

Blog: Mark Salway, Director of Social Finance at Cass Business School, Centre for Charity Effectiveness

As a lecturer on the part-time Voluntary Sector MSc at Cass Business School I get to meet all sorts of people, working in a wide variety of charities and nonprofits. There are two things that come out as regular conversations.

The first is the question of what is an appropriate performance model for a nonprofit. The second is how to manage pressure on unrestricted reserves in the current tough fundraising and grants climate. So in this blog I thought I would write briefly on both.

When I worked previously in international development with CARE International we worked through over 70 country offices and hundreds of local partners each with their own level of skill, competence and delivery. It was often difficult to be able to assess their performance and the quality of their work.

This dilemma led to the development of a performance model called 'Ubora' meaning excellence in Swahili. The model which we put forward saw four different facets of an organisation which needed to be in balance to guarantee good performance, namely: Governance, Infrastructure, Impact and Quality.

Proper governance is critical to ensure the oversight of a nonprofit's work, and the effective management of implementation and delivery. The infrastructure provides the 'platform' for work to be undertaken. This must also be efficient and effective.

Equally it is important to measure the impact of our work, both to hold ourselves accountable to the social change we are creating, but also to be able to be transparent with donors and beneficiaries alike.

The element that often doesn't get as much focus is the *quality* of our work, yet it is critical. At CARE International we took real effort to focus on the quality issue. We created our own metrics of what quality looked like, both internally within the organisation and externally to beneficiaries, customers and funders.

Each organisation will have their own way of looking at ensuring the performance of their work and keeping this balance right. Is this an issue which you need to focus on?

The second issue is that of how to respond to pressure on unrestricted funds. To address this a nonprofit organisation could focus on:

- Raising new unrestricted income
- Undergoing cost reduction measures
- Becoming more efficient; and
- Ensuring effective cost recovery.

An organisation typically turns first to cost reduction measures and cost cutting, however for me an easier way is often to focus on cost recovery on grants and contracts.

While raising new income may be really tough, and undergoing cost reduction exercises and efficiency drives are often difficult to implement and carry through, the option of looking at cost recovery is often forgotten about and can bring on some relatively quick wins.

Our informal research at Cass CCE (Centre for Charity Effectiveness) has identified that a third of all nonprofits don't know their overhead levels and a further third do, but don't focus on fully recovering their overheads.

In my experience donors are often happy to pay, but nonprofits lack both the negotiation skills and the story to be able to maximise cost recovery. They often don't understand their own cost base.

Equally, some donors don't want to provide full cost recovery and would often spread their funds as wide as possible without ensuring sustainability of those they fund.

We need a different kind of conversation, where nonprofits are able to transparently measure their overheads and justify this to funders, we then need funders who are prepared to fund work properly and in full, ensuring 'a fair proportion of overheads' for each project, programme or service.

It's my opinion that cost recovery practices haven't really changed since Julia Unwin's report in 1999: "Who pays for core costs?" called for openness and transparency on this debate. It may be by being transparent with your overheads and showing the scale of any subsidy, that you receive greater funding – what have you got to lose?

Students ask intelligent questions, I hope you can use this article to take the same intelligent questions back to your organisations, management teams and Boards.