Productivity of purpose: Bringing charities into the UK's productivity drive

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PRO BONO ECONOMICS

Summary

The UK's productivity problem has plagued successive chancellors. Economic plans, industrial strategies and prime ministerial set piece speeches over the last decade have repeatedly and rightly set out the importance of raising productivity to the country's growth, living standards and prosperity. Yet while the problems have been diagnosed time and again, there has long been a missing piece in the productivity puzzle.

Heavy investments have been made in trying to understand and address sluggish productivity growth in the private sector. Leaps forward have been made in gathering insight into the productivity of the public sector. But charities have received little to no attention in the nation's productivity policy drive. Undoubtedly, one of the reasons for this is that many assume productivity is not relevant to charities, but that could not be further from the truth. How an organisation utilises the resources at its disposal in order to achieve its objectives as powerfully as possible is the very essence of productivity, and the driving force behind every charitable operation.

Bringing the missing social sector into the heart of the UK's productivity drive is more crucial now than ever before. Having ridden out the pandemic, only to begin contending with a devastating combination of declining real terms income, rising costs and growing demand, the need to ensure that everything charities do is as efficient, effective and impactful as possible is immense. And with government and grant-makers providing billions of pounds of financing and tax breaks for the sector every year, optimising returns on that spending by ensuring every charity is as effective as possible is simply a sound investment strategy.

Evidence suggests that focusing on a small number of key interventions can help any organisation enhance its performance. Innovation, technological adoption, good management practices and workforce development are the factors that make the biggest difference.

While pockets of good practice in all these areas exist, there is an opportunity for the sector to achieve more in each one. Low levels of adoption and a deficit of digital and data skills, coupled with a lack of widespread engagement and investment in advanced technologies leaves much of the sector unable to reap the benefits of new technological developments.

Polling conducted for the Law Family Commission on Civil Society suggests that strategic and business planning, and the monitoring and management of organisational performance in the sector is also variable. For example, around half of smaller charities struggle to carve out the time and space to implement these fundamental practices and only around one in five (22%) have a written theory of change.

And there are issues with how the sector is able to utilise and invest in its workforce. For example, this survey showed that only half of charities (53%) funded or arranged digital training for their workforce in the last two years. Alarmingly, one in five smaller organisations (19%) reported spending nothing at all on staff and volunteer training in the previous financial year. Low pay and challenging working conditions are taking their

toll on staff and are likely to be acting as a drag on the sector's productivity, while a failure to address a lack of racial and socio-economic diversity within the sector adds further weight to these issues.

The underlying causes of these problems are not disinterest, complacency or a lack of willingness. On the contrary, there is a real appetite for improvement. However, this enthusiasm is all too often scuppered by a number of structural barriers.

The financial system for charities drains organisational capacity and provides too little investment in long-term effectiveness. There is a dearth of high-quality evidence on best practice and comparable data that would enable organisations to better understand their performance relative to their peers. The perceived threat of financial competition inhibits collaboration and the dispersal of ideas and knowledge between charities. And a complex and fragmented infrastructure system which has lacked appropriate investment for the last decade makes it difficult for charities to find the help that's right for them.

To boost productivity in the charity sector and unleash the potential of civil society, these root causes need to be addressed. To do this, the Law Family Commission on Civil Society has worked with experts and charities to develop proposals focusing on facilitating improvements in the key factors affecting productivity – innovation, technical adoption, management practices and making the most of the sector's human capital.

These proposals aim to achieve four significant shifts across the social sector:

1. To provide the resources and capacity that enable charities to make practical improvements to boost productivity.
2. To improve the generation and diffusion of evidence, knowledge, information, and resources about what works and good practice.
3. To influence behaviours and practice by providing accessible and relevant data that would enable charities to understand their performance relative to their peers.
4. To improve the coordination, access, quality, and capacity of the provision of charity support in order to provide advice and support.

Achieving these shifts will require improvements in financing, evidence, and local infrastructure.

First, there needs to be widespread improvement in grant-making and public sector funding, which tackle the issues of short-termism, and the lack of support for core costs or investment in people, processes, and organisational development.

Second, a new Civil Society Evidence Organisation (CSEVO) should be created. Such an organisation would raise awareness of and appetite for the usefulness and availability of evidence to help charities be more productive. It would also generate, collate, and share evidence and case studies about how charities can be most productive; advise and train charities in how best to find and make use of evidence about what works in their practice areas; and help connect organisations to the best evidence and research for their work.

In addition to this, the evidence base for improvement should be further advanced by better use of the charity data held within existing surveys. Surveys such as the UK Innovation Survey, Management and Expectations Survey, Digital Economy Survey, Employer Skills Survey and Labour Force Survey contain responses from charities, yet this data is not currently extracted and analysed. Doing so would give insight into state of these vital productivity-enhancing factors within the sector.

Third, the provision of practical support for charities should be broadened by opening up existing government productivity schemes. A relatively quick win could be achieved by amending the criteria of the government's Help to Grow schemes to allow charities to participate. Government should also ensure that any future schemes focusing on improving the productivity of small and medium-sized enterprises (SMEs) include charities by default.

Fourth, many charities require external support and expertise in order to make productivity-enhancing improvements, yet many do not engage with the services and support that is available. While internal barriers such as money and capacity are again a key issue, external factors are also relevant. Accessibility, complexity, and trust in external support provision are issues for many of the charities, and these problems raise further barriers which limit the ability of many to make changes.

In their role as capacity-builders, local infrastructure organisations ought to play a crucial role in helping to bring down some of these external barriers. But long-term underinvestment restricts their ability to do so. As such, the Law Family Commission is calling on government to undertake a comprehensive review of the financing, shape, and functions of charity sector infrastructure, with a view to revitalising investment and improving the support available to charities nationally and locally.

Driving up the supply and matching of skilled volunteers into organisations providing support to charities would also help to boost the quality and availability of help on offer. Key stakeholders in government, volunteering and business should work closely to explore how levels of skilled volunteering could be increased.

Broadening the UK's productivity drive to encompass the overlooked charity sector makes sense both socially and economically. Improving innovation, technological adoption, management practices and the sector's workforce requires changes to finance, evidence, data, infrastructure, and volunteering, as highlighted in this research. A concerted effort from across government, business, and by charities themselves is required to achieve this, with a more productive, effective and impactful charity sector the reward for doing so.

Introduction

Productivity growth has been a mainstay of economic policy for a succession of UK governments

Most discussions of productivity start with Paul Krugman's observation that:

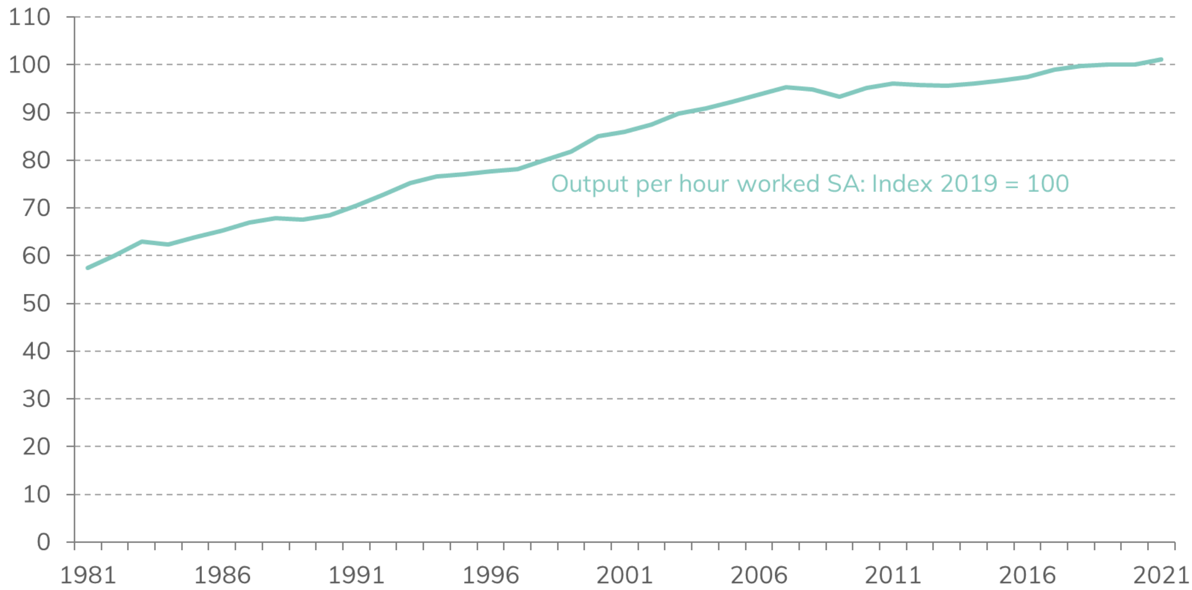
> *"Productivity isn't everything, but, in the long run, it is almost everything"*

The near-universal use of this quote illustrates the widespread agreement that productivity growth plays a vital part in increasing wages and improving living standards. Perhaps unsurprisingly, low levels of productivity growth over the last decade have generated another consensus - that tackling the productivity problem is one of the biggest challenges facing economic policymakers in the UK.

As Figure 1 shows, when compared to the previous three decades, UK productivity growth has practically flatlined since the financial crisis.

Figure 1. Since the global financial crisis UK productivity growth has slumped

UK Whole Economy: Output per hour worked SA: Index 2019 = 100



Notes: PBE analysis of ONS labour productivity time series, October 2022

In response to the UK's productivity problem and aided by a vast number of large and granular datasets,[1] some stretching back centuries,[2] considerable time and effort has been expended by government,[3] business leaders,[4] and academics[5] in an attempt to understand what is behind this slump. And over the past few years a number of

[1] Office for National Statistics, Productivity Measures Datasets
[2] Bank of England, A millennium of macroeconomic data
[3] HM Government, Business Productivity Review, November 2019
[4] Productivity Leadership Group, How good is your business really? Raising our ambitions for business performance, April 2018
[5] See, for example: The Productivity Institute

government departments, commissions and white papers have generated an array of plans, strategies, and reviews.[6]

The government has also invested significant time and resources into developing policies, networks, and support schemes targeted at stimulating business growth and boosting productivity in the private sector. At the start of the decade, 38 Local Enterprise Partnerships (LEPs) were formed to provide strategic oversight and direction to local economic areas, including through local Growth Hubs to offer a one-stop shop for business support and guidance. This has been followed more recently by the creation of the British Business Bank which has been tasked with making finance markets work better for smaller businesses. Be the Business, a not-for-profit organisation providing targeted support and guidance to help small and medium-sized enterprises (SMEs) boost their productivity, was established in 2017 by Sir Charlie Mayfield, former Chairman of the John Lewis Partnership, while new government schemes, such as Help to Grow: Management and Help to Grow: Digital, offer support and discounts to businesses looking to improve their management and leadership and accelerate digital adoption.

With no data and little support, charities are out in the cold when it comes to the productivity agenda

While the data available is vast and the policy agenda is broad and varied for the private sector, the charity sector is entirely absent from both. For example, the Help to Grow schemes explicitly exclude charities from participation and, despite high-profile calls for it, there is no official or experimental measurement of charity sector productivity.[7]

These challenges can be overcome. Measuring the charity sector's productivity would be complicated as there are methodological issues associated with measuring the productivity of organisations (or whole sectors) whose outputs do not have market prices, and which must be judged on the quality of outcomes. But conceptually, there are paths to developing it[8] and practically there is a precedent for it. The 2005 Atkinson Review established a framework for the measurement of productivity for large aspects of the public sector, with quality adjustment a central feature of the methodology.[9] As a consequence, the ONS now has over two decades' worth of measurement and multiple datasets on public sector productivity. It provides regular updates and analysis on it, with outcomes a fundamental part of the equation, just as they would need to be for the charity sector.

By contrast, there is currently almost no data with which to analyse charity sector productivity. There is much less understanding of the drivers and constraints to maximising effectiveness in the sector, no way of determining how well it is performing, and a missed opportunity to bolster management quality and technological adoption within charities.

[6] See, for example: HM Treasury, Fixing the Foundations: Creating a more prosperous nation, July 2015; Department for Business, Energy and Industrial Strategy, Industrial Strategy: building a Britain fit for the future, November 2017 and J Maier, Made Smarter Review, October 2017

[7] Civil Society News, Bank of England's chief economist calls for charity sector productivity review, 2 December 2019

[8] J Martin & J Franklin, Fuller measures of output, input and productivity in the non-profit sector: a proof of concept, The Productivity Institute, Working Papers 025, October 2022

[9] Office for National Statistics, A guide to quality adjustment in public service productivity measures, August 2019

It may seem an uneasy fit at first, but high productivity is at the heart of what all charities are trying to achieve

While productivity is not a term that is often used within the charity sector, being highly productive is vitally important to every charity. The ability to acquire resources and use them in order to realise a set of objectives is the basic operating model of every charitable organisation. In this context, productivity is simply how well a charity does this in order to achieve as much as it possibly can.

"A productive charity is one that delivers what it sets out to deliver, and that it does that with the best use of the resources that it has available," - Charity CEO

The charity sector tends to use terms such as 'impact', 'effectiveness', and 'social value'[10] to describe this, but all these terms describe the same thing: a focus on trying to maximise their ability to achieve outcomes using the resources at their disposal.

Improving the productivity of charities is not therefore about a crude attempt to cut costs, to increase efficiency at the expense of quality, to become more 'business-like', or to work harder. It is about increasing charities' ability to transform inputs into outcomes.

In a world of limited resources and unmet need, making the most of every penny to deliver the absolute maximum amount of good possible is essential to every charitable organisation. Charities exist to meet the needs of their beneficiaries and have a responsibility to do this as well as they possibly can. Their efforts to do so are recognised by both the public and policymakers, with more than eight in ten members of the public[11] and 98%[12] of politicians thinking that charities play an important role in society.

Funders of charities should have an interest in ensuring the sector's resources are being spent as impactfully as a possible

Beneficiaries, the public, government, and grant-makers also all have an interest in boosting the productivity of the charity sector.

That a substantial proportion of the resources that charities have stems from the taxpayer means that it is in both the public and government's interest to ensure the most is made out of that investment. In 2019-20, central and local government grants and contracts with charities were worth over £15 billion.[13] Commissioning charities to deliver vital public services is a large part of that spend. Between 2016 and 2020, almost 11,000 charities won government contracts totalling £27.5 billion.[14] On top of that spending, the government also forgoes income in the shape of charitable tax reliefs, which HMRC has calculated to be worth around £4 billion in 2021-22.[15]

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[10] See, for example: S West, 10 ways to improve your charity's impact report and why it matters Cranfield Trust, March 2021, The Centre for Charity Effectiveness at Bayes Business School, NEF Consulting, Social Return on Investment
[11] A Martin, In the Public Eye: Snapshot of public attitudes towards civil society, the Law Family Commission on Civil Society, January 2020
[12] H Barnard & G Hoare, A Shared Interest: The relationship between policymakers and charities, the Law Family Commission on Civil Society, March 2022
[13] NCVO, Civil Society Almanac, October 2022
[14] Tussell, UK Public Procurement through VCSEs 2016-2020, April 2022
[15] HMRC, UK charity tax relief statistics commentary, November 2022

Grant-makers and foundations also share a similar interest. In 2019-20, voluntary sector grant-makers gave around £4 billion to UK charities.[16] The core purpose of these foundations is to try and realise their own charitable objectives, and financing charities is the method by which they try to do this. The ability of charities in receipt of these grants to maximise their impact is therefore of fundamental interest to those foundations.

The current economic and social crises unravelling in the UK mean that the sector's effectiveness should be closer to the top of everyone's list of priorities. The pandemic resulted in the average charity experiencing a 13% fall in their income, with one quarter reporting a drop of over 40%.[17] This reduction in resources occurred alongside a significant growth in demand for many organisations. Almost six in ten (55%) charities have reported an increase in demand for their services compared to pre-pandemic levels, with over one quarter (28%) experiencing demand increasing by more than 25%.[18]

Current economic conditions offer little respite. High inflation is eating away at charity reserves and eroding the value of existing donations and contracts,[19] while the subsequent cost of living crisis is hitting disposable incomes and triggering a sharp growth in the number of people facing hardship and financial insecurity. The resulting pressure on demand for charity services is significant, for example the number of people referred for charity support by Citizens Advice in 2022 was 53% higher than the previous year.[20]

[16] NCVO, Civil Society Almanac, October 2022
[17] J Mohan et al, Financial vulnerability in UK charities under Covid-19: an overview, Third Sector Research Centre, 2022
[18] J Larkham, Hysteresis in the making? Pandemic scars and the charity sector, the Law Family Commission on Civil Society, November 2021
[19] J O'Halloran & N Sykes, The cost of giving: What charities need to know about inflation, Pro Bono Economics, September 2022
[20] Citizens Advice, Advice Trends Dec 2022, January 2023

How does the charity sector shape up?

Innovation, technological adoption, management practices, and people are the keys to boosting productivity

There are a wide range of factors which can drive an organisation's productivity, and some of the most important of these are innovation, technology, management practices, and people.

Firstly, innovation, including the development of new services, processes, and products that can reduce costs, or increase output or quality, can "significantly boost productivity growth".[21] Emerging evidence also shows that innovation in the use of advanced technologies, such as artificial intelligence, has a positive effect on productivity.[22] Secondly, the adoption of more basic digital technologies can also have a major impact on the productivity of an organisation.[23] For example, using digital software for customer relationship management,[24] or making relatively simple changes such as the uptake of cloud computing[25] or high-speed broadband.[26] It is also recognised that improved digital skills within the workforce have a multiplier effect, helping to maximise benefits associated with the adoption of digital technology.[27]

Third, well managed organisations are more productive.[28] Differences in the use of formalised management practices, such as performance monitoring and target setting, can be shown to explain vast productivity differences between organisations[29] and even relatively small improvements can have a significant positive impact[30]

It is not just organisational management practices that have a bearing on productivity, HR practices also play a key role.[31] The extent to which an organisation enhances employee skills, knowledge, motivation, and involvement has a positive impact on both organisational productivity and individual outcomes.[32] It has been shown that implementing effective ways of managing the workforce - sometimes referred to as 'High-Performance Work Systems' (a set, or bundle, of human resource management practices related to selection, training, performance management, compensation, and

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[21] A Aitken et al, From ideas to growth: Understanding the drivers of innovation and productivity across firms, regions and industries in the UK, National Institute of Economic and Social Research, BEIS Research Paper Number: 2021/041, October 2021
[22] G Damioli et al, The impact of artificial intelligence on labor productivity, Eurasian Bus Rev 11, 1–25, 2021
[23] M Borowiecki et al, The impact of digitalisation on productivity: firm-level evidence from the Netherlands, OECD Economics department working papers no. 1680, September 2021
[24] Office for National Statistics, Information and communication technology intensity and productivity, October 2018
[25] M Borowiecki et al, The impact of digitalisation on productivity: firm-level evidence from the Netherlands, OECD Economics department working papers no. 1680, September 2021
[26] D Azzopardi et al, Seizing the productive potential of digital change in Estonia, OECD, Economics department working papers no. 1639, December 2020
[27] P Gal et al, Digitalisation and productivity: In search of the holy grail – Firm-level empirical evidence from EU countries, OECD Economics Department Working Papers, No. 1533, February 2019
[28] N Bloom et al, Does Management Matter? Evidence from India, The Quarterly Journal of Economics, Volume 128, Issue 1, February 2013, Pages 1–51
[29] N Bloom et al, Management as a Technology? National Bureau of Economic Research, Working paper 22327, October 2017
[30] Office for National Statistics, Management practices and productivity in British production and services industries - initial results from the Management and Expectations Survey: 2016, April 2018
[31] P Tamkin, High Performance Work Practices, Institute for Employment Studies, 2004
[32] E Appelbaum et al, Manufacturing Advantage: Why High-Performance Work Systems Pay Off, The Academy of Management Review, 26(3), January 2000

information-sharing that are designed to attract, retrain, and motivate employees) - can help improve productivity, reduce employee turnover rates,[33] increase innovation[34] and deliver efficiencies.[35] Improving productivity through people management also extends into other areas. Increasing skills and training,[36] improving health and wellbeing[37] and addressing levels of diversity are all shown to have a positive effect on productivity.[38]

Charities are innovative, but they still face challenges when it comes to technology

Charities are generally highly innovative and creative. In service delivery,[39] fundraising[40] and volunteering,[41] the sector is constantly trying to rethink and improve what it is doing. Out of sheer necessity, the pandemic sped up the rate of innovation.[42] Surveys showed that during the Covid pandemic more than three-quarters of charities tried new delivery models, while almost six in ten said their appetite for innovation increased.[43] With fundraising events curtailed, online giving doubled[44] and almost half of charities increased their ability to accept non-cash donations.[45] Tech-enabled micro volunteering also played a major role in the national response to meeting needs and boosting wellbeing during the pandemic.[46]

However, a strong body of evidence suggests that the sector still has significant gains to make when it comes to technology, and that it is held back from realising these gains by persistent skills gaps, leadership issues and under-investment.

Recent survey results paint a picture of steady progress on digital take-up. Over eight in ten charities now think digital is an organisational priority and the proportion of charities that have a digital strategy has grown from 49% in 2020 to 56% in 2022. But progress is coming from a low baseline. Almost half of charities are described as "early stage" when

33 Equality Authority and National Centre for Partnership & Performance, New Models of High Performance Work Systems: The Business Case for Strategic HRM, Partnership and Diversity and Equality Systems, January 2008
34 J De Kok & D Den Hartog, High Performance Work Systems, Performance and Innovativeness in Small Firms, EIM Business and Policy Research, Scales Research Reports, January 2006
35 A Bryson & M White, High-performance work systems and the performance of public sector workplaces in Britain, Oxford Economic Papers, Volume 73, Issue 3, Pages 1057–1076, July 2021
36 OECD, Boosting skills would drive UK growth and productivity, November 2017
37 C Bambra et al, Health for Wealth: Building a Healthier Northern Powerhouse for UK Productivity, Northern Health Science Alliance, November 2018
38 L Barrington & K Troske, Workforce Diversity and Productivity: An Analysis of Employer-Employee Match Data, May 2001
39 Third Sector Press, Third Sector Awards: Covid-19: Best Service Delivery Innovation – CAFgas for Nanny Biscuit 2020 Coronavirus Relief Effort, 15 September 2021
40 See, for example: The Showcase of Fundraising Innovation and Inspiration
41 E Avdoulos et al, Understanding local patterns of volunteer activity during COVID-19, The Young Foundation, December 2021
42 Civil Society News, 'Digital transformation has been fast-tracked' during the pandemic, say fundraising leaders, 9 July 2021
43 Pro Bono Economics, PBE Charity Tracker, May 2021
44 J Lepper, Extent of online giving boom revealed, Charity Digital, 19 May 2021
45 Charities Aid Foundation, Charity Landscape 2022, 2022
46 P Dolan et al, Happy to help: how a UK micro-volunteering programme increased people's wellbeing, London School of Economics, June 2021

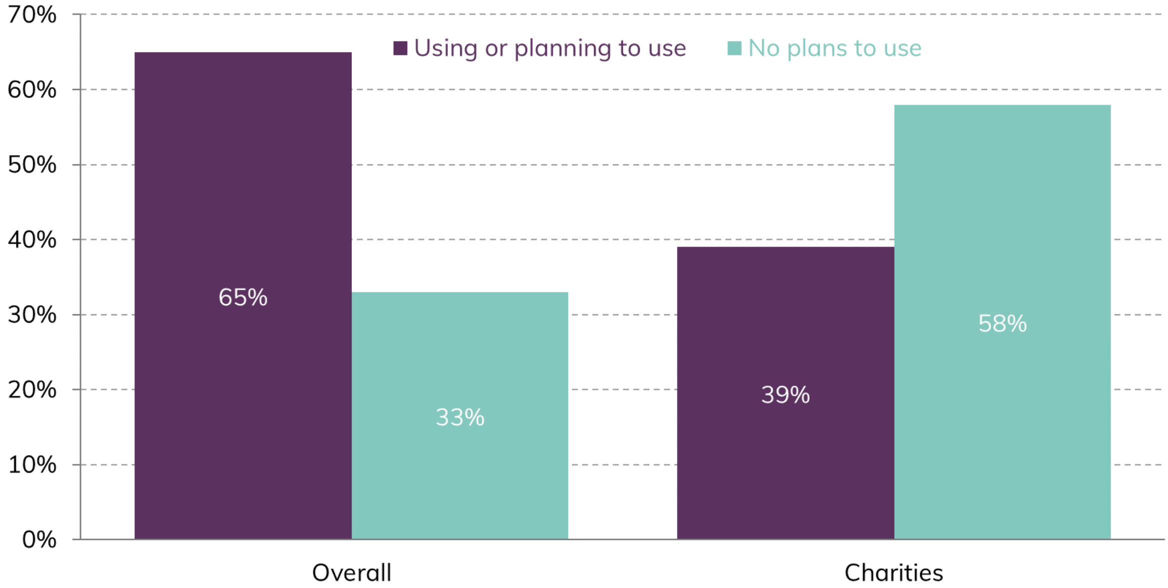
it comes to their digital development, with just over one in ten describing themselves as "digitally advanced".[47]

Despite some charities providing examples of cutting-edge practice in the field of medical research[48], fact-checking[49] and the use of virtual assistants to provide support and advice[50], there is evidence that the sector is behind the curve in both its management of data and the adoption of advanced technologies.[51] Almost three in ten charities (29%) rate themselves as "poor" at using, managing, and analysing data, while nearly half of charities (44%) also rate their ability to use data to plan services the same.[52]

In 2021, a report published by the Department for Digital, Culture, Media and Sport concluded that "the level of data foundations and adoption in the third sector was found to be relatively low compared with the private sector" and identified a significant gap when it comes to AI adoption.[53] As Figure 2 shows, fewer than four in ten charities are actively using or planning to use artificial intelligence, significantly lower than the overall rate of almost two in three organisations across the economy.

Figure 2. Charities are significantly less likely to be using or exploring the use of advanced technologies

AI adoption by sector



Notes: PBE analysis of Data Foundations and AI adoption in the UK private and third sectors, Residuals are 'Don't know'
Source: EY, July 2021

[47] Z Amar, Charity Digital Skills Report, 2022
[48] Milner Therapeutics Institute, LifeArc and Milner Therapeutics Institute announce a new partnership in artificial intelligence and machine learning for target discovery, 23 January 2018
[49] A Dudfield, How AI helps us detect 100,000 potential claims a day, Full Fact, 2 April 2021
[50] See, for example: Versus Arthritis, AVA, The Arthritis Virtual Assistant
[51] EY, Data foundations and AI adoption in the UK private and third sectors, August 2021
[52] Z Amar, Charity Digital Skills Report, 2022
[53] The National Data Strategy defines data foundations as having data that is: "fit for purpose, recorded in standardised formats on modern, future-proof systems and held in a condition that means it is findable, accessible, interoperable, and reusable".

Future plans for investment suggest this gap will widen, with only one in three (33%) charities planning on increasing their investment in AI compared to almost six in ten (59%) private sector organisations.

Funding, skills, and leadership are main the barriers to doing more with digital

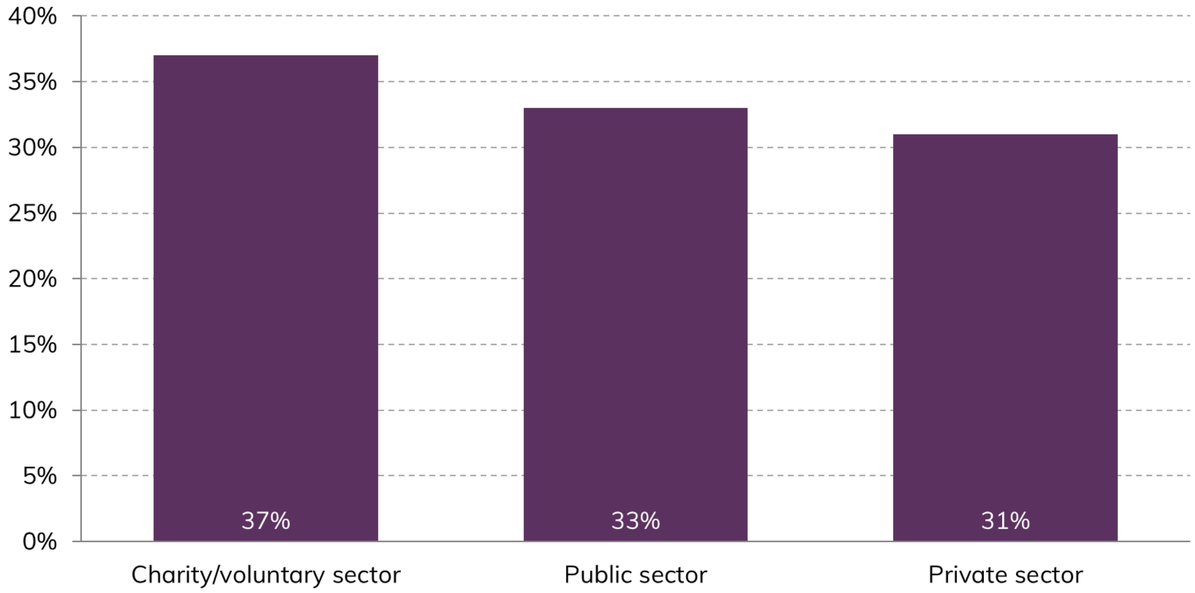
A lack of funding, management engagement and skilled personnel were the most cited problems for charities when it comes to adopting and improving AI,[54] and these barriers reflect the general challenges that the sector faces when it comes to technology.

Pandemic innovation has driven up the use of technology within the sector and this has come at a cost which many are struggling to meet. Three in four charities (73%) say their digital funding needs have increased, with almost half (45%) saying they have not been able to access grant funding towards their digital costs.[55]

The UK Charity Digital Index 2019 showed that just over half of charities (56%) had the full suite of essential digital skills.[56] More than a quarter (27%) were rated as having low digital capability, while over one in ten (13%) reported no digital activity. Over four in ten (42%) cited staff skills as a barrier to progress,[57] and - with research suggesting that lower levels of digital skills are associated with weaker productivity gains from digital adoption[58] - it is clear that an approach that considers improving skills, alongside increasing the use of technology, is needed to maximise the benefits of digital adoption.

Figure 3. The charity sector finds it harder to plug digital skills shortages

Proportion of organisations with skill-shortage vacancies who find it difficult to obtain digital skills



Notes: PBE analysis of Employer Skills Survey 2019

[54] EY, Data foundations and AI adoption in the UK private and third sectors, August 2021
[55] Z Amar, Charity Digital Skills Report, 2022
[56] The five categories of essential digital skills identified by the Department for Education are: communicating, handling information and content, transacting, problem solving and being safe and legal online
[57] Lloyds Bank Foundation for England and Wales, UK Charity Digital Index, 2019
[58] P Gal et al, Digitalisation and productivity: In search of the holy grail – Firm-level empirical evidence from EU countries, OECD Economics Department Working Papers, No. 1533, February 2019

The issue of a lack of digital skills in the existing workforce is further compounded by the difficulties that the sector has in attracting digitally skilled talent. As Figure 3 shows, almost four in ten charities (37%) with skill-shortage vacancies find it hard to recruit people with digital skills, higher than other sectors of the economy.

Almost two in three (64%) trustee boards lack digital skills, with only 6% classed as "digitally savvy". As a consequence, almost six in ten (58%) charities believe they lack a clear vision from their senior leaders as to what digital could help them achieve and almost half (45%) say this lack of leadership is a barrier to do more with digital.[59]

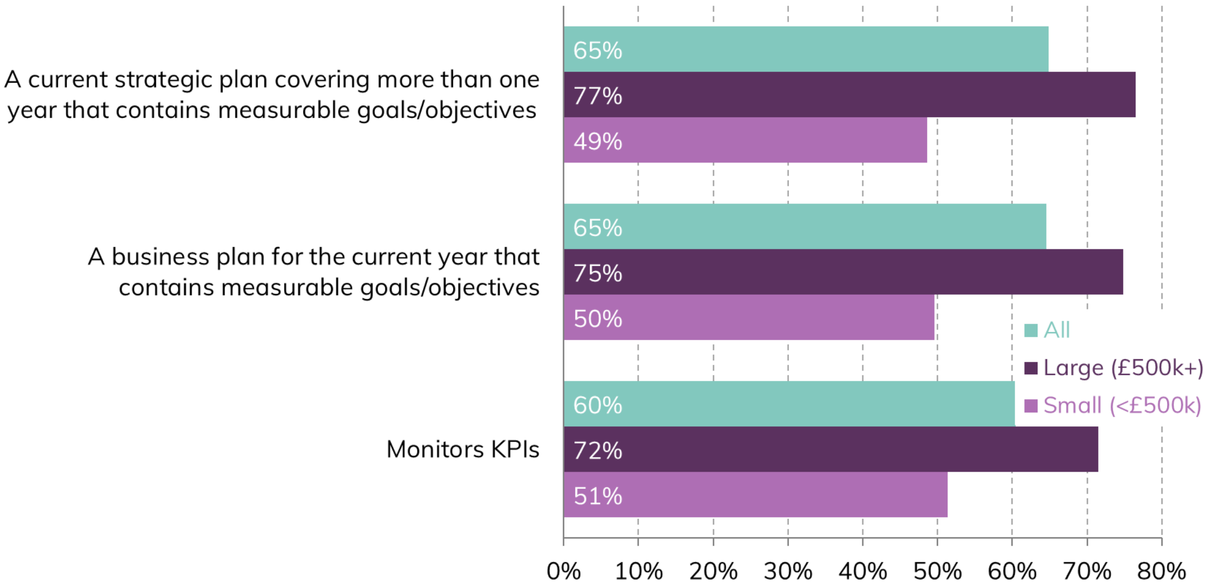
"I have gone into organisations, where the chief exec before me hadn't been particularly good at it [digital technology]. And that sort of goes through the organisation," - Charity CEO

There is significant variance in the adoption of basic managerial practices

Good management is fundamental to driving productivity improvements, and businesses undertaking certain management practices are demonstrably more productive.[60] This holds true for charities as well, with longitudinal research demonstrating good management as a key factor in explaining long-term financial growth and organisational survival rates for charities.[61]

Figure 4. Performance management and monitoring is prevalent, although there is variance depending on organisational size

Proportion of charities currently undertaking various management practices



Notes: For 'All' n=316 senior managers or above working for a registered charity, for 'Large' n=179, for 'Small' n=111
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

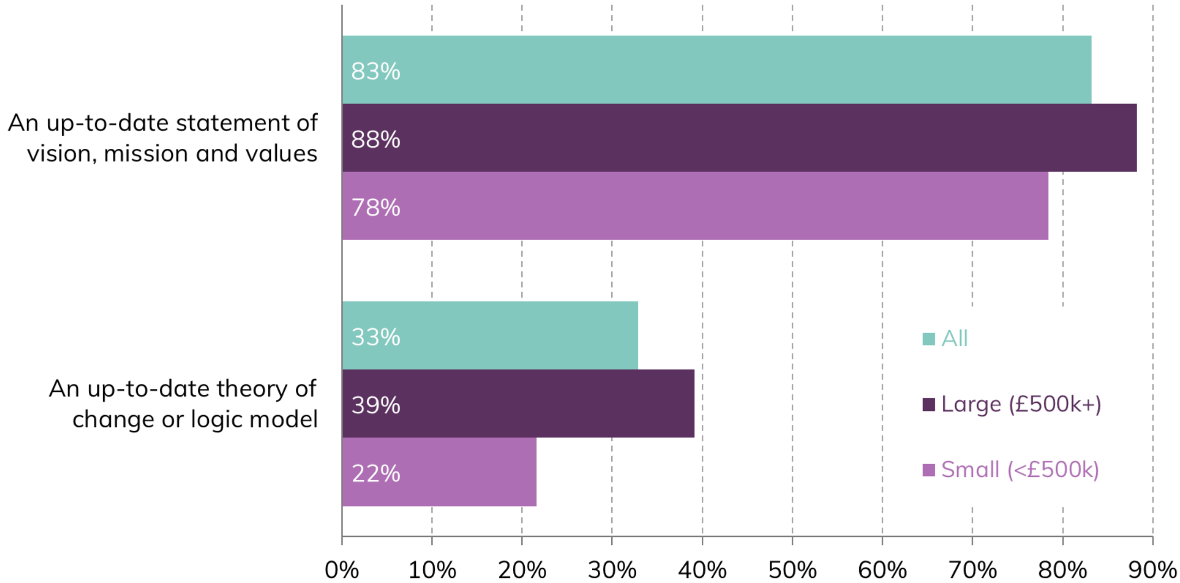
[59] Lloyds Bank Foundation for England and Wales, 'UK Charity Digital Index', 2019
[60] N Bloom et al, 'Adding a piece to the productivity puzzle: Management practices', Centre for Economic Policy Research, May 2017
[61] T Chapman, 'Third Sector Trends in England and Wales 2022', October 2022

Research identifies the three key aspects of good management practice as: performance management, operational management, and people management.[62] As can be seen in Figure 4, when it comes to performance management, there is significant variance within the sector, with smaller organisations particularly affected. Around two-thirds of charities (65%) have in-year business plans and multi-year strategic plans that contain measurable targets, and six in ten charities (60%) monitor KPIs, but this is true for only about half of smaller organisations (51%).

There is also variance in the extent to which charities undertake generally accepted examples of good practice, such as having a written vision, mission and values, or constructing a logic model, or theory of change.

Figure 5. Most charities have outlined their vision and mission, but a large majority have not codified how they will go about achieving it

Proportion of charities currently undertaking various management practices



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Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

Charities find it harder optimise the use of their workforce than the rest of the economy

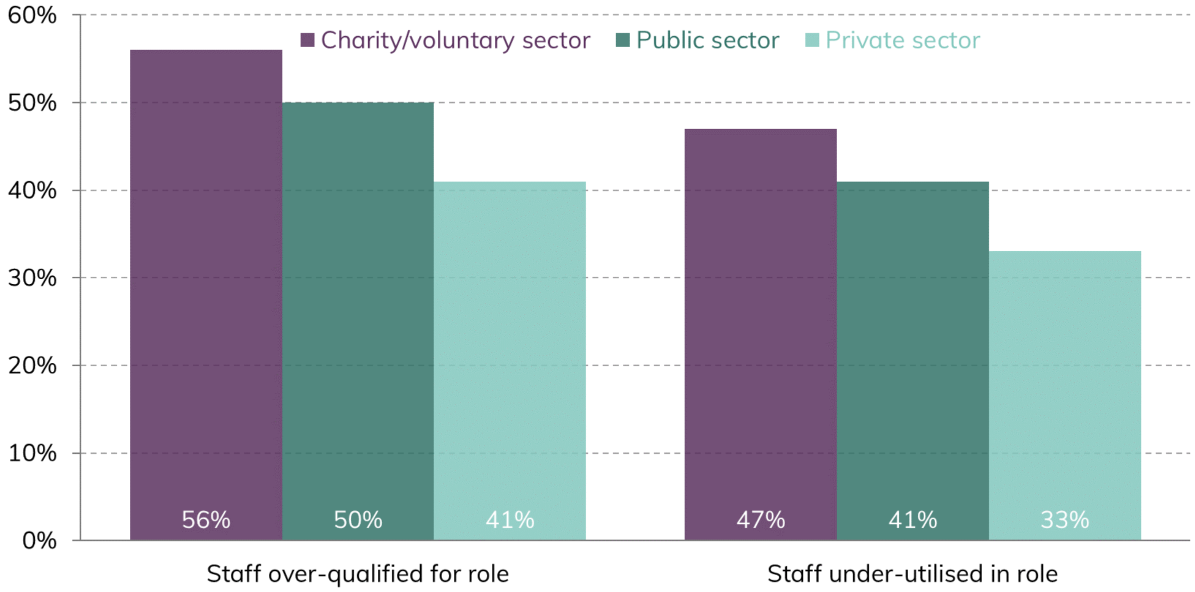
Human capital is increasingly recognised as a core component of productivity.[63] A large part of this 'human' side of productivity is the ability of managers to match workers and jobs effectively. Research has suggested that this aspect of people management correlates with productivity levels and goes some way to explaining productivity differentials between organisations.[64]

[62] R Homkes, 'Management Matters: Management and productivity global study', LSE and Centre for Economic Performance, 2010
[63] C Criscuolo et al, The human side of productivity: Uncovering the role of skills and diversity for firm productivity, Centre for Economic Policy Research, December 2021
[64] L Coraggio et al, The matching between workers and jobs explains productivity differentials across firms, Centre for Economic Policy Research, May 2022

There is evidence to suggest that the charity sector in particular struggles to effectively match workers to job roles, resulting in an under-utilisation of resources and associated productivity losses as a result. As Figure 6 highlights, charities are more likely to have over-qualified or under-utilised[65] staff than their private and public sector counterparts.

Figure 6. More than half of charities have over-qualified staff and almost half have under-utilised staff

Proportion of organisations with staff over-qualified/under-utilised in current role



Notes: PBE analysis of Employer Skills Survey 2019

Leadership skills have long been a concern for charities and there are also big differences within the sector when it comes to training

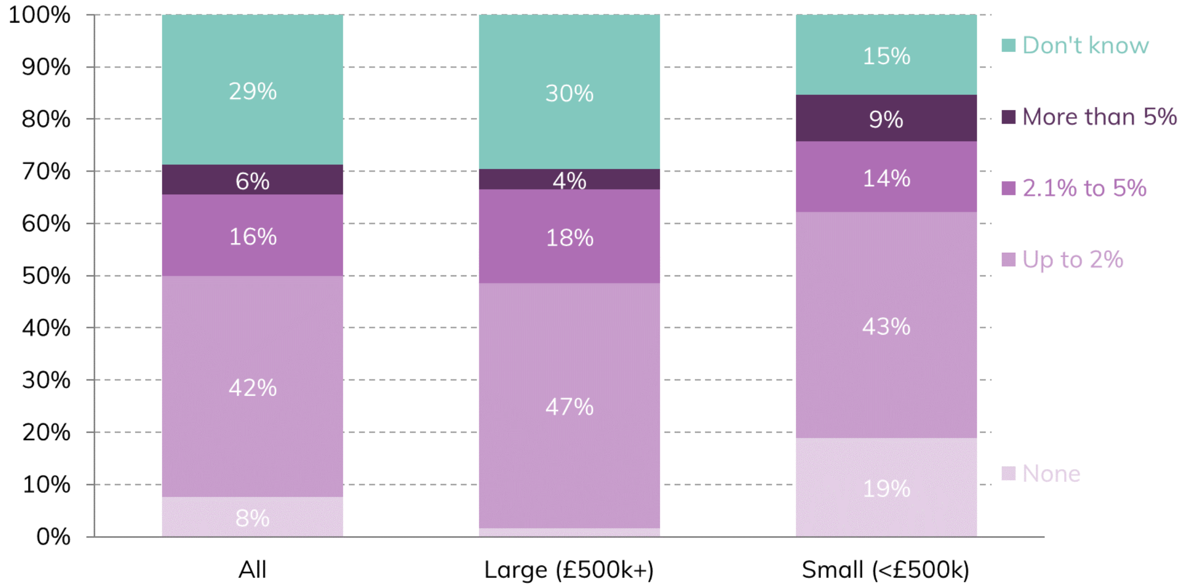
Charity trustees surveyed in 2017 reported a lack of relevant legal, digital, fundraising, marketing, and campaigning skills at board level,[66] and the sector is three times *less* likely to invest in leadership development than the wider economy, with an estimated average of 0.5% of annual income spent on it.[67]

When it comes to developing the skills of the workforce, differences within the charity sector are considerable. Just over half of smaller charities (52%) have a training budget, while almost nine in ten (86%) larger charities have money specifically put aside for training. This is likely to go some way to explaining the fact that almost one in five small charities (19%) spent nothing on training in the most recent financial year, as can be seen in Figure 7.

[65] Defined as having more qualifications and skills than their role requires
[66] B Harris et al, Taken on Trust: The awareness and effectiveness of charity trustees in England and Wales, Charity Commission for England and Wales, November 2017
[67] Clore Social Leadership, Bridging the gap in the supply and demand of leadership development, October 2020

Figure 7. In the last financial year, one fifth of small charities spent nothing on training their staff and volunteers

Percentage of annual expenditure spent on training in the previous financial year

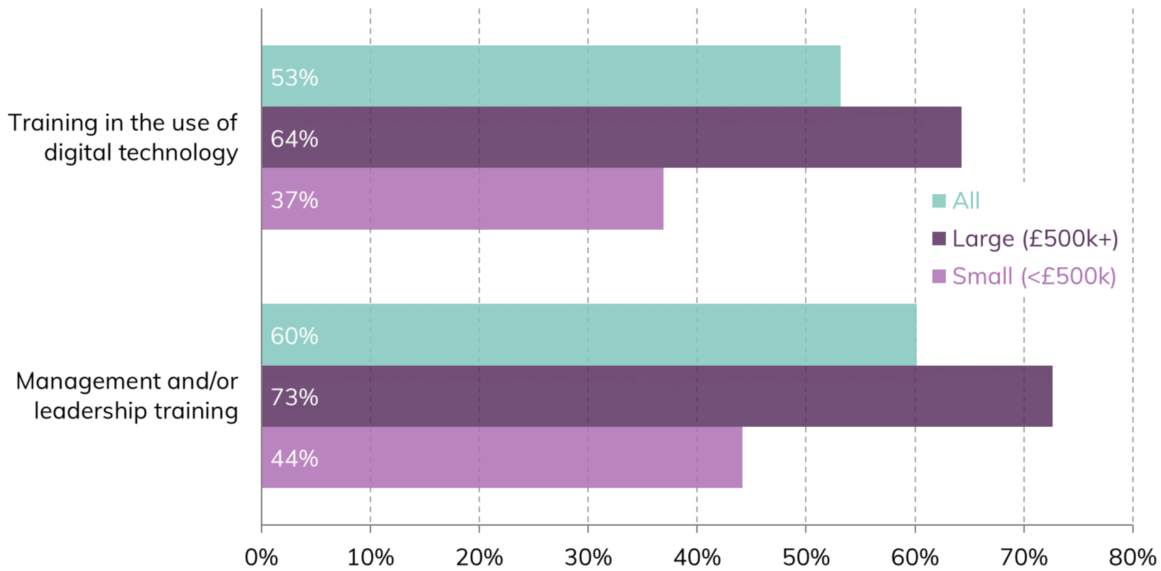


Notes: For 'All' n=316 senior managers or above working for a registered charity, for 'Large' n=179, for 'Small' n=111
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

It is clear that technological adoption and management practices are a vital part of productivity growth, and that maximising the opportunities afforded by them is dependent on the skills of individuals within the workforce. Yet as Figure 8 demonstrates, smaller charities in particular are finding it harder to find the resources to invest in developing those skills.

Figure 8. Smaller charities are significantly less likely to have funded or arranged digital or management training recently

Proportion of charities that have funded or arranged training in the last two years



Notes: For 'All' n=316 senior managers or above working for a registered charity, for 'Large' n=179, for 'Small' n=111
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

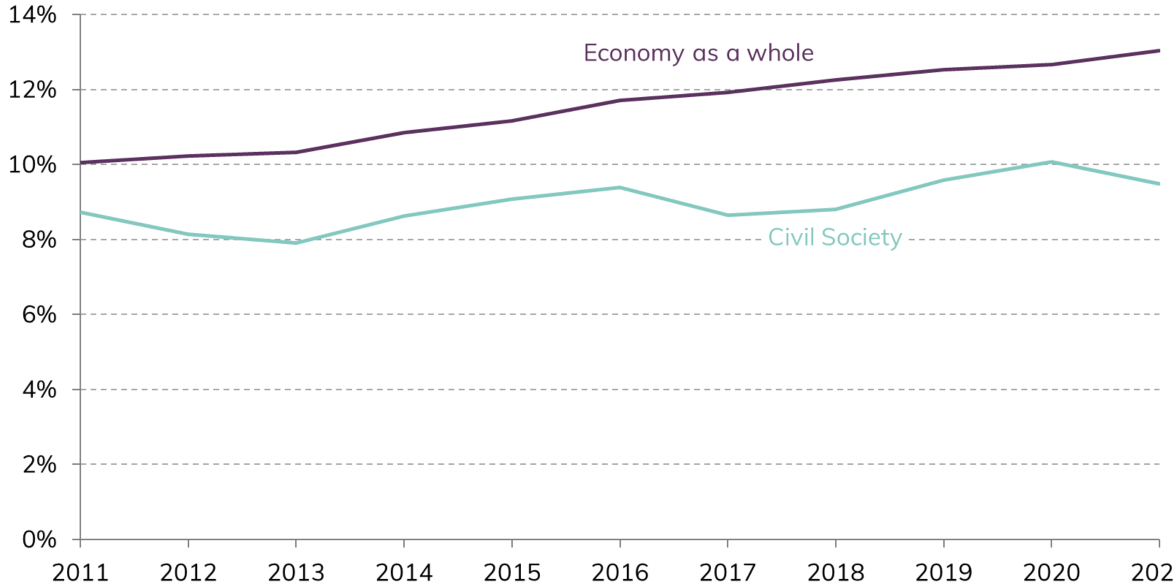
Low levels of pay, wellbeing, and diversity are also likely to be acting as a drag on the sector's productivity

People in the charity sector are working hard every day to achieve incredible things. Boosting the productivity of the sector requires a focus on them that goes beyond management, skills, and training. There must also be a concerted effort to close pay gaps, improve wellbeing and increase diversity if the sector is to reach its full potential.

The pressures of working in the charity sector can be significant, and not always managed well – which impacts organisational performance. In the economy as a whole, poor mental health costs UK employers billions of pounds every year as a result of presenteeism,[68] sickness absence and staff turnover.[69] And these challenges are likely to have worsened in recent years, as high demand, coupled with financial pressures on charities during the pandemic, had a significant impact on the mental health of the workforce. In 2021, almost half of charity leaders had considered quitting due to the challenges of Covid[70] and 94% said they had experienced stress or burnout,[71] while three in four (75%) said they were worried about the wellbeing of their workforce.[72]

Figure 9. Diversity within the civil society workforce is below average for the UK economy

Proportion of total jobs filled by people from non-white ethnic minorities



Notes: PBE analysis of DCMS Sectors National Economic Estimates: Employment, January to December 2011 to 2020 and DCMS Sectors Economic Estimates: Employment, January 2021 to December 2021

[68] Defined as when individuals are less productive at work due to poor mental health
[69] P Farmer & D Stevenson, Thriving at Work: the Stevenson/Farmer review on mental health and employers, Department for Work and Pensions and Department of Health and Social Care, October 2017
[70] Third Sector News, Almost half of charity leaders have considered leaving the sector due to pandemic pressures, survey finds, 10 May 2021
[71] Third Sector News, Nine in 10 charity workers have felt stress, overwhelm or burnout over the past year, survey shows 20 January 2021
[72] J Larkham, Hysteresis in the making? Pandemic scars and the charity sector, the Law Family Commission on Civil Society, November 2021

The impact of diversity on productivity is an emerging area of research,[73] but numerous studies have already shown that greater diversity can be correlated with higher levels of innovation, increased revenues,[74] greater profitability[75] and better productivity.[76] Yet, as Figure 9 shows, the civil society workforce is less diverse than the UK average. In 2021, the proportion of those from ethnic minority groups holding jobs in civil society was just under one in ten (9.5%), considerably lower than the rate of employment in the economy as a whole, which sits at 13%.

Civil society is also below average when it comes to social mobility within its own workforce. Socio-economic background plays a bigger role in determining someone's chances of both getting into the workforce and progressing into higher paid jobs within the sector. Over half of all roles (55%) are filled by people from more advantaged socio-economic groups, compared with just under half (47%) in the economy as a whole. This imbalance is even greater in relation to more senior (and higher paid) jobs, as people from more advantaged backgrounds are around two-and-a-half-times more likely than those from less privileged backgrounds to fill a job classified as 'higher,' such as management or professional roles in the social sector. Almost six in 10 (58%) of these management or professional roles go to people from more advantaged backgrounds, while those from less privileged backgrounds fill just under a quarter (23%).[77]

One of the factors likely to be impacting both this lack of diversity and wellbeing in the sector is that on average people working for charities earn 7% less than their counterparts in the private and public sector. This rises to almost 10% for those towards the end of their careers.[78] There is also evidence to suggest that the gap may be widening, with slower wage growth in the charity sector in 2022, compared to the private sector.[79]

Indeed, lower pay is likely to be lowering productivity in a number of ways, as it puts the sector at a comparative disadvantage when it comes to trying to attract the most highly-skilled workers. Slower wage growth during the cost of living crisis may exacerbate workforce issues, as talent and experience could drift out of the sector in search of higher wages - increasing recruitment costs, reducing output, and intensifying current recruitment challenges.[80]

[73] See, for example: London School of Economics, Studying the link between diversity and productivity, March 2022
[74] K Abouzahr et al, How Diverse Leadership Teams Boost Innovation, Boston Consulting Group, January 2018
[75] S Dixon-Fyle et al, Diversity wins: How inclusion matters, McKinsey & Company, May 2020
[76] L Barrington & K Troske, Workforce Diversity and Productivity: An Analysis of Employer-Employee Match Data, May 2001
[77] J Larkham, Inequality in civil society: the data, Pro Bono Economics, April 2022
[78] J O'Halloran, The price of purpose? Pay gaps in the charity sector, The Law Family Commission on Civil Society, August 2022
[79] M Williams, Shared stress: uncertainty, pay and recruitment strains in the charity and private sectors, Pro Bono Economics, July 2022
[80] Civil Society News, Recruitment: Why are charities struggling to fill roles, and what can be done?, 19 August 2022

What holds charities back?

Boosting the effectiveness of the sector will require tackling the root causes of what holds it back. The challenges the sector faces around innovation, technology adoption, management practices and the workforce are not a consequence of individual failure, complacency, or a lack of drive. And solving these issues is not simply about telling the sector to do thing better, more, or faster. Instead, what is required is the understanding and removal of the structural and systemic barriers that are undermining charities in their attempts to be as effective as possible.

There are three major underlying issues which need to be addressed in order to maximise the potential of the charity sector:

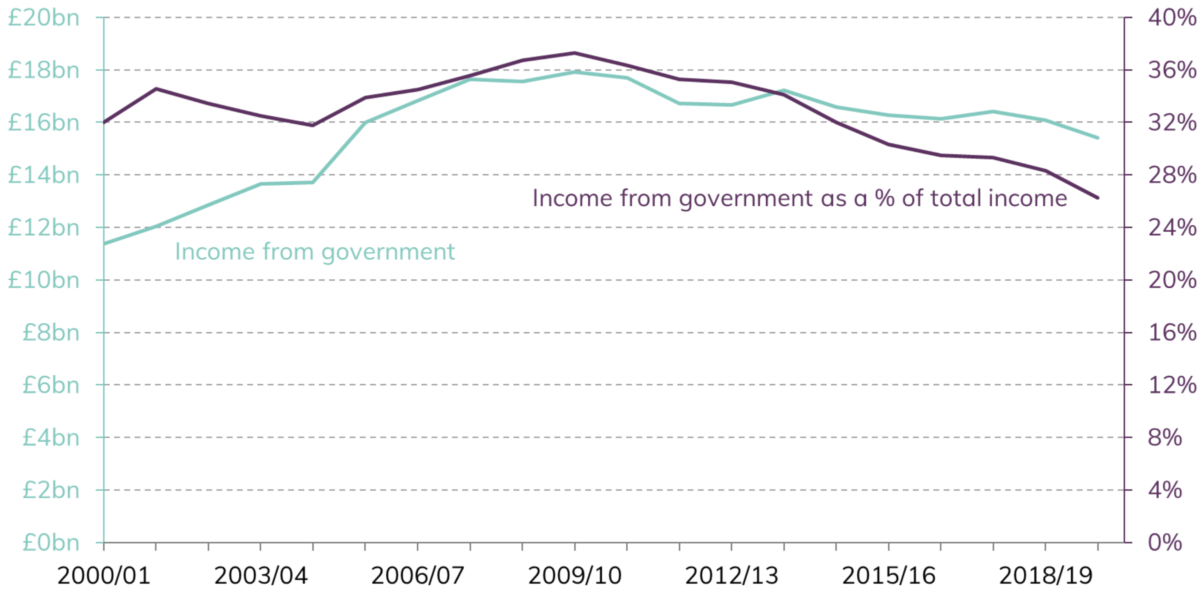
- The financial system embeds inefficiencies, neglects investment in organisational capacity and capabilities, and inhibits collaboration;
- Charities lack insight into their performance relative to their peers, which may limit their appetite for improvement;
- The diffusion of ideas, knowledge and skills is vital to growing productivity, but the architecture that sustains this in the charity sector is patchy and fragmented.

An inefficient financial system eats up scarce resources, while restrictive funding practices starve the sector of investment in capacity and capability

At the heart of the problem are the challenges created by the way that core components of the sector's funding system operates. The low quality of available finance, coupled with disproportionately high transaction costs, undermines the sector's ability to invest time and money into productivity-enhancing change.

Figure 10. Charity sector income from government has declined in recent years

Income from government in real terms and as proportion of the sector's total income, 2000/01 to 2019/20 (2019/20 prices)



Notes: PBE analysis of NCVO Civil Society Almanac, 2022

Income from government plays a major role in financing the sector. In 2019-20, government funding to the sector was worth £15.4 billion, representing just over a quarter (26%) of its income.[81] Yet as Figure 10 shows, this has been in gradual decline over the past decade.

The funding mix from government has also gradually shifted over the past two decades. Income from contracts now account for 75% of the sector's income from government, up from 49% in 2000-01, while in real terms, money given in the form of grants has fallen from £5.8 billion to £3.8 billion.[82]

There are a number of potentially productivity-inhibiting consequences of this. Contracting is by definition restrictive, with stipulations on the use of funding limiting charities' ability to invest in their organisational capacity and capabilities outside of the direct delivery of the contract specification. Short-term and insecure commissioning contracts also heighten financial risk and undermine long-term sustainability and investment.[83]

Meanwhile, bidding for contracts, developing and managing relationships with commissioners, contract monitoring, and reporting require a significant investment of time and effort, drawing down on an organisation's absorptive capacity[84] and hence its ability to innovate and learn.

Trusts and grant-making foundations play a smaller but nonetheless important role in financing the sector. Yet the operation of the system acts as a significant drain on the sector, with almost £1 billion worth of resources per year spent merely on applying for grants. For small and medium-sized charities this is a substantial drain on resources, with around one-third of the value of their grant income dedicated to simply making applications for those grants.[85]

"I think we've got 20 [funding bids] in at the moment, that's taken hours and hours and hours and hours of work, you may get one or two of those, if you're lucky... and you have to go through the same things over and over and over again," - Charity CEO

As is the case with much government funding, restrictiveness and short-termism are significant problems within the grant-making system. Restricted grants are expensive to implement and difficult to manage, and they overlook the importance of investing over the long term in the skills and capacities an organisation needs to deliver these projects well in the first place.[86]

"You can't deliver to your beneficiaries, unless you've got a well-functioning office behind," - Charity CEO

[81] NCVO, Civil Society Almanac, 2022
[82] NCVO, Civil Society Almanac, October 2022
[83] Perspective Economics, The role of Voluntary, Community, and Social Enterprise (VCSE) organisations in public procurement, August 2022https://www.gov.uk/government/publications/the-role-of-voluntary-community-and-social-enterprise-vcse-organisations-in-public-procurement
[84] Absorptive capacity is an organisation's ability to identify, assimilate, transform, and use external knowledge, research, and practice.
[85] H Barnard, Giving pains: The cost of grant-making. Assessing the cost of foundation funding applications, the Law Family Commission on Civil Society, July 2022
[86] E Lindström & J Saxton, Taking Nothing for Granted, John Ellerman Foundation and NFPSynergy, June 2012

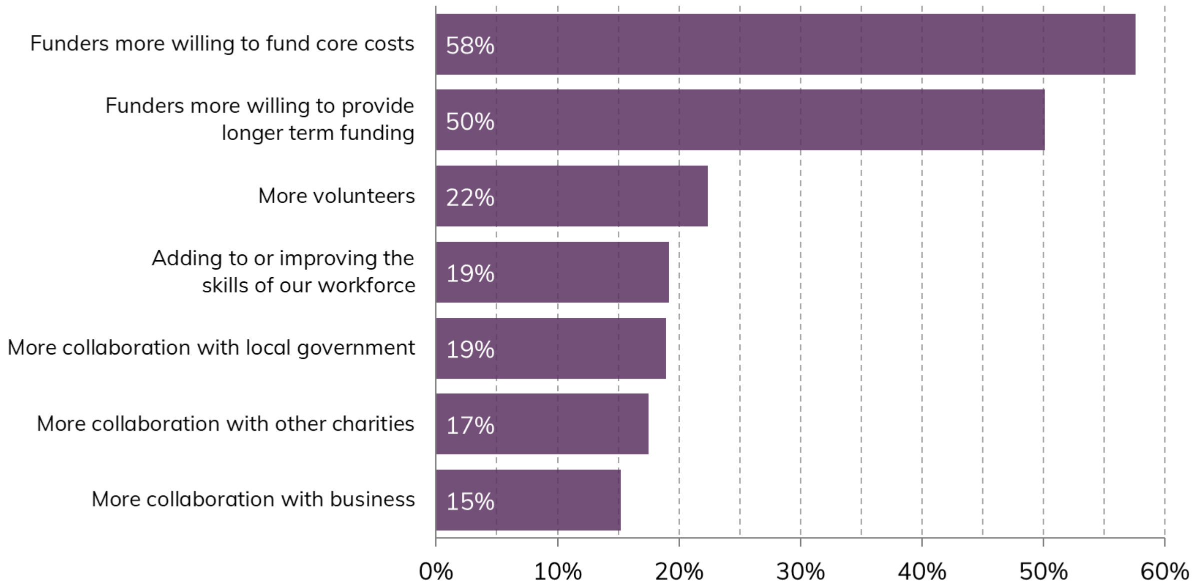
There is also evidence to suggest that despite an increased demand for capital funding, there is declining willingness among grant-makers to provide it, meaning that grant-seekers are less able to invest in productivity-enhancing resources, such as digital technology.[87]

The short-term basis on which grants are offered, often for just a year at a time or less, leads to uncertainty, leaving charities unable to plan for the future. This is inefficient, forcing charities to expend valuable time and resources constantly reapplying for funding.[88]

As Figure 11 shows, charities believe that addressing the problem of restrictive and short-term funding far outstrips any other intervention that could help them increase their impact.

Figure 11. Charities think better funding is the key to boosting their impact

Other than greater levels of funding, which, if any, of the following factors would make the biggest difference to increasing the impact your organisation has?



Notes: N=349 senior managers or above working for a registered charity or voluntary group. Respondents could select their top three

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 18-24 October 2021

A lack of funding and capacity restricts charities from being able to invest both the time and the resources into understanding and improving their productivity.

"[For my charity] the thing will be to move to an online environment, get rid of that old fashioned platform… But it's just not having the time to actually start thinking about that," - Charity Trustee

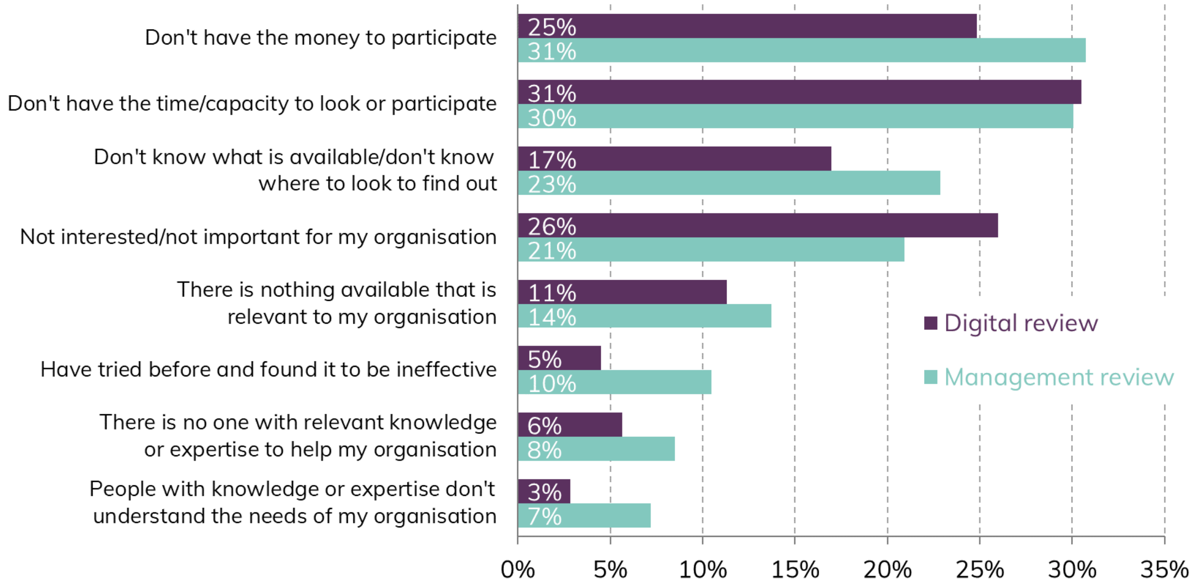
Charities are often unable to draw on external expertise or knowledge in order to review their current practices and performance. For example, in the last three years only around one in three charities have assessed their digital maturity or managerial practices in

[87] R Jenkins et al, Capital Grant Funding, The Clothworkers' Foundation, April 2017
[88] J Unwin, The Grantmaking Tango, The Baring Foundation, December 2004

order to identify where they could improve[89] and, as Figure 12 demonstrates, this is predominantly because they lack the time and money to do so.

Figure 12. Insufficient time and money is stopping charities from seeking to review and improve their digital technology and managerial practices

Reasons given for not assessing digital maturity or management practices in the past three years of those who have not done so



Notes: *Respondents were senior managers or above working for a registered charity. For digital review n=177, for management review n=153*

Source: *Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022*

Financial competition limits collaboration and undermines the spread of knowledge, ideas, and data

In any sector of the economy there is variance in performance between organisations. In the UK in recent years, the gap between those highly productive firms best able to unleash the benefits of innovation, technology, management and their workforce and those lagging behind has widened.[90]

The widening of the productivity gap has been partially explained by insufficient diffusion and dissemination of knowledge, ideas, and practice from the high-performing "frontier" organisations down to the "long tail" of less productive organisations.[91]

Interconnections between organisations is a vital mechanism for the diffusion of knowledge and ideas. Those that participate in networks have been shown to be more productive,[92] and while there has been little research specifically into how networking affects charities, it is clear that many charities acknowledge the benefits of doing so.

[89] Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022
[90] A Haldane, The UK's Productivity Problem: Hub No Spokes, Bank of England, June 2018
[91] T Dinh & A Tuckett, The Productivity Puzzle revisited: why has UK productivity lagged behind other advanced economies?, PWC, November 2022
[92] P Van Cauwenberge et al, An evaluation of public spending: the effectiveness of a government-supported networking program in Flanders, Environment and Planning C: Government and Policy, 31(1), 24–38, 2013

"We've actually found that meeting up [with another charity working in a similar field] for an hour, every couple of months, we're actually saving time because we were sharing stuff that might otherwise be working on individually," - Charity CEO

Yet despite many recognising the value of connecting with others, charities are often inhibited from collaboration and the sharing of ideas by the perceived or real competition arising from the financial system, particularly the commissioning and delivery of public sector contracts.[93] The geographical proximity of organisations providing similar types of service was often identified as a factor for intensifying these competitive pressures.

Many charity leaders who participated in this research lamented how the pressing need to secure funding in a competitive system acted as a barrier to working together or sharing ideas and knowledge.

"I think smaller charities are in danger of that competitive side, because we're all looking to the same funders... so any competitive edge you've got you don't want to share," Charity CEO

These competitive pressures also constrain other forms of collaboration, and in doing so undermine possible routes to improvement. Productivity is influenced as much by behavioural factors as it is by technological or managerial ones. Organisational practices, such as business and strategic planning, tech adoption, staff training and regular reviews of organisational practices, are common among highly productive organisations,[94] but many charities are struggling to adopt or implement them.

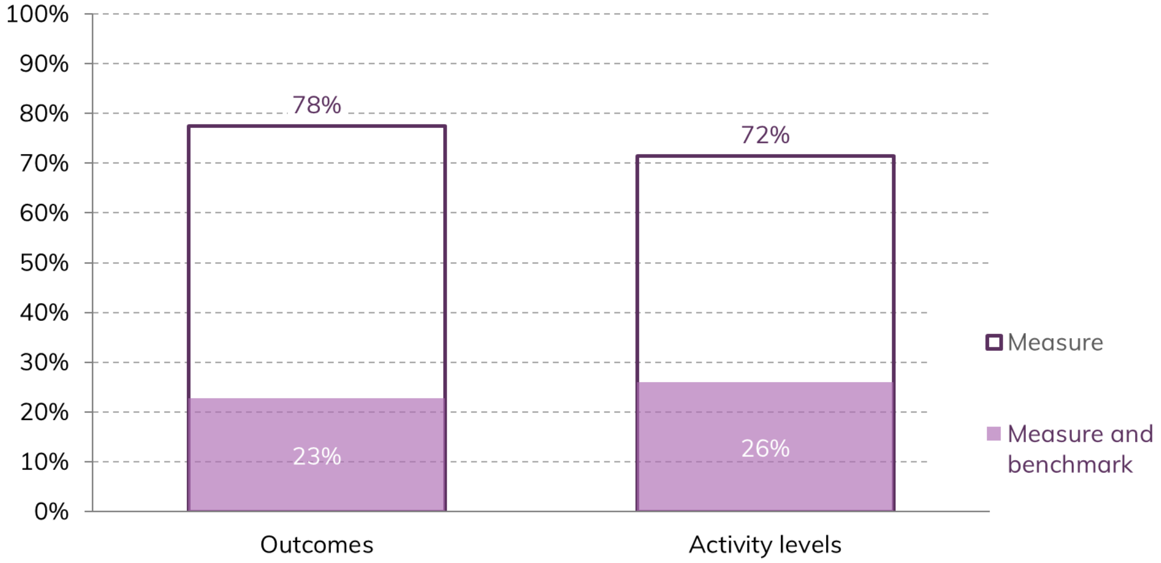
Even where finances and capacity allows, becoming more productive relies on the perspectives and actions of people within organisations to make the necessary changes to improve productivity. Behavioural barriers reduce the chance that an organisation will do so, and the influence and insight gained from networking with peers plays a key role in lowering those barriers.[95]

The interplay between a charity's awareness of its own performance relative to its peers, and its subsequent appetite to improve is a vital part of the equation. One significant problem for charities is the difficulties they face when making comparisons to their peers. As Figure 13 highlights, measurement of outcomes and outputs is common, with around three in four charities (78%) doing so, but comparison with other organisations is rare, with only around a quarter (23%) taking the extra step of benchmarking their performance against their peers.

[93] C Goodall & R Young, Rebalancing the Relationship, NCVO, February 2021
[94] Department for Business, Energy and Industrial Strategy, Business Productivity Review: Government call for evidence, May 2018
[95] N Broughton & H Wu, Business basics: nudging firms to improve productivity, Department for Business, Energy and Industrial Strategy, BEIS Research Paper Number 2019/17, October 2019

Figure 13. Charities tend to measure outcomes and outputs, but they don't often compare them with their peers

Proportion of charities that measure outcomes and output, and proportion that benchmark them against comparable organisations

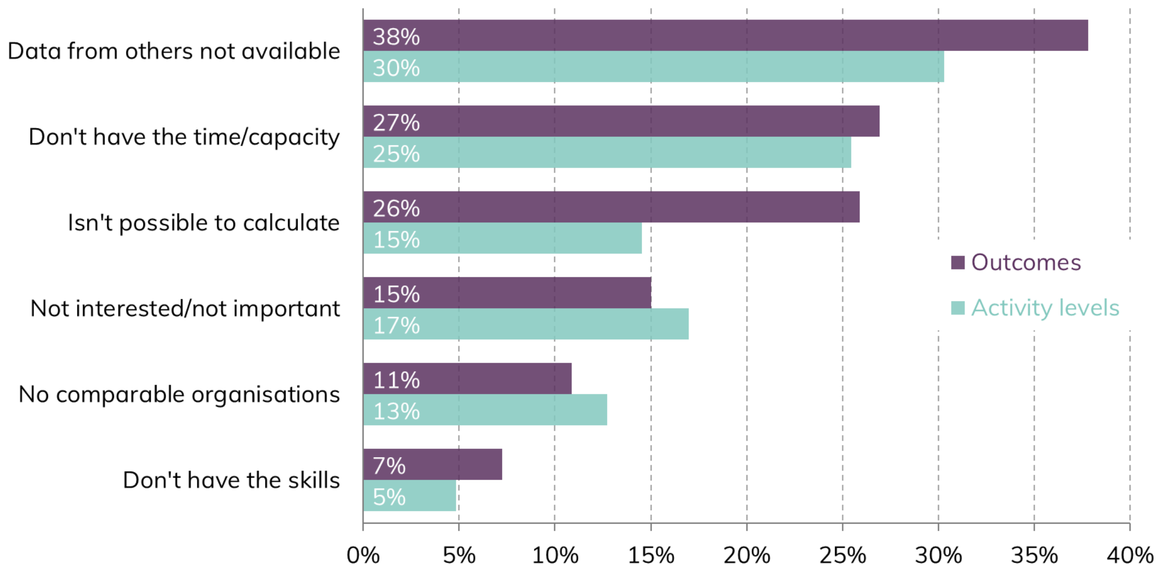


Notes: N=316 senior managers or above working for a registered charity
Source: Online survey carried out by YouGov Plc for the Law Family Commission on Civil Society, 19-27 May 2022

For a small number of organisations, the lack of comparison is a consequence of insufficient appetite, skills, or comparators, but these are by no means the biggest barrier. Capacity is again an issue for charities, but as Figure 14 demonstrates, a lack of accessible data to enable organisations to make comparisons is the biggest issue.

Figure 14. Insufficient spare capacity and a lack of available data stop charities from benchmarking their performance with their peers

Reasons for not benchmarking outcomes and/or activity levels by those who measure their outcomes and/or activity levels



Notes: Respondents were senior managers or above working for a registered charity. For outcomes n=193, for activity levels n=165
Source: Online survey carried out by YouGov Plc for the Law Family Commission on Civil Society, 19-27 May 2022

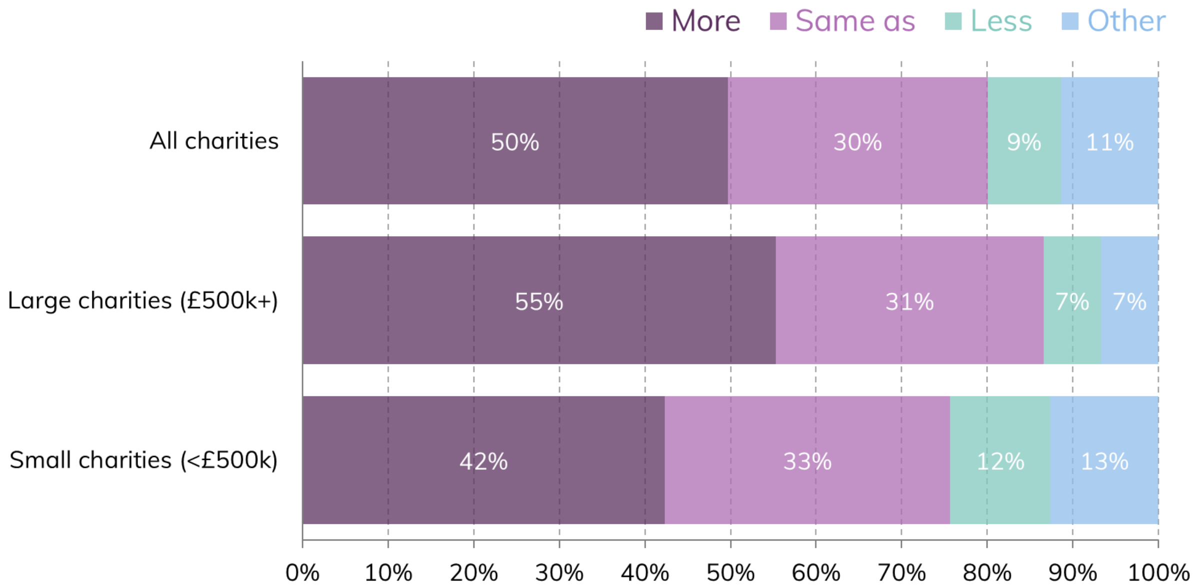
"Because of contracts, this probably has been the last few years, [there is] less collaboration and sharing. Because it can be thought to be private, competitive information that people are looking at. So it's a lot more difficult to do some of that [collaborative] work," Charity CEO

One major consequence of this is that in the absence of comparison, charities are not able to gain insight into how well they could be performing and the potential gains which could be made.

This is compounded by a lack of belief within charities that there is a need to improve their performance. Despite the absence of ways of comparing outcomes and outputs, the majority of charities believe that they perform as well or better than their peers. As can be seen in Figure 15, eight in ten charities (80%) believe that they are as effective or more effective than other comparable organisations.

Figure 15. The vast majority of charities believe they perform as well or better than their peers

Is your organisation more or less effective than other comparable organisations, or is it about the same?



Notes: Respondents were senior managers or above working for a registered charity. For all charities n=316, large charities n=179, for small charities n=111

Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

A lack of insight into how well they are performing compared to their peers, coupled with a tendency to believe that they are nonetheless doing as well or better than others, is likely to inhibit, rather than promote, an appetite for productivity growth.[96]

[96] HM Government, Business Productivity Review, November 2019

Infrastructure is crucial for aiding improvement, but a number of barriers mean many charities find it difficult to access expertise and support

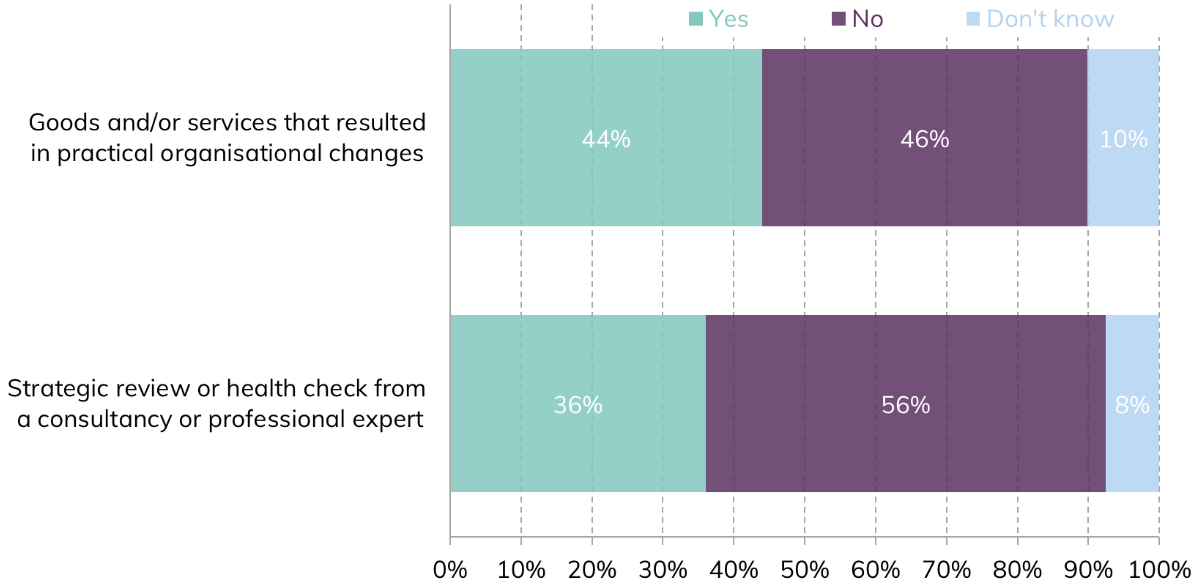
External support and expertise plays a crucial role in the effectiveness of organisations. Use of support helps to improve organisations in a wide variety of ways, including better business planning, increased skills and technology investment, and greater innovation.[97]

The government's current approach to productivity operates on a number of levels. National initiatives focus on improving infrastructure, skills and research and development (R&D) in the country overall in order to generate growth, regardless of the sector that benefits. Beneath that, more targeted support for private sector productivity in England is based on a model of locally-coordinated advice and support provision, coupled with national schemes providing government-subsidised help with technology adoption and management support. Growth Hubs offer a 'one-stop shop' for businesses seeking advice and support in a number of areas, such as financing, growth and skills. Meanwhile, the Help to Grow schemes offer SMEs across the UK funding towards management training and the purchase of digital software.

For the charity sector, however, there has been no such targeted investment or coordination effort. This has left the sector reliant on a fragmented model of provision which, as Figure 16 demonstrates, lots of charities are not engaging with.

Figure 16. Many charities haven't engaged with providers of external support in order to make improvements to the way they work

Proportion of charities making use of external support, expertise, goods and/or services in order to review and/or change their organisation in the past three years



Notes: N=316 senior managers or above working for a registered charity
Source: Online survey carried out by YouGov Plc on behalf of the Law Family Commission on Civil Society, 19-27 May 2022

[97] Department for Business, Energy and Industrial Strategy, Business Productivity Review: Government call for evidence, May 2018

Many charities are not seeking external support or expertise in the pursuit of organisational improvements. Almost half (46%) said that in the last three years they had not made use of externally-provided goods or services to make practical changes, while more than a half (56%) said that they had not sought out external expertise to help provide a strategic review or health check of their organisation. For smaller charities, these findings were even more pronounced. For example, more than three-quarters (76%) had not undertaken a strategic review or health check from an external expert in the past three years. This is perhaps unsurprising, given the tight budgets and pressure on staff and volunteer capacity that most small charities are operating under.

Once again, cost and capacity are the biggest barriers. One in three (34%) of those who have not undertaken a strategic review cite cost as an issue and one in five (22%) say they lack the time to participate. Financial barriers are even more significant for smaller organisations, with almost half (45%) saying they lack funds for a strategic review and one in three (32%) saying the same about making use of goods or services to make organisational changes.

"The support that is out there is expensive. There is really, really good support... It's just out of the reach of most small charities," - Charity CEO

On top of these issues, the complexity of the system and accessing the right kind of support is also a significant problem. The 'market' for provision consists of a large number of organisations[98] and understanding among charities of what support is available, or where to go to find out about it, is low.[99] For example, almost one in four charities (23%) surveyed for this report, that had not undertaken an external review of their management practices, said this was because they did not know what was available, or where to look to find out.

Exploring the recent history of the infrastructure that supports the charity sector provides some insight into the how these issues have arisen. Policy and funding approaches have shifted the model for the provision of support for charities, resulting in what has been described as structural transformation and financial decline.[100] The previous emphasis on investing significant government funding towards building a "coherent and coordinated" supply has gradually been replaced with a more "fragmented and competitive" model, with individual organisations expected to identify and procure support from a wide marketplace of support providers.[101]

The development of a more fragmented and demand-led market of provision runs counter to much contemporary evidence about the provision of effective business support. For example, a recent OECD report concluded that "a nationally-recognised

[98] A Ellis Paine & R Macmillan, Building capabilities in the voluntary sector: A summary of what the evidence tells us, Briefing Paper 125, Third Sector Research Centre, September 2014
[99] Ibid
[100] See, for example: C Dayson et al, Third sector capacity building: the institutional embeddedness of supply, Voluntary Sector Review, 8 (2), 149-168 and R Macmillan, A surprising turn of events - episodes towards a renaissance of civil society infrastructure in England, People, Place and Policy: 15/2, pp. 57-71, 2021
[101] See for example: C Walton and R Macmillan, A brave new world for voluntary sector infrastructure? Vouchers, markets and demand led capacity building, Working Paper 118, Third Sector Research Centre, March 2014 and A Ellis Paine & R Macmillan, Building capabilities in the voluntary sector: A summary of what the evidence tells us, Briefing Paper 125, Third Sector Research Centre, September 2014

brand offering business advice through a single entity can help address problems of lack of awareness and trust in business advice".[102] The Law Family Commission's research suggests that the current approach to support provision requires rethinking if we are to make it more accessible and ultimately more effective.

Charities are also concerned about the characteristics, motivations, and values of support providers.[103] For example, 55% of charities are actively concerned about choosing tech suppliers which share their ethics and values.[104] For many charity leaders, specialist knowledge of charities and the intricacies of the sector is also fundamental for them when seeking external support.

"Actually, having people who understand about charities, and how particularly small charities work is important... in the past we've had support from industry experts who have been brilliant, but they just don't get small charities. So, some of the recommendations... it just doesn't work," - Charity CEO

[102] OECD, International Experience in Leveraging Business Development Services for SME Productivity Growth: Implications for UK policy, September 2018
[103] Ibid
[104] Z Amar, Charity Digital Skills Report, 2022

Recommendations

The following section outlines a number of ideas and proposals that the Law Family Commission believes would help to boost the productivity of charities, and in turn help to unleash some of their latent potential.

It focuses first on improving the way that the sector is financed, with calls for reducing transaction costs and freeing up charities to invest more in their operations and processes. Next, it addresses ways of improving the evidence base available for the sector to help improve the spread of good practice and build appetite for improvement. Finally, there are calls for improvement to the support available to charities by opening up government schemes currently only available to the private sector, revitalising local infrastructure to enable it to embed productivity support within its wider functions, and help to grow the supply of skilled volunteering.

1. Fixing finance

The current financial system is complex and diverse, with charities deriving their income from members of the public, central and local government, the private sector, and other civil society organisations. This income comes in a variety of forms: individuals dropping loose change into a collection bucket, philanthropists undertaking targeted investment to the tune of millions of pounds per annum, government contracts for the delivery of public services, or grants for core funding from a grant-making foundation or businesses, to name just a few.

Any funding that a charity receives is important, but when it comes to enhancing an organisation's ability to invest in improving its productivity, some forms of finance are more valuable than others. While government contracts and project-based grant funding are an important part of the financial mix for the sector, their restrictive and often short-term nature means that they are less well-suited to investing in organisational improvement.

More flexible and longer-term funding

Less restrictive and longer-term funding can provide charities with more flexibility and security to invest in better technology, greater levels of innovation, improved management, and development of their workforce. Increasing the quantity and quality of this type of financing is therefore a fundamental first step to boosting charity productivity.

Grant-making trusts and foundations, businesses, philanthropists, and local and central government can all contribute to this by directing more of their investment in the form of less restrictive and longer-term grants, or by providing financing specifically for investment in these kinds of organisational improvements.

Spreading good grant-making practice

Of particular importance is the spread of better practice among grant-making trusts and foundations. The Law Family Commission proposes that this can be enabled by the Charity Commission playing a more active and vocal role in highlighting the problems caused by poor quality grant-making, as well as what good grant-making looks like and the resources that exist to support improved practice. Additionally grant-maker benchmarkers should explore opportunities for expanding the scope of their work, with the Charity Commission encouraging greater participation in and use of such benchmarks across the sector. Grant-seeking charities should be better engaged by grant-makers to increase awareness of the problems that sub-optimal practices cause for the charities and communities they seek to serve.[105]

Boosting philanthropy

Growing philanthropic giving in the UK is another crucial part of the solution. Government can support this drive by appointing a senior official as a 'Philanthropy Champion', with responsibility for driving forward the UK's approach to philanthropy. This individual should be given the resources and authority required to coordinate cross-government action on measurement, regulation, and taxation of philanthropy in order to unlock its potential. This should be coupled with a drive to improve knowledge of philanthropy within the civil service to increase understanding of the opportunities it presents.[106]

The Financial Conduct Authority can also help to increase the scale of philanthropic giving in the UK by improving the provision of high-quality financial advice and guidance on philanthropy. This can be achieved through improving the training of financial advisors on philanthropy, as well as setting out a timetable by which it will require relevant financial advisors to discuss philanthropy with their clients as a matter of course.[107]

2. Better generation, diffusion, and use of evidence and data

It is essential that better financial support comes hand in hand with the creation, spread and uptake of better evidence among charities, so that resources can be deployed in the most effective way.

Identifying and increasing the spread of evidence relating to the interventions, goods and services that deliver the best possible outcomes to beneficiaries needs to be coupled with improving and distributing evidence about how charities themselves can be more productive in terms of innovation, technology, management, and workforce. This combination of improving the evidence about what charities do and how they should do it is vital to improving the sector's productivity.

Any attempts to improve productivity should also address the behavioural aspects of organisational change. Productivity-enhancing improvements will only be achieved where charities have both the resources and appetite to do so. An important step in growing that appetite for change is to provide charities with better data to enable them

[105] For further detail see: H Barnard & M Williams, Making it count: Overcoming the barriers to better grant-making, the Law Family Commission on Civil Society, December 2022
[106] For further detail see: N Sykes, Seizing the philanthropic prize: The role of the UK government in growing philanthropy, the Law Family Commission on Civil Society, June 2022
[107] For further detail see: N Sykes, Giving advice: The case for the FCA to act on philanthropy, the Law Family Commission on Civil Society, November 2022

to benchmark themselves with their peers - enabling them to get a sense of how well they perform and what their potential for improvement is.

Civil Society Evidence Organisation

In order to improve the creation and spread of evidence about what charities should do and how they should do it, in order to maximise the sector's impact, the Law Family Commission proposes the creation of a Civil Society Evidence Organisation (CSEVO). This organisation would achieve this in four ways:

1. Developing, holding and sharing the evidence base on how charities can be most productive in terms of innovation, technological adoption, management practices and workforce improvement.
2. Raising awareness of and appetite for the usefulness and availability of evidence to help charities be more effective.
3. Advising, training and signposting charities to help them find and make use of evidence about what works in their practice areas.
4. Information brokerage through triaging organisations to the available evidence and research related to their work.

In doing fulfilling these functions, this organisation would serve charities and other organisations that collaborate with and/or fund charities. The organisation would be geared to meeting the needs of smaller charities and those with the least in-house expertise or bandwidth. This new organisation can follow the templates already established by organisations in the What Works Network and Westminster's Evidence Quarter, and operate at a relatively modest cost.

Productivity data and benchmarking tools

It is essential to secure a more detailed and dynamic picture of how the sector as a whole, cohorts of comparable organisations and individual charities are performing across the key factors that affect productivity, as well as how that is changing over time.

As such, there needs to be a programme of work to audit, extract and analyse charities' responses to productivity-relevant surveys, such as the Employer Skills Survey, the UK Innovation Survey, the Management and Expectations Survey, the Digital Economy Survey, and the Labour Force Survey). This would give insight into the current and changing state of the sector in the key areas of innovation, technological adoption, management practices, skills and training, and workforce. The findings could be used to identify where greater support is needed and help form the evidence base for the evaluation of policy interventions.

Linking this with annual return data held by the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator, and the Charity Commission for Northern Ireland would enable results to be cross-referenced with key organisational characteristics, such as income level, sub-sector, geography, and beneficiary types to give a picture of performance across cohorts of charities that are reasonably comparable. For example, this underlying dataset could be used to produce interactive data tools which individual charities could use to benchmark their management practices, levels of training provision, investment in workforce development, skills gaps and rates of technological adoption against cohort groups of their choosing.

Additionally, this dataset would enable the identification of charities performing well in these areas and could serve as a tool to identify 'frontier' organisations who could in turn support diffusion of their achievements and insights through networks and mentoring programmes.

3. Opening up support, revitalising local infrastructure and boosting volunteering

Charities themselves cannot hold and deploy all of the resources, skills, knowledge, and information required to grow their productivity. External specialists, expertise and practical support all have a vital role to play in helping charities become more productive.

Enabling charities to access existing government productivity schemes, investing in the development of the sector's support infrastructure, and growing the supply of skilled volunteering to charities will all enable the sector to make use of the expertise, skills and practical support required to boost their productivity. As such, the Law Family Commission on Civil Society makes the following recommendations:

Opening up government productivity schemes like Help to Grow to charities

Both Help to Grow: Digital and Help to Grow: Management are government-funded schemes aimed at providing interventions to help SMEs to improve their productivity.

Broadening the inclusion criteria of these schemes to allow charities to participate would be a simple way of bringing the sector onboard with the government's productivity agenda and provide a much-needed source of support for charities struggling to find the resources to invest in their organisational effectiveness. This makes particular sense for the Help to Grow: Digital scheme, which is due to close in February 2023 due to low uptake among SMEs.[108]

Build productivity support functions into revitalised local infrastructure, beginning with a government review into charity infrastructure

Local infrastructure organisations, such as Councils for Voluntary Service (CVSs) and Community Foundations, provide support for local charities, as well as other voluntary and community sector organisations. They work across defined geographical areas, responding to local needs and interacting with tens of thousands of charities and community organisations.

As such, they offer the most logical starting point for the integration of the productivity agenda into the existing architecture of charity support. In their role as capacity builders and drivers of collaboration, local infrastructure organisations could provide a network for the distribution of the evidence, tools, and information generated by the CSEVO, in

[108] Department for Business, Energy & Industrial Strategy, Final opportunity for businesses to access Help to Grow: Digital scheme, 15 December 2022

addition to providing on the ground information and intelligence about the evidence needs of the sector, creating a virtuous feedback loop through their existing networks and partnerships.

Local infrastructure organisations could also act as a ‘single point of contact’ for charities looking for practical support to improve their effectiveness – essentially making them the charity sector equivalent of private sector Growth Hubs. Their primary purpose could be to provide a diagnostic and triage function, working with charities to understand their organisational needs and then helping them to navigate the complex ecosystem of providers so that they are able to find the most suitable support.

However, while many places have strong and effective local infrastructure organisations, in others the infrastructure is fragmented, financially vulnerable and often in competition for funding with those organisations it is tasked with supporting. A significant rethink is required if the needs of charities are to be better met.

In order to implement these proposed changes within local infrastructure organisations, it needs to be recognised that local infrastructure itself requires investment and development. The Law Family Commission, along with the National Association for Voluntary and Community Action (NAVCA) and the Centre for Regional Economic and Social Research (CRESR), recommends the government undertakes a strategic review of the organisation, funding, and function of local charity sector infrastructure[109] to ensure it is financially sustainable and able to provide the kind of support that charities and wider social sector organisations need to enhance their productivity.

Boosting skilled volunteering

Skilled volunteers and the support providers that connect them with charities should be another vital resource in the sector’s productivity drive. Research suggests that around 6 million people (21% of the workforce) put their work skills into use on a voluntary basis, with at least 8,300 charities and social enterprises benefiting from such pro bono support.

A further 50% would like to volunteer using their occupational or professional skills, but many face barriers to being able to donate their time and skills. Almost seven in ten (69%) say they struggle to find time and over a third (38%) say they need guidance on how to do this.

Employers therefore have a big role to play in helping to unlock this resource. More than threequarters of employees believe that employers should support staff volunteering (77%) and that businesses benefit from doing so (79%). Meanwhile, many businesses report that supporting employee volunteering increases their employees’ wellbeing, boosts retention and staff loyalty and supports recruitment.[110]

The Law Family Commission therefore recommends that the newly created Vision for Volunteering team should work with business organisations and the UK Pro Bono

[109] Macmillan, R et al, Connecting Locally: local voluntary and community sector infrastructure in England, November 2022
[110] Pilotlight, Give your culture a workout, October 2022

Network to release the potential of skilled volunteering in a way that is effective and proportionate for employers.

Conclusion

Improving productivity is one of the most pressing challenges facing the nation, and successive governments have put boosting it at the heart of their economic agenda.

Alongside the private and public sectors, charities play a crucial role in the economic and social fabric of the UK. Yet despite their economic and social contribution, the volume of public services they deliver, and the scale of government investment into the sector, charities have not yet been integrated into the productivity agenda alongside their business and state counterparts.

The evidence suggests this has significant consequences, and given the current operating environment for the sector, the need to address this oversight is pressing. Many charities are struggling to implement some of the fundamental practices that have been proven to help boost organisational productivity and as a consequence, potential in the sector is going untapped and its impact is diminished.

The solution to these problems lies in tackling their root causes. A less burdensome, restrictive, and competitive financial system for the sector will free up cash and capacity to invest in the core practices that boost productivity, such as innovation, technology, skills, and management, as well as increasing opportunities for charities to collaborate and learn from each other.

Better evidence and information about how charities can implement changes to become more productive is needed, coupled with the provision of better data and benchmarking tools to enable charities to understand how well they perform in relation to their peers and what opportunities there are for improvement. Mechanisms for the dispersal and use of evidence and data are crucial to helping turn knowledge and ideas into action.

Finally, the system for the provision of support needs reinvigorating. Crippling underinvestment, the fragmented nature of provision and the variability of localised support makes it difficult for many capacity and cash-strapped charities to engage with, navigate and find the support to improve their performance.

This model runs contrary to both evidence and policy approaches for the private sector, which favour a degree of centralisation and coordination supported with dedicated government investment and subsidy.

A concerted effort to fix charity financing, develop and spread better evidence and data, broaden existing government productivity schemes, as well as revitalise local infrastructure and boost skilled volunteering, are fundamental to unleashing the potential of the UK's charities.

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