Charity guide

Targets and goals

Harnessing the power of KPIs in not-for-profit organisations

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The charity sector has faced increasing levels of scrutiny in recent years, both from the public and from a regulator with expanded powers. It is in charities' best interests for themselves and the wider sector to be able to demonstrate the impact they deliver through measuring, monitoring and reporting of performance against their objectives.

Key Performance Indicators (KPIs) provide a way to achieve this, and should be embraced by the sector, in our view. Their use in the not for profit space, however, falls some way behind that in the commercial sectors. The benefits of a well-designed suite of KPIs far outweigh the initial and ongoing investment needed. This article sets out the many benefits of KPIs for charities, and provides some guidance for their use.

Why use KPIs?

Ultimately, a well-designed KPI is a performance management tool, enabling an organisation to assess performance against strategic objectives.

The use of KPIs is not as common in the charity sector as it is elsewhere, despite the fact that many charities have become more commercial and innovative as traditional funding sources have reduced. Methods of performance monitoring and reporting have not always kept pace, and this creates a risk for charities against achievement of their aims and objectives. To provide context, figure 1 below contains examples of general KPIs that can be measured by many charities.

Selecting the right KPIs

Designing a series of KPIs specific to a charity is challenging. Charity aims are not as easily quantifiable as those of commercial entities (where profit is key), outcomes may take a long time to come to fruition, and it is not always easy to distinguish the outcome or impact from other factors outside of the charity's control. How does a charity, therefore, set about compiling KPIs?

The starting point is to establish:

- What are the charity's strategic objectives?
- Who are our stakeholders and what do they want to know?
- What information is available?
- How robust / reliable is that information?

Figure 1. Examples of KPIs

Fundraising	Beneficiaries	Staff and volunteers
• Donor number growth • Average donation size • Pledge conversion percentage • Cost per £ raised • Donor retention rate	• Number of helpline users • Website hits / unique visitors • Publication download numbers • Number of event attendees • User satisfaction ratings	• Turnover by grade • Average length of service • Staff satisfaction scores • Absenteeism levels • Applications to open posts

Benefits of KPIs

The benefits of KPIs for the charity sector are multiple, and fall into four main areas.

1. Management

KPIs are an essential management tool, and can be used in a number of ways:

- Setting and measuring targets - for the whole charity, for particular projects and areas of activity, or for individual teams. In this way, they can be used to assist the charity in achieving its strategic aims and objectives, driving teams towards their goals.
- Tracking the achievement of projects or areas of activity against their objectives can enable decisions to be made around where resources are best used. KPIS can help charities to direct their often limited resources in ways so as to maximise their impact. These decisions are always easier when data-driven.
- Operational or financial issues can be highlighted by KPIs at an early stage and allow corrective actions to be taken. This ability of KPIs to act as a 'canary in the mine' is even more important now, with charities facing an uncertain economic and political environment.

2. Reporting

Using KPIs can help charities to meet their reporting requirements. The Charities SORP (FRS 102) requires the Trustees' Report to set out the achievements and performance of the charity, and recommends that this should set out the 'measures or indicators used to assess performance.' A well-balanced set of KPIs fits right in here.

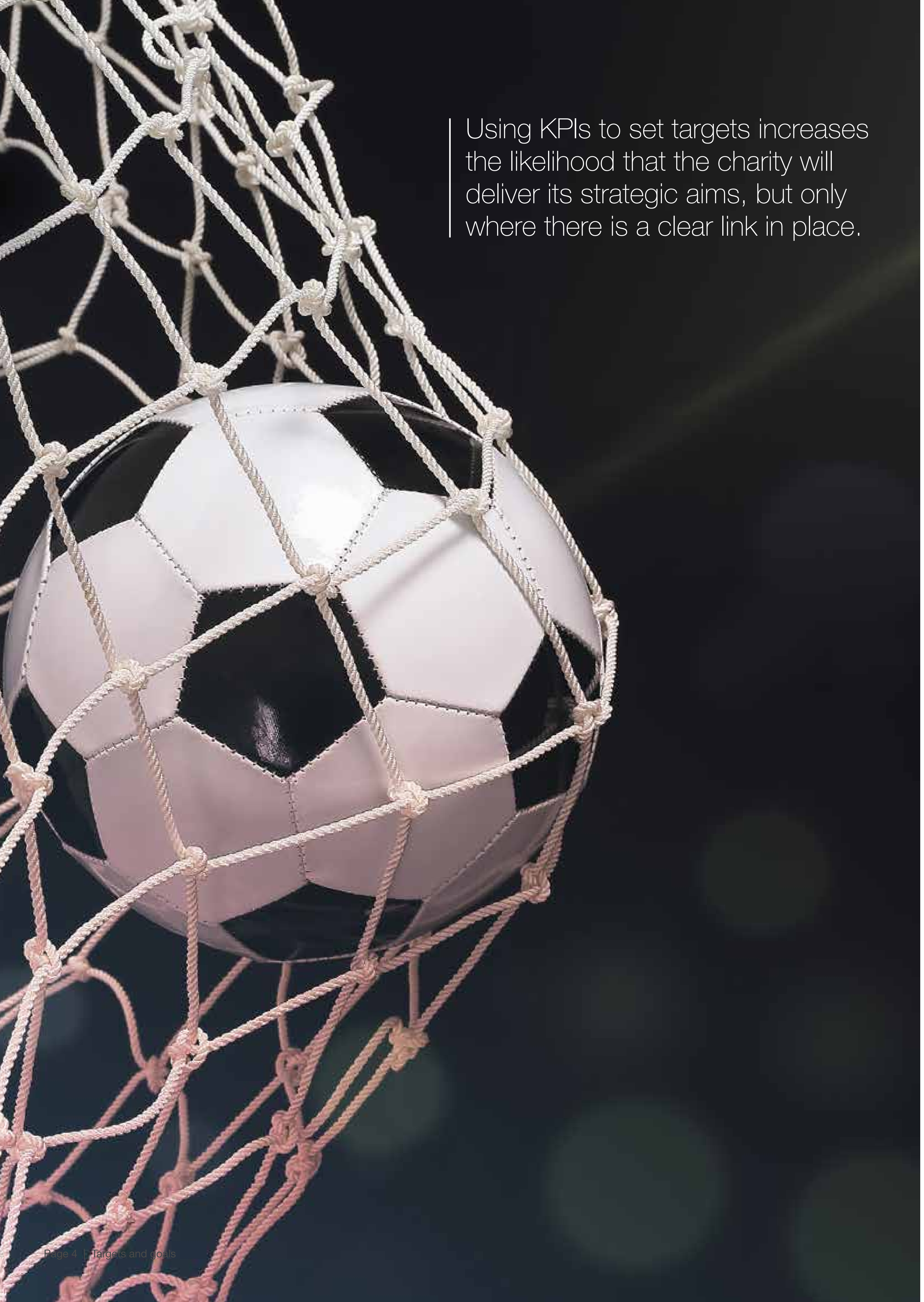
Incorporated charities that do not meet the definition of a small company must also apply the Companies Act 2006 (Strategic Report & Directors' Report) Regulations 2013. This actually mandates the use of financial KPIs and recommends the use of non-financial performance measures

3. Communication and engagement

KPIs provide an excellent way of informing and engaging with stakeholders – including staff, funders and beneficiaries. They can be reported on the website and in the organisation's publications, in addition to the Annual Report. It is vital that charities engage with their stakeholders, enabling them to measure the charity's success in achieving its aims. The need for openness and transparency is a key area of focus within the Charity Governance Code.

4. Clarity of purpose

The process of designing a suite of KPIs can drive a renewed sense of focus, reminding trustees and management of the charity's core purpose, aims and objectives. It can help to identify areas of activity which are not contributing to achievement of the charity's objects. Putting a magnifying glass over the charity's operations in this way and encouraging some self-reflection can provide real benefit and clarity. So-called 'mission-drift' is a risk within the charity sector, as time passes and new initiatives or activities are 'bolted on' to the original set of activities. This loss of focus can lead to reduced impact as resources are spread too thinly.



Using KPIs to set targets increases the likelihood that the charity will deliver its strategic aims, but only where there is a clear link in place.

What makes a good KPI?

There is no one size fits all approach to KPIs in the charity sector. The range of aims, objectives and activities undertaken by charities means that a bespoke approach is needed. Whereas one might expect that all car manufacturers might measure KPIs such as units completed per day and cost per unit, the picture is not so clear for charities. This increases the risk that charities measure the wrong things, a costly activity with little benefit. Below are 10 key attributes that charities should bear in mind when setting their KPIs:

1 Link with strategic plan

There should be a clear link between the KPIs and the strategic plan, which in turn should link back to the core charitable objects. This will ensure that the data being tracked will allow the charity to monitor the level of achievement against its strategic aims and objectives. Targets can also be set using KPIs, as well as tracking results. Using KPIs to set targets increases the likelihood that the charity will deliver its strategic aims, but only where there is a clear link in place.

2 Link with the risk register

The suite of KPIs adopted should also link back to the charity's risk register, to ensure that the key risks are being monitored and that appropriate mitigating actions can be taken. For example, specific donor-related KPIs could be put in place where the risk of falling voluntary income is a significant risk.

3 Understandable

It's important that KPIs are understood by the target audience (be this staff, beneficiaries, funders or other stakeholders). An over-engineered calculation that only makes sense to the handful of people involved in its design is not going to bring much benefit. Often the simplest metrics tracked over time are the most effective. It's also vital that the KPI being tracked is relevant and will provide useful data.

4 Data collection

Consideration should be given to data collection at the planning stage, including who will collect it and how often. It is vital that the accuracy of the data being collected can be assured and that it can be collected in a timely manner. Inaccurate data can lead to bad decisions being made, and reported data that is out of date is of little use. The power of KPIs comes from tracking data over time, so it's vital that the charity is able to collate and report these on a consistent, accurate and timely basis.

5 Financial and non-financial

KPIs should be both financial and non-financial, with a balance across the two. It is important to include financial KPIs since the charity must be sustainable – but it's important to track non-financial KPIs as well. Charities are about more than profit, and well-designed non-financial KPIs will allow a charity to measure the impact being made on their intended beneficiaries (more on this below).

6 Ownership

It is important that each KPI has an identified 'owner' – be this an individual, team or department within the organisation. This will help to ensure that someone can be held accountable for the reported results, and that any required actions can be taken forward in a timely manner.

Charitable objects → Strategic plan ⇄ Aims & objectives ⇄ KPIs

7 Planned actions

Setting targets is only part of the process – it's important to also agree planned actions depending on the reported outcome. These could be based on thresholds at both the upper and lower limit. For example, what actions will be taken if staff turnover exceeds a certain percentage, or if the monthly number of website users falls below a certain level? It's important to have options in place in order to respond to potential issues flagged by KPIs. Where the KPI links to a significant risk, swift mitigating action is likely to be needed. For these KPIs, the action should be pre-appraised and ready to implement should an issue be highlighted.

8 Benchmarking

KPIs can be designed so as to allow benchmarking with other similar organisations. This should not be the sole driver of which KPIs are used – but benchmarking in this way can be a powerful tool. This will only be possible where other similar organisations publish their KPIs or if the metric can be calculated from publically available information, and care should be taken. All charities are different, and therefore it could be appropriate for the same metric to differ substantially between them.

9 Impact reporting

KPIs should measure outcomes where possible, not just activities or outputs. For example, an educational charity could measure activity by tracking the number of students. Outputs could be measured by calculating the average pass mark.
But more insight into how well the charity is performing against its objectives could be derived by tracking the destination of leavers after graduation. This is a measure of the outcome and the impact that the charity is having on its beneficiaries. Impact reporting is a challenge for many charities, and KPIs have an important role to play here if they are well-designed.

Output	Outcome / Impact
Percentage of students passing an exam	Percentage of students employed after 6 months
Number of people enrolled in a healthy eating programme	Change in the number of reported cases of weight-related health issues
Number of wardens on a nature reserve	Change in poaching rates

10 Management information

Consideration should also be given to reporting at the planning stage. Perhaps the Board should see the full dataset at every meeting; or maybe this should be reported to and monitored by individual project teams or departments with oversight by Senior Management, and exception reporting only to the Board level. The answer here will vary charity by charity – the most important factor to consider is that the reporting protocol ensures that any issues are identified and acted upon appropriately in a timely manner.

> A charity will change and develop over time, and its KPI reporting framework must evolve if it is to continue to be a useful tool.

Conclusion

KPIs can bring a significant benefit to charities, but they are not widely used in the sector. They can be used to assist monitoring and managing progress towards achieving a charity's strategic aims and provide a basis for transparent communication with stakeholders, which is one of the key requirements for good charity governance. Finally, they can help charities to meet their reporting requirements.

In order for a charity to gain these benefits, it is vital that the suite of KPIs is well-designed, and that the methods of monitoring and reporting are appropriate. This is not easy in the charity sector, where there is no one-size-fits-all approach.

The above guidance provides a framework in which to discuss and set the suite of KPIs. It is also important that KPIs (and their monitoring and reporting) is re-considered on a periodic basis and any amendments made as needed. A charity will change and develop over time, and its KPI reporting framework must evolve if it is to continue to be a useful tool.

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