



Investing in your charity

Unless investments actually create value, they can only serve to destroy it, in which case it would be better not to waste effort on them.

All charities need to invest in themselves continuously so as to improve the quality of existing services and provide additional services to their beneficiaries; to retain existing and secure new supporters; and to improve the way they work. Some of these investments, e.g. fundraising, will have regular annual budgets but others may be necessary, on an ad hoc basis, to make step changes, e.g. in service capabilities and premises. For these, especially the more significant ones, business cases are likely to be prepared.

Business cases

Enterprises differ markedly in what they include in their business cases. Some treat them purely as financial controls around capital expenditure. Others require detailed descriptions of how the proposed investment will be commuted into value for those the enterprise serves – i.e. the beneficiaries.

Some dismiss the need for rigorous business cases. These enterprises might rely on the intuition of the Executive or feel that business cases are a waste of time or they do not believe they need them. The Executive often see business cases as works of fiction written by management to secure their share of an investment pot.

All will agree some form of record is needed of how much is to be spent, on what, to achieve some desired outcome. The issue is really about how detailed that record should be, especially when substantial sums or days of effort are being spent on ad hoc activities for which there might be no precedent.

Risks

There will inevitably be a time lag between expending time and money and when the desired value is to be realised. Much can change over that time and many assumptions made at the outset might prove to be invalid. New factors might emerge, like changes to government funding, knowledge and technology, which mean the original path to the value sought has to be altered.

This means investment programmes need continuous steering by the Executive as, from time to time, it might even be necessary to set a completely new course to secure the envisaged value (or perhaps exploit new opportunities to create even more value) or to abandon particular investments before more value is destroyed.

Complexity

The highly integrated nature of most enterprises inevitably means that a material change in one part will affect multiple other parts of the enterprise. For example, increasing the quantity of services provided to beneficiaries can place greater demands on service supply chains; reducing personal contact through greater use of lower cost digital facilities might cause some supporters to become disaffected.

Additional value creation requires a very careful rebalancing of the entire enterprise at a new norm. That is an extremely complex task and requires considerable scrutiny by the Executive, on an on-going basis, as the world around it and, indeed, internally the enterprise keeps changing.

This calls for a large body of evidence, substantiated where possible and before each investment is approved, that value is likely to be created. It is prudent to fund each investment in tranches and for the Executive to reappraise all investments on a regular basis, with the latest updated evidence, before the next tranche is approved. At each review, business budgets and targets should be adjusted in line with costs and benefits sought.

Reassessing investments

Those assessing their personal investments, say interest earned in bank accounts, periodically examine their future prospects to determine whether to move their money to a higher earning account elsewhere, i.e. it is their future which is important.

However, internal investments in enterprises are typically reviewed on the basis of whether they are on budget, on time and have delivered what was expected from that expenditure, i.e. what has happened. Yet what is really important is the answer to the question: how



much do we (still) have to spend and do to get the value we are seeking?

This is exactly the same question which should have been asked before approving the investment at the outset. In other words, all investments, both new and running, should be periodically scrutinised in exactly the same way and compete for resources to identify the best. Looking back might provide lessons which can inform the future, but it is the future which is important because nothing can be done about past sunk costs.

Cancelling an investment is not an indication of poor management. It demonstrates good stewardship of resources. If any investment is not likely to create value it will almost certainly destroy it – so kill it quickly.

Managing a portfolio of internal investments

At any point in time, every enterprise will have a number of potential investments which it could make to improve its business. Innovative ideas can occur at any time and do not neatly align with budget years. Their origin might be in various parts of the organisation. Many could substantially affect the future wellbeing of the enterprise, so they need to be captured and assessed. This should be an on-going practice.

Most enterprises have more ideas for making investments than their resources can fund or, in terms of expertise, can bring to fruition. Those demands can span from mandatory regulatory changes, to new income opportunities, new sources of supply of materials, talent and technologies, to the CEO's bright ideas. Investments and resources need to be allocated to obtain the best outcome for those the enterprise exists to serve and provide value, i.e. beneficiaries in the case of charities. Transparent criteria need to be set and reviewed in line with strategy.

Key criteria often include: how the investment will advance attainment of the enterprise strategy, the value to be created, the investment and expertise needed and how each of these might be affected by risks. All prospective investments might compete for the same pot or there might be pre-set pots for different categories of investments. There might be separate arrangements for mandatory

changes and the CEO's own pot, for example. No matter how many pots, the overall objective is to optimise the value which is created from the limited investment resources.

Benefits registers

With multiple investment programmes running concurrently, it is very helpful to ensure benefits are tracked from the point of investment approval and that none is counted twice by different programmes. This calls for a register of benefits, similar to the traditional asset register, where a record is kept of what the benefits are envisaged to be, together with who is responsible for realising them.

If, over the investment portfolio, more services can be made available to beneficiaries than the charity can advance its purpose. If, on review, any particular investments look unlikely to advance that purpose (or better opportunities arise), they should be adjusted or curtailed as soon as possible to avoid value destruction.

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

- vision,
- capabilities,
- business change,
- benefits and
- value.

For further information or a conversation on Value Management please contact:

Chris Tiernan on +44(0)7831 664 281 or c.tiernan@grosvenorconsultancy.com

Carolyn Jacks on +44(0)7775 811 502 or c.jacks@grosvenorconsultancy.com

Grosvenor Consultancy Services LLP
Thames House
5 Church Street
Twickenham
Middlesex
TW1 3NJ
United Kingdom
Telephone: + 44 (0)20 8891 6767
Fax: +44 (0)20 8891 1177
www.grosvenorconsultancy.com