believe we have. We might need to do something about that – and quickly.

Here are some facts about what the public thinks about volunteering, campaigning and donating to charity that may help us challenge those perceptions¹. Of the people questioned:

- On average people think that only 53p is spent on 'the cause' – much less than the reality
- People think that charities spend 38 per cent on average on administration
- Only five per cent strongly agree that charities are justified in investing a proportion of current donations through fundraising to ensure their future income!
- Only 11 per cent of people like to receive mailings from the charities they support and care about
- 38 per cent agree that charities take their wishes and needs as a supporter seriously
- People believe that the most effective fundraising methods are shops and collecting tins
- Only seven per cent think telemarketing is an effective form of fundraising.

Scope is the leading charity in the UK working with all disabled people.

The Institute of Fundraising is the professional membership body for UK fundraising.

‘Trust hangs precariously in the balance waiting for a big scandal to break, or more prosaically for the public to realise that charity workers are not volunteers but paid professionals’

The findings are worryingly different from the reality. There remains an implied trust, but people clearly believe that charities are wasting money generally and on ineffective fundraising techniques more specifically. According to another piece of research the stereotypes that people hold in their heads about charities haven't changed for many years. The report says this is because charities "...have not prioritised addressing these gaps in understanding"².

As a result, the public continues to believe that charities are not effective, chief executives get paid too much, fundraising is not effective, trustees are paid and admin costs are too high... among other things.

So, trust hangs precariously in the balance waiting for a big scandal to break, or more prosaically for the public to realise that charity workers are not volunteers but paid professionals, to push it over the edge. So the risk is that charities continue to benefit from trust that is based on unstable foundations until a media 'scandal' reinforces incorrect perceptions and damages charitable giving.

What are the barriers to being more transparent?

Many people believe that strengthening public trust and confidence is paramount, so the question we must ask ourselves is who will champion fundraising? Obviously, chief executives are ultimately responsible, but they have lots on their plate. There is also

nervousness across the sector about putting one's head above the parapet. However, laying low is not a sustainable approach, and ducking the tricky questions risks unravelling. A recent, high profile example of this is F2F. Charities using F2F fundraising methods are often refusing to speak about them. This is further entrenching the belief that F2F is indefensible and creating suspicion among journalists.

So, why are many charities continuing to use this method of fundraising? The answer is simple. It is one of the most effective ways of recruiting long-term supporters, and successfully gets younger people into the culture of giving. And self-regulation is working in this area too. Only very recently, the Fundraising Standards Board (FRSB) ruled against a street fundraising company.

So, what is our problem? There are strong arguments that charities can use to fight their corner and we should not shy away from using them. After all, we are professionals. We develop and follow good practice and comply with legislation – and we are deeply committed to transforming the lives of our beneficiaries.

What can charities do to reassure donors and restore trust?

Donors entrust their money to charities through their fundraisers and we have a moral duty to deliver on this. The more we (try to) hide, the more trust we risk losing – and ultimately this will mean a decrease in donations and

restrictions to the services we provide. So, the answer is simple – let's champion transparency in our charities. Show that we are making a difference by reporting on the impact we are having. We must also admit when things go wrong, and explain how we have learnt from the mistakes made. There are good practice examples of where this approach has worked, and supporters have really appreciated the honesty.

Charities need to get better at demonstrating that they are using donors' money wisely and carefully. This includes taking a proactive approach to publicising where work is done in collaboration to counter donor fears about duplication. Finally, charities should develop effective communications strategies to ensure that these messages are heard by our supporters.

References

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All things to all people

Alistair McLean, Chief Executive of the Fundraising Standards Board, argues that tough economic markets, a hardening of consumer attitudes and misconceptions about the way that charities work, make a true commitment to transparency and accountability an essential requirement for all modern day charities

The FRSB is the independent self-regulator for fundraising in the UK. It exists to ensure that charities are accountable to the public for how they fundraise.

Rising unemployment, higher prices and restricted access to credit have seen consumers, businesses and Government all exercise greater control over their expenditure. People think more carefully before parting with their hard-earned cash, shopping around for a better deal and moving to another supplier swiftly if their expectations are not met. And charities are seeing a shift in the attitudes and behaviour of their stakeholders too.

The public continues to give generously to the good causes they care about, but charities are having to work that much harder for it, often using new and varied ways to fundraise.

Donors are more discerning; they raise questions and demand answers. Across Europe, the fundraising community reports that one of the most common concerns is donors' increasing demands for transparency and accountability¹. Web-savvy, they do their own research and, if they are not satisfied, they can make changes with just a few clicks. Through social media and the press, donor's voices are collective and amplified. Charities must answer to them or risk not only losing supporters, but affecting public trust and confidence in the organisation altogether.

Accountability and transparency are no longer key principles to aspire to, but essentials for every charity's survival pack.

What is meant by accountability and why is it important?

Commonly paired, transparency is defined throughout this report, but accountability

goes a step further; it is about being responsible for your actions. More than just doing things by the book, accountability is an opportunity to communicate an organisation's integrity and commitment to all stakeholders. And, when things go wrong, it can be the difference between a mistake that will be rectified and the collapse of a trusted brand.

The recent scandal of horsemeat being found in some 'beef' products sold in the UK, served in hospitals and schools, showcases the importance of accountability. Transparency exposed the issue, but it is accountability that will resolve the problem and rebuild consumer confidence. The Food Standards Agency was swift to act, launching a transparent investigation and introducing more regular checks to ensure that such a problem is unlikely to happen again.

Although former charity champion Lance Armstrong's reputation is in tatters after it emerged that he had taken performance-enhancing drugs and encouraged others to follow suit, the reputation of the sport itself is likely to bounce back from this scandal due to the international cycling community's firm zero tolerance stance on drugs. Accountability is a commitment to all stakeholders that your organisation is willing to stand by its actions and be held to account for them.

Who are charities accountable to?

Ultimately, charities must aim to be accountable for all things to all people: donors, partners, funders, volunteers, members and beneficiaries to staff,

trustees, regulators, enforcement agencies and the media. Key audiences might also include the communities in which services are delivered and where fundraising is carried out.

The fact is that anyone can ask questions of your organisation and everyone deserves answers. Bigger givers may have higher expectations, but the core principles always remain the same. Charities are in a position of trust and the public expect all organisations – charitable or otherwise – to be as transparent and accountable as possible.

What it means to be accountable?

An honest, open approach to reporting on the organisation's progress, answering queries about how the charity works and what it does are all essential to ensure that stakeholders feel valued and that their feedback will be considered.

It will doubtless mean answering queries about some of the more controversial fundraising techniques, fundraising and administration costs, salaries of high-level staff, and the more prepared charities can be to tackle these issues, the better. The ImpACT Coalition offers guidance on how to respond to such questions, giving contact to such answers by communicating the impact of the charities' work.

As a bare minimum, it is a case of completing regulatory requirements (such as submitting annual accounts) and ensuring that the organisation is accountable to its charitable objectives, its mission and vision and any core principles the organisation commits to abide by.

Regular monitoring and evaluation will not only inform charities about their own progress against targets and ensure they keep to any ethical policies or values that the organisation commits to, but equip organisations to better handle queries about their work.

Reporting on the public benefit is critical, as well as ensuring all charitable activities are conducted legally and in line with best practice. Encourage and facilitate feedback

about all aspects of the charity's work, and ensure the public knows how to get in touch. A robust complaints handling process should be in place for all aspects of the charity's work, ensuring that concerns are dealt with promptly, reported to appropriate regulators and, where relevant, lessons are learnt and activities changed.

With 72 per cent of adults saying they would have more trust in a charity's fundraising if it were accountable to an independent regulatory body², opting into self-regulation of fundraising is crucial. The FRSB requires all charities in the scheme to display the tick logo, to have a complaints process in place, escalate unresolved issues to the regulator and to report details of all complaints on an annual basis. All these requirements are in place to enable charities to communicate that they are accountable to an independent body, to their supporters and the wider stakeholder community.

But accountability doesn't stop there, it must be embedded within the organisation at every level. Although it is charity trustees that are responsible for the charity's activities, this commitment must extend to all members of staff and every step of every process.

Barriers to accountability

The reality is that being transparent and accountable is not easy and is a constant challenge. Many assumptions about the ways that charities work are outdated or misinformed and many organisations have not done enough to counter those myths and communicate the true picture of a modern-day charity.

Too many charities are still failing to do the most basic accountability requirement of submitting their annual accounts. And so it is no surprise that expectations are often way off kilter from the realities and complexities of running a modern charity.

If the sector is to make a true commitment to transparency and accountability, every charity must also demonstrate how it does things. If an

‘Too many charities are still failing to do the most basic accountability requirements’

organisation can ensure that it is fully accountable for its actions, transparency will be far easier to achieve.

Accountability enables charities to ensure they have ready answers, all progress can be linked back to their charitable objectives and key decisions justified; an opportunity to demonstrate impact.

When you've got it, flaunt it!

The good news is that the structure is in place for charities to be accountable. Behind the scenes, organisations are professional, efficient and well-structured, focused on meeting their charitable objectives. Externally, regulatory schemes and best practice guidance set out a clear framework against which charities must be accountable.

The next step is to communicate the organisation's commitment to a core value of accountability. Charities such as the British Red Cross and Christian Aid have taken this move and feature a dedicated accountability area on each of their websites.

At a time when stakeholders are raising more and more questions and have often unrealistic expectations of what charities do, a sector-wide commitment to transparency and accountability has never been more important; a key resolution that will preserve and build trust and confidence in the nation's charities.

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The more things change...

Fundraising activity regularly attracts hostility from the public and media. Ian MacQuillin, Head of Communications at the Public Fundraising Regulatory Association, argues that communicating the need to fundraise is equally as important as being transparent about how charities spend donated income

The Public Fundraising Regulatory Association is the charity-led membership body that self-regulates all forms of Direct Debit 'face-to-face fundraising'.

Fundraisers “tarnishing the image of charity”; “aggressive” and “emotive” methods of fundraising being used; “disproportionate” fundraising costs. These were some of the complaints made to the Charity Commission...in 1984¹. Trawl the news and social media in 2013 and you’ll find the same types of comments. *Plus ça change, plus c'est la même chose.*

Initiatives such as the ImpACT Coalition are striving hard to persuade charities of the need to be open, transparent and honest not just about how and why they spend the money they raise from the public, but also about the impact those donations have on the lives of beneficiaries.

But any successes in this direction will count for little if a large proportion of the public doesn’t understand how and why charities raise that money in the first place – and worse, if they actively object to charities asking them for money. Making the public understand the need for fundraising is the one of the greatest communications challenges the charity sector faces, because fundraising is the main charity-public interface.

The most common way that members of the public interact with a charity is when charity fundraisers ask them to donate, whether that’s in person by a telephone or street fundraiser, in proxy via TV adverts, SMS or direct mail, or virtually through pop-up ads and emails. Of course, there are non-fundraising communications channels that reach the public – such as non-ask awareness raising advertising, or policy and campaign reports that make the

national news agenda. But it’s through fundraising that the public are most likely to regularly interact with charities.

Communicating the importance of fundraising

Fundraising is vital. The adage ‘if you don’t ask you don’t get’ is there for a reason. Academic research shows that around 85 per cent of people give in response to being asked by a fundraiser². And yet the nub of the communications issue around fundraising for the charity sector is that, not only do large swathes of people believe that their giving is not influenced or directly motivated by charity fundraising, they also believe that charities ought not even ask.

One of the regular objections to street face-to-face fundraising is: “I will give when I choose to.” Many people are happy to give their patronage to charities, but object to being asked for that patronage. The communication issue is: how do we change that view and convince people that not only do we have a right to ask them for support, we actually have a duty to do so that underpins that right.

Face-to-face fundraising has been the fundraising success story of the last 15 years. According to fundraising guru Ken Burnett, face-to-face fundraising “literally saved the fundraising sector” when the costs of other forms of donor recruitment had gone through the roof³. But because street fundraising is the most visible method of fundraising, it has also become the most controversial. This is because, while all forms of fundraising challenge the conviction held by some people that they

The case for **Clarity** – communicating the need for fundraising

should not be asked to give, most other fundraising avenues can be fairly easily ignored, dismissed even: direct mail can be put unopened in the recycling, or stopped altogether, as can phone calls, through the relevant preference service; direct response TV ads can be channel-hopped.

But you cannot make a face-to-face fundraiser disappear simply by pressing a button on a remote control. This often means that people who object to being asked to give channel all their objections about fundraising into one form of fundraising – face-to-face – the type of fundraising the feel they can't escape. In the battle to change the public perception of fundraising, street face-to-face fundraising is the on the frontline, both literally and metaphorically.

The tools to do the job well

Because of this, we've put in a lot of thought at the PFRA about how we can change the public perception of face-to-face fundraising, and we believe what we have done is replicable for other types of fundraising, and for the overall profession of fundraising.

There were two problems. First, as face-to-face fundraising rarely got a fair hearing in the media, many charities were reluctant to publicly defend it: they didn't want to put their heads above the parapet for fear of having them taken off by media cannonballs. Second, when charities did try to respond to the media, they often did not tackle the specific objections being put to them. For example, one of the main objections to face-to-face fundraising was that it was an unacceptable form of fundraising because it put too much pressure on donors. Charities would often respond that it was very successful. But being successful did not make it less 'unacceptable', so this approach led to opponents and proponents of face-to-face fundraising talking past each other and the debate stagnating.

What we have done is to try to get the debate moving again through using new key messages. And once the debate has started to progress, we have encouraged

charities to take part in it by equipping them with the tools to do the job well. There are two key messages that we fall back on time again.

The first is that, in principle, face-to-face fundraising is no different to any other form of fundraising. All forms of fundraising have a cost, attrition levels, break-even point etc. When people complain that the 'first year of the donation goes to the "chugger" company', we point out that all forms of fundraising are an investment. No form of fundraising exists in isolation and our key messages ensure that we always talk about face-to-face fundraising holistically as just one part of the fundraising mix. Second, we explain that fundraising is a balancing act between charities' duty to ask for support and the public's right not to be put under undue pressure to give.

We have also encouraged charities to be confident in defending face-to-face through their own use of these key messages, and by recruiting 'advocates' – senior people such as Adrian Sargeant, Giles Pegram CBE and Ken Burnett, as well as charity fundraisers – who are prepared to proactively champion and defend the entire practice of face-to-face fundraising, not just their own charities' use of it.

Our key messages and advocacy programme have really worked for us, moving the 'debate' – such that it was – away from the media's preoccupation with costs and the manner of asking towards a more holistic view that covers why charities use face-to-face fundraising as part of their fundraising mix. In December 2012, a BBC TV journalist even asked our CEO if, rather than object to being asked

on the streets by paid fundraisers, the public needed to change their perception of why and how charities raise money? Now that is progress and provides a fertile platform to engage the public about the need to fundraise.

The fundraising sector can do this by adopting PFRA's dual-pronged strategy of utilising holistic key messages that embed different types of fundraising firmly in the overall fundraising mix and equipping 'advocates' to deliver those messages. If we are to succeed, fundraisers will have to be brave enough to put their brands in the spotlight, and the fundraising community must develop a strong and unified voice in defending their profession (this means that some proponents of different types of fundraising need to stop sniping at each other).

But it can be done. And it needs to be done. Stripped down to fundamentals, charities only really do two things: they carry out their charitable purpose, and they raise the money they need to do that. We need to be accountable, clear and transparent about both these basic facets of charitable activity. But we won't progress if we focus on impact reporting but forget to explain the need for fundraising. And we certainly don't want to be reading about fundraisers 'tarnishing' the image of charities 30-odd years from now.

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‘ Making the public understand the need for fundraising is the one of the greatest communications challenges charities face, because fundraising is the main charity-public interface ’

Up from the ashes...

David Pritchard of **New Philanthropy Capital** argues that a reluctance to publish bad results, along with the good, is in danger of holding the charity sector back from being as effective as it needs to be

For the charity sector, the gap between espoused good practice and actual practice may be at its greatest when it comes to transparent reporting of the impact of what the charity does.

There is plenty of support for the idea of reporting impact in an open and honest way. For example, one of the Six Principles of Impact Reporting produced by ACEVO, NCVO, NPC, the SROI Network, CFG (formerly CFDG)¹, and the Institute of Fundraising is that “reporting is clear, open and honest.” In addition, the ImpACT Coalition, representing over 400 charities and trade bodies, has a transparency manifesto and a toolkit to help charities assess their accountability and transparency so they can improve it.

This commitment to transparency is great. So why, then, in practice, do we rarely find reports from charities on what does not work? Why don't charities' websites include stories of ineffectual programmes and disappointing results? There are some, such as:

- the 2008-2011 Failure Reports of Engineers Without Borders²
- Enterprise Solutions to Scale, the Shell Foundation's reflections on its first 10 years³
- the Hewlett Foundation's report on disappointing results of its multi-year, multimillion dollar initiative designed to improve the lives of residents in the Bay Area⁴
- the aptly named www.admittingfailure.com, “an open

space for [international] development professionals who recognize that the only ‘bad’ failure is one that's repeated”.

But these are the notable exceptions. It seems implausible that the impact of charities is all positive except for these noted above. Hence there appears to be a big gap between the commitment to and practice of transparent reporting.

Why is there such a gap?

It is important to recognise the gap is not the result of senior managers of charities, their staff and trustees cynically publicly endorsing the principle of transparency while privately ignoring it. In NPC's recent survey of charities' practices of and attitudes towards measuring impact⁵, over 70 percent of respondents agreed or strongly agreed with the statement, “Charities should be encouraged to report failures or negative results.” This was an anonymous survey. We can assume it reflects actual beliefs, not something said just for public consumption. Charity staff and senior managers really believe in the principle of transparent reporting.

Rather the gap exists for, at least, two reasons. The first is simply pragmatic. Producing rigorous evidence on results is, for many most charities, difficult and costly. NPC's Measurement and Evaluation team sees the challenges that charities face in collecting and analysing robust impact data every day. There are ways to address these challenges, but it is hard for charities (or anyone for that matter) to produce robust evidence that is either positive or negative.

The case for **Transparency** – reporting bad results

But the second cause of the gap is more difficult to address. Many chief executives of the charities we work with are torn between wanting to be transparent in the results of what their charity does and so contribute to the sector's knowledge of "what works", while also wanting to show their charity in a good light. This creates a dilemma if results are disappointing.

The conventional wisdom is that to attract funds and motivate staff and beneficiaries, you need to demonstrate good results. Any charity that puts its head above the parapet and reports poor results or evaluations is at risk of losing funds, staff morale, and stakeholder support. A charity may also not know what to do with poor results, a further disincentive to acknowledge them let alone publish them. So typically – with some exceptions – poor results are hidden. As Caroline Fiennes, author and philanthropy advisor says: "Having been a CEO of a charity, I can tell you there is no incentive to publish bad news."

Is it a problem?

The gap is a problem because it is probably the biggest barrier to charities achieving their potential impact. If poor results are not reported then other charities fail to learn. Poor results provide valuable information about what does not work, or does not work effectively.

At the launch of Project Oracle, the Greater London Authority and Economic and Social Research Council funded initiative to help charities that are working with young people improve how they monitor and evaluate their services, Professor Nick Tilley of UCL repeated a very apt phrase he had heard from a police officer. The officer despairingly noted that the police "are doomed to succeed". If all programmes succeed, then everything works, and anything goes. And there is no progress. Because "impression management" can substitute for reporting impact and poor results are hidden, charities are left to repeat each other's failures.

This stands in contrast to the health sector, for example, where research, evaluation and learning are integrated with the development, selection and delivery of treatment, albeit imperfectly. So while in the last twenty years medicine has developed new and better means to prevent and treat cancer and many other medical problems, it is not clear that we have made much progress in preventing and treating the many social ills that charities struggle with.

This is in part due to the differences in resources allocated to research, development, and evaluation between the sectors. But it also reflects, critically, a different attitude towards evaluating and reporting results.

Creating a new culture

The task is to create a culture where adding to the collective knowledge of what works and what does not is as important – and is equally rewarded – as the credit a charity gets for showing it is successful. It is not obvious how to do this. Principles and toolkits no doubt are important, but by themselves will not be enough. Funders can help by supporting efforts to produce high quality evidence and not punishing charities that provide leadership in these efforts. BIG's Realising Ambition programme and Project Oracle are good examples of what funders can and should be doing.

But we also need leadership from charities to be really transparent in reporting impact, remembering that, as the *Chitty Chitty Bang Bang* song goes, "up from the ashes of disaster grow the roses of success".

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- 4 http://hewlett_prod.acesfconsulting.com/uploads/files/HewlettNIIIReport.pdf
- 5 <http://www.thinknpc.org/publications/making-an-impact/>

New Philanthropy Capital works to make charities and funders more successful in achieving their missions.

‘Why do we rarely find reports from charities on what does not work? Why don't charities' websites include stories of ineffectual programmes and disappointing results?’

Left behind?

Ralph Michell of ACEVO argues that there has been a quiet revolution in public sector transparency, and points the way to how charities can respond

It is a little-noted, but potentially hugely significant fact, that the public sector in Britain is becoming far more transparent about how it spends money and what results it achieves. It seems inevitable that there will be major implications for charities – thousands of whom are funded by the state, thousands of whom provide services that public sector organisations also provide, and all of whom interact in one way or another with a public whose expectations are likely to shift as the public sector changes.

It is not clear that in the charity sector we have woken up to these implications, or have got our heads round what they might be. The danger is that while the public sector becomes more and more transparent, the charity sector gets left behind. That we miss out on the benefits that greater transparency brings. That we allow a lack of transparency gradually to become a reputational liability. Or that eventually we have transparency forced upon us, through the extension of rules designed for the public sector. This is a curve we need to be ahead of, not behind.

The quiet revolution

A quiet revolution is unfolding in the public sector. Without much comment, the state is becoming more open and transparent. Over the last few years, the UK government has released the largest amount of government data of any government in the world. Every item of local authority spending over £500 is now published online, as is every item of

central government spending over £25,000. Contracts with external suppliers are now published, at central and local level. The public can access names, grades, job titles and annual pay rates for the most senior civil servants and officials at non-departmental public bodies, and can do similar for senior local authority staff.

Beyond how the public sector spends its money, the government has started publishing, or committed to publishing, data about how the public sector performs on a range of issues, from where school pupils end up after leaving school, through crime maps, re-offending rates at different prisons and sentencing data on a court-by-court basis, to clinical outcomes for different GP surgeries and complaint levels at NHS hospitals.

More than 8,000 datasets are now available on the Government's data.gov.uk website, and literally millions of items of data have been thrust into the public domain over the past few years.

None of this is to say that the public sector has suddenly become a shining exemplar of how to be open and transparent. There are problems with how usable the data is, in some cases key information remains unpublished, and a culture of openness does not necessarily come with requirements to put more numbers in the public domain.

The point is not that public sector organisations have now got it right on transparency and that we in the charity

‘If we do not become more transparent of our own accord, we will have transparency foisted upon us – potentially in a way that is insensitive to the way charities work’

‘If the public’s experience of public sector organisations is one of increasing transparency and openness, while its experience of charities remains largely unchanged, there are clear risks as to how we are perceived’

sector should get on with aping them. Instead, the point is that these changes are happening, that the public sector is on a very clear trajectory, and that all this is likely to have significant implications for charities.

The public sector organisations, that many charities are funded by, will increasingly be expected to be open and transparent about where their money goes and what they achieve with it. For them, publication of spend, performance data, the content of contracts and senior salaries will become ‘the new normal’.

The same will apply for public sector organisations as providers, many of whom operate alongside or in competition with charities. And it seems likely that as the public sector changes, so too will the expectations of the public. If I can see how well my local school, hospital or prison performs on a range of metrics, can find out what the chief executive of my local council is paid, and can see what my local authority spent its money on last month, how might my expectations of the charities I donate to change in turn?

How charities respond

Charities are different from the public sector. They have different imperatives, different accountabilities, different levels of resource. But – doing so in our own way, not aping the state – our response to the quiet revolution in public sector transparency surely has to be to become more transparent ourselves.

There are two clear dangers if we do

not. The first is that a growing gap with the public sector on transparency slowly damages public trust in the charity sector. If the public’s experience of public sector organisations is one of increasing transparency and openness, while its experience of charities remains largely unchanged, there are clear risks as to how we are perceived.

The second is that if we do not become more transparent of our own accord, we will have transparency foisted upon us – potentially in a way that is insensitive to the way charities work.

Arguments in this direction are already being made. In 2010, a private members bill brought to the House of Commons sought to extend Freedom of Information legislation to non-state providers of public services. If a local council-run children’s centre should be subject to FOI, the argument ran, why not one run by a charity – particularly if growing levels of outsourcing mean more and more such services are likely to be delivered by non-state providers?

Similarly, in its report on the Government’s transparency agenda, the Public Accounts Committee argued that “Government should ensure that there is a level playing field in information requirements between different provider types”, and that “if transparency is to be meaningful and comprehensive, private organisations providing public services under contract must make available all relevant public information”.

To date, these arguments have not

resulted in a major extension of FOI legislation or transparency requirements to charities delivering public services. But the potential is very clearly there.

Finally, transparency presents us with opportunities. The Government is pursuing transparency in the public sector because it can be beneficial – because it can improve accountability, drive up efficiency, increase levels of trust, and involve more people in the generation of new ideas or service improvement. Similar arguments apply to the charity sector, and in this sense the ‘transparency agenda’ in the public sector simply gives fresh impetus to a debate that has been going on in the charity sector for many years.

The case for greater transparency in the charity sector has always been a strong one. The quiet revolution in the public sector makes it all the more important that we act on it.

ACEVO is the Association of Chief Executives of Voluntary Organisations, representing the voice for chief executives in the third sector.

Who leads in transparency?

Kate Lee, CEO of Myton Hospice Group, asks whose job it is within the voluntary sector to lead the drive for greater transparency

The concept of ‘transparency’ has been widely discussed in the voluntary sector for over 10 years now.

However significant movement towards open, honest and proactive sharing of information seems to be slow. As a result the public seem to remain in the dark about how charities operate and are still regularly surprised (and appalled) to discover that we do occasionally turn the heating on rather than put on another jumper.

The overall drive across the sector to improve transparency and as a result improve accountability and public understanding, is very much based on the need for us, as a community, to challenge the myths around charities and to make our whole sector more robust. In general there is a consensus that this is a good thing; a recent *Third Sector* poll suggested that 64 per cent of its readers felt that the drive for accountability across the sector hasn’t yet gone far enough, with transparency being an important part of achieving this.

So what is stopping us? There are a range of possible arguments from ‘who jumps first’ to ‘no-one cares’ but in reality the issue is simple – delivering a transparent organisation takes commitment, an element of bravery and above all else, strong leadership.

Chief executives and boards need to understand the publicised potential benefits of transparency, keep the risks in perspective, and exemplify the confidence it takes to stand up and be

counted, not only for the organisation’s successes but also for its challenges. Transparency can’t be this week’s ‘fad’ and it needs an internal culture which supports it – which means it needs leaders to give it more than a ‘nodding glance’. Those charities that lead the field in transparency are likely to have a competitive advantage over those that lag behind. This will come from not only increased trust and confidence from donors but also using transparency as the catalyst for continual improvement.

Those organisations which make a long-term commitment to openly publicising everything from research to evaluation, complaints to the results of inspections, reviews and audits, commit themselves publicly to improving the quality of their offer. Again, this kind of benefit can only be reaped by those leaders, individuals but also board and management teams, strong enough to make a sustained commitment.

But ask the CEOs and board members of most UK charities how often they are even discussing the topic at senior management or board meetings and the response is very telling. “We don’t need to discuss it, we do it naturally,” says one, but when asked for five pieces of key (and pretty standard) information such as unabridged trustee board minutes the response is less certain.

Several factors may contribute to this crisis of confidence.

Figures filed with the Charity Commission show that there are

Myton Hospice Group is a registered charity that provides palliative care across Coventry and Warwickshire.

The case for **Transparency** – the need for leadership

945,509 trustees in the UK and each one of these will probably bring their own unique personal and professional experience of transparency and accountability to their charities. For those recruited from the corporate world, proactively sharing information, other than that which markets the organisation in a positive light, may seem alien.

For those from the statutory sector, particularly in charities with elements of public funding, the assumption may be that the same levels of regulation already apply. A Senior NHS manager and fellow trustee for several years was shocked to realise that the Freedom of Information Act did not apply to charities.

Charities which have service delivery volunteers on their boards may find themselves in the position of avoiding reporting honestly on impact or the profitability of fundraising events for fear of upsetting fellow volunteers. This kind of ignorance or well intentioned protection can suppress the role of the Board as the champion of transparency.

This is of course a broad generalisation. All boards can address their scepticism, prejudice or lack of knowledge through methods such as training or even just debate – but only if the issue is recognised as important and relevant to the charity they govern.

Some charities, which empower users and donors to play an active role in governance, report achieving a culture of transparency and accountability more easily. This is because there is a constant presence reminding the board that the

funds do not belong to the organisation, but are merely held in trust by the charity as a middle man on behalf of the funders and beneficiaries. Despite the third sector becoming more corporate and competitive, we still differ significantly from the private sector.

Charity boards must be regularly reminded that our funding and spending mechanisms mean we have the same level of accountability to the donor that the statutory sector has to the taxpayer. We must find the right balance between maintaining our privacy in order to compete and ensuring openness in order to be accountable.

Many trustees from corporate backgrounds wrestle with this when publishing a less than glowing evaluation of a core service for example, especially knowing they will still need funds for the service (or similar) in future. However, there is a glimmer of hope that this may be changing.

A colleague from a charitable trust, whose board is dominated by those from the banking industry, recently reflected feeling a real change in the way the senior management team were being asked to be honest about projects that had failed: “For the first time they (the board) are saying ‘let us break the bad news stories rather than being found out.’”

There is no denying that boards are not alone in facing these challenges. The CEO and senior management team are key to establishing a culture where the norm is ‘to share everything unless there is good reason not to’ – rather than ‘to share most things if we are convinced of

your reasons for wanting the information’.

A challenge often heard from CEOs is that no-one really cares, so why spend time, effort and precious funds on achieving a more transparent organisation. One CEO recently bemoaned that they had spent weeks on preparing a quality account but were pretty sure that no one had read it. The same CEO lived close to Stafford Hospital, which made for an easy comparison – she may not have spent time reviewing the performance of her local hospital, but was she glad that through the Freedom of Information Act, those that had been inclined to do so had been able to.

The same applies to MPs’ expenses, most of us will never put in a Freedom of Information request but the fact that we could ensures some sense of accountability and security. I will probably never read the annual accounts of the charities I support each month, or compare their performance...but I could if I needed to, and others might. It is not whether I *do*, it is whether I *could* – it is my money (whether I donate it or receive their services) after all.

Strong leadership from the board and the senior team, remains a key component to achieving really transparent organisations that will improve both accountability and, ultimately, public awareness. It is important that we continue to debate the issue, explore our individual preconceptions and raise awareness of the value of transparency across the sector.

‘All boards can address their scepticism, prejudice or lack of knowledge through methods like training or even just debate – but only if the issue is recognised as important and relevant to the charity they govern’

Through the window

Katherine Smithson of the Charity Finance Group discusses the challenges and opportunities in using financial reporting to improve charity stakeholder understanding

Civil society can embody localised collections of active citizens, blossoming educational, artistic and cultural pursuits, and large scale organisational structures. Applying conceptual ideals of transparency to financial reporting for this broad group is a challenge, and one we have yet to perfect.

All in all, civil society is more important than the price tag suggests. It delivers important services which offer a lifeline to many, it identifies and finds new solutions to issues within society that others cannot see and it provides an opportunity for the public to express their support for the things they care about. Given the range of activity it's responsible for and reliance on public donations of time and money, being able to hold organisations to account is crucial. Despite this, the framework on which we base financial reporting in the sector does little to enlighten us and tell us what we need to know about the charities we support. While it can tell us a lot about a charity's inputs and outputs, it does not tell us much about what the charity's impact is. There are however, things that charities can start to do to improve their own reporting.

Demystifying financial data

It is somewhat of a paradox that money, undoubtedly the most sought after resource driving charitable activity, is also potentially the most veiled once it leaves donors' hands.

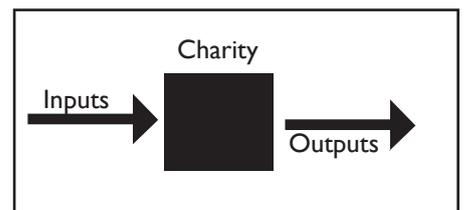
There are limits to the usability of

financial information in its purest form. There is also little doubt that perceived risk of mis-interpretation from the more discerning donor contributes to charities' reluctance to open up. There is for example, not undue nervousness when communicating costs of fundraising, not to mention the feared 'administrative' abyss.

Charities: a 'black box' model

Current financial reporting treats charities like a 'black-box', with inputs going in one side and coming out the other; the internal workings blacked-out. These inputs and outputs often seem of obvious importance because they are the easiest to see. Inputs include donations, public money or volunteer time whereas outputs tend to be linked to financial spend on the cause and tangible actions, but not necessarily what those actions achieve.

For example, a donor may contribute to a building project; their attention is on the building, a specific output. But what about the steps involved in getting to the building itself, and what happens after it is built?



Categorising expenditure according to outputs, something we can usually find in a charity's annual report, is relevant information, but it only tells us part of

Charity Finance Group is a charity that works with finance professionals to ensure best practice in charity finance.

‘It is somewhat of a paradox that money, undoubtedly the most sought after resource driving charitable activity, is also potentially the most veiled once it leaves donors’ hands’

the story. Though often hidden from view, what happens inside the box matters. The true measure of effectiveness should be overall ‘impact’. This is what should be influencing the internal decision making process, but it is not necessarily captured in the outputs charities are judged on and report on day to day, mainly because they are difficult to measure and demonstrate.

Inside the box

If we are going to open this window into the organisation, then we need to get our house in order. It is essential that the right questions are being asked by both the board and the senior staff at the point of budgeting and financial planning.

Responsibility for this is two way. In the sector, we often refer to the ‘impact cycle’, which is tied together by a learning process. Learning supports good decision making. This is essentially what a charity’s management and organisational structure is there to facilitate: making decisions on how money is spent and ensuring it is spent in the best way taking on board the evidence available.

The next stage of this is then to communicate this process to stakeholders. This requires a step change in approach to reporting, and is ideally tied in with the financial data reported so that individuals are able to see how operational and structural expenditure contributes to impact.

Traditional financial reporting standards have focussed on the needs of private entities, and therefore on profit and loss. For charities, these parameters of financial reporting cannot be used to portray alternative measures. The problem is that because our classic approach to financial reporting is more akin to the classification of inputs and outputs, it does not currently support representation of the second of the two models above.

Supporting a step-change in sector approach to financial reporting

Over the years principles underlying reporting standards in the UK have been debated, tweaked, adapted, and re-interpreted in order to take on some of the nuances of accounting for not-for-profits. The Charity Statement of

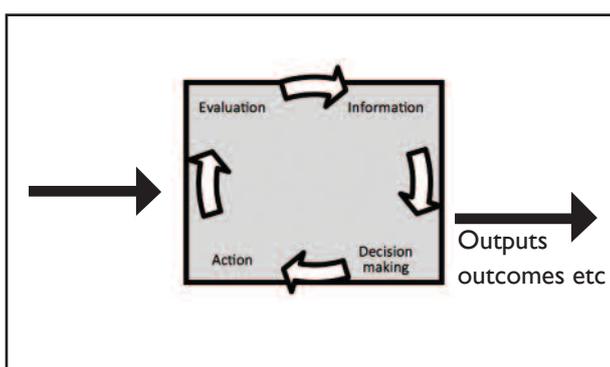
Recommended Practice (SORP 2005) is generally used by charities to guide their financial reporting. It interprets UK reporting standards with the sector in mind. Charities report on income and expenditure first and foremost, rather than profits; this is an example of a useful adaptation.

This year we will see a move to a new set of reporting standards, closely aligned with those used internationally. A long-running consultation process, undertaken under the remit of the Financial Reporting Council, has given opportunity for the sector to re-ignite debate over long-standing areas of contention.

Not all issues have been ironed out, but there are now additions to the standards that apply only to ‘Public Benefit Entities’, marking a step-change in approach.

As a new SORP is developed, it’s important to consider how financial reports can be used to meet not only regulatory requirements, but also to help stakeholders to understand more about organisational workings. The constraints of financial standards will likely remain, but a new SORP presents an opportunity to re-shape reporting best practice guidance so that we can start to move stakeholders away from the fixed black box model of inputs and outputs, towards one focused on impact.

Fully embracing this however, requires the cooperation of charities and a far more significant review from the financial reporting standard setters.



Need to know and need to tell

Adrian Sargeant of the University of Plymouth argues that a greater focus on transparency in the charity sector needs to be accompanied by a drive to educate the public on how modern charities work

Pressure to improve accountability and transparency abounds. Everyone it seems wants to know more about how our sector spends its money, what it spends on programmes and what it might squander on the seeming frivolity of good quality management and fundraising.

While it is entirely right and proper that we should offer information to the public about how donated monies are spent, it seems clear that any such effort is doomed to be futile in the absence of a concomitant effort to educate our audiences about what the numbers might mean. This is a particular concern given the rise in the number of intermediary bodies claiming to offer advice to donors about the worth of specific organisations.

It is painfully clear that many of these organisations too, have not the slightest idea what would constitute a reasonable pattern of performance. My personal favourite is the body that awards top marks for anyone claiming zero costs of fundraising. Good luck with that

But let's start with administration. Ask yourself whether it is right that a charity spend five, 10 or 15 per cent of its total expenditure on administration? Would Dorothy or Jim even begin to know what was meant by 'administration' and what might comprise it? Would they understand what constituted a reasonable salary? If they learned that a chief executive was

earning £70,000 running a charity with an income of £7m, is that a good thing or a bad thing? Would they understand too that despite the best efforts of our sector's finest accountants, that the figures reported were still only a 'fair' view on the charity's operations and that different reporting regimes might yield very different reporting outcomes? I suspect not.

And why would they? There isn't a single dedicated public education initiative currently operational in the UK. The charityfacts website can no longer be viewed due to a lack of resource and nothing has yet been constructed to take its place – an own-goal given the ongoing push for transparency.

The picture in respect of fundraising is even more problematic. What would be a reasonable proportion of expenditure (or income) to spend on fundraising? 10 per cent? 20 per cent? 30 per cent? The answer of course is that it depends on the objectives of the charity, but can our Dorothy or Jim be expected to imbibe that from the ether?

If the goal is to grow the supporter base to develop future income, then a higher allocation will inevitably be necessary and research tells us clearly that those charities spending more in the here and now will reap the benefits of higher revenue in the future.

Rational charities who predict a growing demand for their services would therefore be well advised to grow the

‘The simple fact is that the cost of fundraising should be supremely irrelevant to donor decision making. A rational donor should evaluate what their gift will achieve with the beneficiary group – no more no less’

proportion of their expenditure they allocate to fundraising.

And then there's the cost of fundraising. How much does it cost to raise a £1? How much should it cost? If it costs one charity 30p to raise a £1 and another only 20p, what does that say about their relative performance? Is a donor supposed to shun the less 'efficient' organisation in favour of the one with the higher return? And if not, does there come a point when it costs 40p or 50p to raise a £1 when one might balk at offering support? Who is to say – we offer no guidance and yet we now expect our donors to be taking those decisions.

The simple fact is that the cost of fundraising should be supremely irrelevant to donor decision making. A rational donor should evaluate what their gift will achieve with the beneficiary group – no more no less. The aggregate cost of fundraising will always be a complex function of the category of cause, the age of the fundraising program, the forms of fundraising available to the charity concerned, the planned split between donor acquisition and donor development activity and how large one-off gifts such as legacies are handled in those calculations (since they can radically distort the performance achieved).

There is also the further complication that the focus on average costs is irrational. A rational donor (and manager for that matter) should be

focused on the margin. To take a simple example, imagine that a fundraising programme is currently yielding a return of 3:1. The manager of that program knows that by continuing to spend resources on fundraising the return will fall to 2:1, so should she take that step? If the goal is maximize the revenue for the organization the answer would be yes.

Sure, the return would be lower on the incremental expenditure, but in the current climate where can you go right now (short of robbing a bank) to literally double your money? Fundraising affords that possibility, although a ratio of 2:1 would not be acceptable for most of the sector's self-appointed watchdogs.

If one could double the resource available to aid one's beneficiaries, wouldn't it be madness not to do so? I'd say yes – and I'd still say yes if a further incremental expenditure would yield a return of only 1: 1.5. That would still be significantly better than any other investment the charity might be making. Indeed, rational decision making would have a charity continue to spend on fundraising until the marginal expenditure equalled the marginal revenue – in plain English continuing to fundraise to the point where the next £1 of expenditure would raise only a £1 in income.

Of course few in the sector would be brave enough to take decisions that are economically rational for fear of looking bad and spending 'too much' on

fundraising. Yet who is to say what is appropriate and why should we make suboptimal decisions that harm our beneficiaries simply because we don't want to look bad as managers?

The answer of course is that we wouldn't have to if we did a better job of explaining exactly how fundraising works, how investment decisions should be taken and what patterns of performance might normally be expected.

Greater transparency is certainly a good thing, but it will only bolster trust in our sector if individuals actually understand what is being reported and are primed with the right questions to ask when something appears of concern. In the absence of such knowledge, greater transparency will serve only to lower the public's trust as they routinely bump up against yet another unexpected reality.

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