Executive summary

CHARITIES TAKING CHARGE: TRANSFORMING TO FACE A CHANGING WORLD

Patrick Murray, Jennifer Shea and George Hoare

NPC's State of the Sector programme

Why we did this research

Charities should always be looking proactively for ways to improve, even transform, their work and increase their impact. But there are more reactive reasons for change, too. Austerity and rising demand, recent governance and fundraising scandals, and technological advancements are just a few factors adding stress to the charity sector.

Charities need to adapt so they can navigate this changing environment. But are they succeeding, or floundering? And what more can be done to ensure the sector is prepared to deal with these pressures, and can increase its impact?

We set out to answer these questions through our State of the Sector research programme, which draws on new qualitative and quantitative research involving around 400 charity leaders.[*] We wanted to gauge where charities are at in order to hold up a mirror to the sector, and to find examples of those charities leading the way to inject new thinking about how charities can respond to these challenges.

> **Download the full report:**
>
> **www.thinkNPC.org/StateoftheSector**

What we found

There is no one simple answer to how charities can adapt, and it's wrong to look for one in such a diverse sector. But our research shows that some charity leaders are struggling to do so effectively, and we think they can draw inspiration from others who are responding in various ways to new challenges.

Those charities at the forefront of the sector are taking charge of the things that are within their power to change. They are focusing on achieving their mission in new and creative ways by:

Establishing an impact-focused strategy that has a clear focus on an organisation's key mission and offers a way to prioritise activities or decisions. Putting mission first enables them to take a more networked approach, working with others to deliver greater collective impact.

Building strong governance and leadership, which embraces risk, supports collaboration and new partnerships, and draws on a diversity of backgrounds and skills to unlock innovative thinking and good decision-making.

Taking new approaches to existing relationships, rethinking and redefining the dynamic with both the state and with the public.

Harnessing new networks and resources, including technology, new partnerships and models of doing business, and new ways of relating to communities and beneficiaries.

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[*]   Refer to full report at www.thinkNPC.org/StateoftheSector for in-depth methodology. Throughout the research we have stuck to NCVO categories identifying small and medium charities with a turnover below £1m, large charities between £1-10m, and major charities with a turnover of over £10m.

Establishing an impact-focused strategy

Charities are lacking focus, trying to do more of everything.

Of the charities we surveyed, 74% expect to do a broader range of activities in three years' time, and only 4% expect to do fewer. This lack of strategic focus is a major concern. One interviewee told us:

> I can't think of many charities that do one thing brilliantly well. We all do 370 core things to a mediocre standard. And so the challenge I think is … how do you focus?

Several interviewees suggested that improved prioritisation may mean organisations can do less, better. We found some organisations working in a much more networked way with other partners to ensure that, collectively, the causes and beneficiaries organisations exist to serve are not let down, and greater impact is achieved.

Many say they plan to do more work in partnership with others.

In three years' time, half of charities say they expect to be partnering more with other charities, while only 2% expect to be doing less collaboration. But one respondent told us that currently:

> The [third] sector is way more competitive, way less collaborative than the private sector.

Charities view research and evidence as important resources.

Our findings showed that charity leaders value evidence and research as useful to their organisations. We also found that a wide range of organisations say they are taking feedback from beneficiaries and service users seriously, and making changes to strategy or operations as a result. We think this is a positive step towards realising the potential of people and communities.
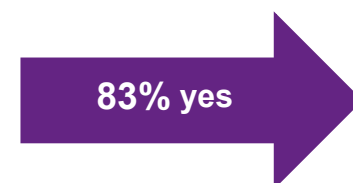
Results from learning & evaluation

Is this an important resource?

Size of charity	(%) agree
Large	81%
Major	77%
Small & Medium	60%
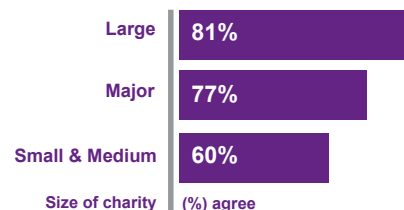
Do the board discuss changing strategy based on it?

78% yes

Have you made changes to your strategy or operations as a result?

83% yes

Recommendations for charity leaders:

- Gain a deeper understanding of what activities deliver the most impact—including through insight gathered from beneficiaries and service users—and prioritise your activities accordingly.

- Map your sector or area to identify possible partners, and work with them to achieve greater impact. You should share learning and evidence openly, and learn from other organisations about what works and what does not.

Building strong governance & leadership

Many see governance as crucial to delivering impact.

We discovered a real sense of movement on the issue of governance in some parts of the sector, with organisations undertaking governance reviews and refreshing their boards. Boards are discussing important topics that link to delivering greater impact, such as using evidence to inform strategy, potential opportunities from data and digital, and appetite for risk.

But charities and their boards are struggling to balance risk and opportunity.

Larger charities in particular are taking more risks but not necessarily risks that support the kind of transformation required. In exploring what types of positive risk people had taken in the last three years, we found that charities are simply doing more, rather than focusing on activities that deliver the greatest impact. 46% of respondents gave examples of some sort of expansion in their activities. Only 12% of respondents talked about collaboration, and smaller still was the 5% who talked about scaling back. And we found that boards need to rebalance their approach to risk to consider strategic opportunities as well as a more narrow focus on financial risk.

> ' There's financial risk and operational risk and strategic risk for example … by elevating one, you supress the other. '

Part of the culture change needed will come from greater board diversity, involving users and harnessing the skills necessary for the modern world.

One interviewee said, *'I think one of the reasons why diversity is important is innovation. If you don't have diversity it reduces the degrees of the unintended comment or discussion out of which*

innovation comes'. However we found the business case for diversity needs to be better understood by charity leaders.

Recommendations for charity leaders:

- Think through what you are trying to do and what skills, experience, processes and culture on the board is needed to support that.

- Make conscious decisions about your risk appetite and management, understanding the trade-offs between different types of risk—and be prepared to be bolder, strategically, where it will achieve mission.

- Make recruiting and retaining a more diverse board a higher priority and an ongoing process, through, for example, succession planning and taking steps to ensure the culture of the board remains inclusive.

Taking new approaches to existing relationships

Relationships with the public

Many charity leaders think about public trust only through a fundraising lens.

28% of charities overall think that a decline in trust will lead to less fundraising income.

9% think it will lead to less legitimacy in campaigning and lobbying.

4% say it would mean people are less likely to accept help or advice from charities.

However some of the charity leaders we spoke to in person made the case that charities must maintain a relationship of trust with the public. They felt this was crucial to creating a strong influence in society through campaigning and advocacy, and to being able to represent the opinions and needs of their users.

Nearly a third of charity leaders think a loss of trust in the charity sector would have no effect on their organisation.

Yet one interviewee pointed out, *'It's always useful to be able to say "you don't have to worry about us because we are a charity." People sort of understand that it means you're in a different category'.* This umbrella language of 'charities' continues to serve a useful purpose, acting as a shorthand with the public that for now brings with it an assumption of trust. A loss of trust in the 'charity brand' could therefore be very problematic.

Transparency is seen as important, but most of the sector's responses to protecting public trust focused on educating the public, rather than changing practices.

59% think that 'charities being more transparent about how they spend money or demonstrating their impact better' will be very effective in rebuilding public trust in the sector.

41% said that 'increasing public understanding of different types of charity' would be very effective in rebuilding public trust.

28% feel that charities 'changing existing practices (such as fundraising or executive pay)' would be very effective towards this goal.

Relationships with the state

The changing shape and role of the state is seriously affecting charities.

Significant numbers of charities are subsidising their public sector contracts. Of those who do deliver public sector contracts, 64% say they use other sources of income to deliver these contracts. 57% report having to turn down contracts because the operational risk is too high. Despite this challenging context, we found around a third of those currently delivering contracts expect to be delivering more in three years and only 15% think they would deliver fewer public sector contracts in three years' time.

Charities can reimagine their relationships with the state.

> *[Commissioners] are getting to a point where they're thinking "this might be the last thing we commission" … There's a genuine sea change and we need to be articulate about what we could be about rather than what we have been about.*

> *… [If resources] could be better aligned and focused around the needs of people rather than the needs of services then I think it would be a really good thing. We are supporting local authorities in a number of places to do that.*

> *There should be a shared understanding of the problem and a co-design of the solution to the problem. In my experience what has been really helpful is to shine a light on precisely what group you're trying to work with.*

Recommendations for charity leaders:

Relationships with the public

- Engage with the public not only as supporters, but in all of their multiple and complex potential roles—donors, service users, campaigners, and activists.

- Ensure you are clearly communicating your impact and why and how you do the work you do.

Relationships with the state

- Be realistic about what you can expect in terms of public sector contracts, while continuing to argue for a better system.

- Work with others across sectors, as well as service users, to design the change needed. Then present collaborative offers to the state about how to achieve shared solutions to shared problems.

Harnessing new networks & resources

There are increasing opportunities for charities to work in cross-sector partnerships or explore new business models.

The research found that emerging approaches could enable charities to better deliver their work and become less beholden to traditional funding models. Yet interviews suggested existing relationships are mainly transactional, so there is room for improvement. And while 80% of leaders had explored new approaches to fundraising, only 36% had explored social investment, 26% setting up a trading subsidiary, and 18% setting up a social enterprise.

The sector has not fully grasped the opportunity to use digital to deliver greater impact.

Amongst some charities there appears to be a fairly limited understanding of what digital and data can do, matched with an overconfidence about what they are already doing. Significant numbers of organisations are viewing digital through the prism of IT or communications and not strategically. In particular the majority of charities are not grasping the opportunities offered by digital to support collaboration.

Digital & data

70% are confident they are making the best use of the latest digital technology

57% of digital strategy oversight sits at board or senior management level

32% of charities have shared data or digital resources with other charitable organisations

Charities see the voices of their users and community networks as important resources, and some charity leaders are thinking about how to unlock the strengths and assets of communities.

One respondent said, '*we're focusing very heavily now on how we return to our roots where we enabled and supported people to do stuff in their communities'*.

Community networks

66% of charities see community networks as an important resource for delivering their mission

are involving service users or beneficiaries in delivering services

65% are directly involving service users in developing strategy

56% of charities expect to build more community capacity in the next 3 years

46%
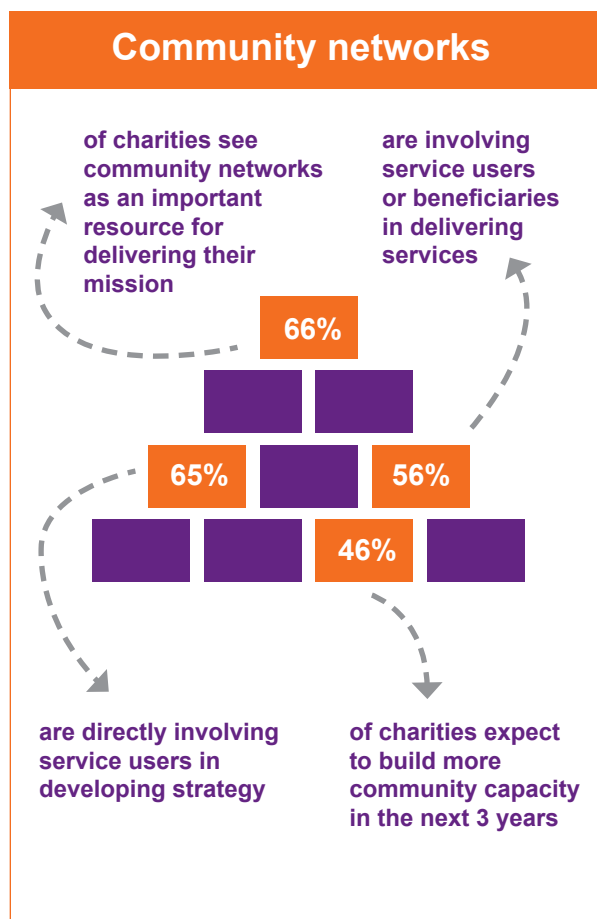
Yet charities still need to understand the transformative shift in power dynamics required to get the most out of these new models.

The single largest activity charities reported doing was delivering products or services (83%), and 50% expected to be doing more of this in three years' time. While delivering services will continue to be important for charities, for some transformation is coming through re-imagining their role as supporting infrastructure for change. Moreover charities that do not think through how they relate to newer citizen-led action, which is enabled by technology and changing attitudes, are in danger of being left behind.
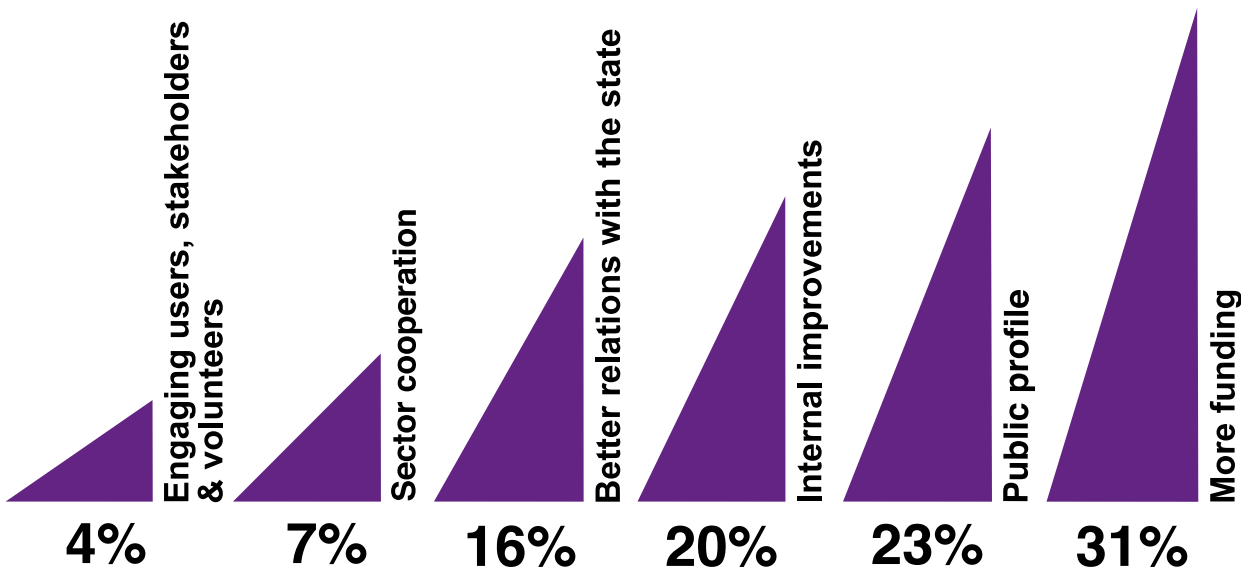
Recommendations for charity leaders on harnessing new networks & resources:

- Investigate different models of resourcing and financing, rather than waiting for a return to 'business as usual'. Think imaginatively about the assets and resources other organisations have and seriously consider what partners may be out there in different sectors who are interested in achieving social impact.

- Think more strategically to make the most of the digital agenda and data, which may mean different skills are required both at operational and board level. You need to be sure that you have access to these skills and, importantly, knowledge of the regulatory framework.

- Recognise that digital is about a culture of experimentation and collaboration. Becoming a 'digital organisation' does not have to mean a big internal programme. Rather you should start with small steps, and look to what others are doing, identifying who you may be able to work with and learn from.

- Consider what strengths and assets beneficiaries and communities have, and how to help people unlock them. Assess what this means for your organisation, methods of working, and whether you need to reconfigure what you do. 'User voice' and 'asset based models' are not an add-on—to be successful they need to be built throughout your organisation's strategy and supported by governance.

- Ensure that users benefit from the experience of user-centred approaches, in particular a focus on 'doing with' not 'doing to' is required.

Conclusion:
Flipping the narrative

Throughout this research we have focused on the key question facing sector leaders: 'How can charities deliver greater impact in a changing world?'

When respondents were surveyed on 'What would be the most important thing to help the charity sector increase its impact in society?' their answers were: (see chart below)

Engaging users, stakeholders & volunteers	Sector cooperation	Better relations with the state	Internal improvements	Public profile	More funding
4%	7%	16%	20%	23%	31%

What would be the most important thing to help the charity sector increase its impact in society?

(Conclusion continued)

The emphasis in these answers on external factors, such as funding and public perceptions, echo long-standing conversations in the sector about fundraising, austerity, and lack of money. The findings from our research indicate that these narratives can be shifted by instead focusing on what is within charities' power now. This shift in attitudes moves us to a more productive, networked approach with beneficiaries at the centre. It means focusing on some of the underutilised resources and relationships that charities have the ability to harness and influence. If the sector is to progress then it's time to think differently, and take charge of its future.

Ultimately, the transformation needed is possible as demonstrated by our research. In a number of areas, the sector has the building blocks in place—we identified a real willingness to collaborate in future, learning from evidence and research, as well as meaningful movement on governance.

But there is still more work to do. Charities need to be much more focused on how they can best deliver impact and work in a more networked way to do so, sharing power in new ways with others, including beneficiaries and communities. There is still a journey to go on to really understand the transformative power of digital and data, and make the most of it.

Of course this poses wider questions for those who fund and support the sector—what role can other organisations play in supporting new collaborations, spreading learning, and investing in collaborative technology for example? We hope that this is the start of a transformation in the sector—focused above all on impact for the causes and beneficiaries charities and the wider social sector exist to serve.

About NPC's State of the Sector programme

Download the full report at:
www.thinkNPC.org/StateoftheSector

and let us know your thoughts over on

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