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Benefits from investments by charities in business change

Many benefits claimed in business cases are really just additional costs.

Value creation
However, it is true to say some benefits directly contribute to value, i.e. improvements in the quantity and quality of services which are made available for beneficiaries, for example direct assistance to them would increase value.

Benefits
But business cases contain all manner of different types of benefits, for example:

- increasing productivity and efficiency,
- enhancing the brand,
- improving supporter services,
- providing better information,
- improving employee morale,
- enhancing the infrastructure, and
- legal, regulatory and contractual compliance.

It is worth considering each of these.

Increasing productivity and efficiency
This only contributes to value if costs actually diminish, e.g. by reducing staffing levels and saving salaries and/or more net income arises from sales of products to supporters and those savings are applied to doing something directly for beneficiaries.

Likewise, if assets are retained longer to avoid replacement costs, then that only increases value if such savings do not cause maintenance costs to rise disproportionately so more can be done for beneficiaries.

If products sold to supporters are re-designed so that they consume less or cheaper materials and supporters continue to buy them in the same quantities at the original price, that would increase net revenue and so could be applied to increasing value for beneficiaries.

Note that in each case something more, e.g. reducing staff numbers, selling more, needs to happen to ensure value is created by reducing actual costs and/or increasing revenue so making more available for beneficiaries. Improving productivity/efficiency alone is not enough.

Enhancing the brand
This only contributes to value if, again, net income exceeds the investment in enhancing the brand so as the encourage new supporters to donate, so more can be done for beneficiaries.

If there are on-going expenditures on promoting the brand, e.g. regular media advertising, then these expenditures are not really investments but costs of being in business. Increasing such expenditures would be an investment, so the extra spend needs to be linked to increased value for beneficiaries.

Improving supporter services
This depends on two factors:

a) the cost of providing different levels of service; and
b) the revenue (or actions) which arises from different levels of service.

What matters is not improving the absolute level of supporter services, but providing that level of service which maximises the difference between b) and a). It might be that reducing the level of supporter services might actually increase net income or that the investment needed to improve service levels will not generate sufficient extra income to cover that investment. Of course, this must be considered over the longer term and not just as a quick fundraising foray.

Providing better information
To whom is this going to be provided and what are they going to do differently once they have it? This is similar to the points in a) and b) above, e.g. what information is necessary and sufficient to create additional value? Note that providing the information only increases costs. The value comes from what is done differently by people once they have that information.

There must be some upper limit on what information is to be produced (and so the cost of producing it), rather than just "better".

Improving employee morale
For many employees, shortening working hours and increasing pay rates would improve their morale (at least in the immediate term). But again, a balance has to be struck between the cost of labour, including recruitment, induction, training, salary, benefits, expenses, supervision,

release etc. and what those employees contribute towards value.

Poor morale might result in a high attrition rate and so high recruitment, training and other one-off costs. Hence there might be a case for incurring extra costs but the benefits of doing so must exceed those costs for value to be created.

Enhancing the infrastructure
On its own this is far from sufficient justification to claim it as a benefit.

How will value increase by improving the infrastructure? It is quite likely, if it has any merit, that enhancing the infrastructure contributes to one or more other benefits and they, in turn, contribute to creating more value. For example, better equipment might help some employees to be more productive or improve their morale. As infrastructure has to be used by someone as part of the process of creating value, then the key point is: who will use the improvements to achieve what?

Compliance
Where the enterprise functions within a regulated activity, e.g. protection of children, then such regulatory compliance, of itself, is just a cost of undertaking that work and not an investment; just as would be the case with legislative and contractual compliance.

However, it might be that other benefits could arise from the work needed to achieve compliance, e.g. internal business practices could be streamlined to make employees more efficient or early compliance might enhance the brand and generate more income.

Intermediate benefits
All of the benefits listed above are what some call "intermediate benefits", i.e. of themselves they do not directly contribute to extra value. Further activities are needed to follow-on after them to create that value by doing more for beneficiaries.

Some argue that the linkage between these intermediate benefits and value is unclear or too complex to assess but charities employ line managers, fundraising managers, supporter services managers, HR managers and many others besides who should have an in-depth understanding of how their functions contribute to value. Why is their expertise neglected in establishing that linkage?

Investment portfolios
Some charities categorise their investments based on the above types of benefits. This is often because among the Executive each of these has a spokesperson, e.g the Fundraising Director, HR Director, IT Director etc. This leaves the executives vying among themselves for their share of the investment pot and it fails to provide a way of ranking all investments on the basis of how each contributes to value creation for beneficiaries, which is the ultimate objective.

This is one of a series of papers on Grosvenor's Value Management. Others cover:

- vision,
- investments,
- capabilites,
- business change and
- value.

Together they describe the journey from envisioning the future state of the charity to bringing it about through the selection and management of investments in business change.

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