Information Systems for Charities in the 'New Normal'

Article by Dr. Danielle McConville, Examiner for F2 Information Systems (Lecturer Education in Accounting Information Systems, Queen's University Belfast) and Kieran McConville (Head of Finance, Springvale Learning).

Charities represent a significant and growing part of the economy. However, subsequent to the 2008 financial crisis and accompanying government cuts, many charities have experienced a 'perfect storm' of increased demand for services and reduction in funding. We have also seen charity failure and consolidation within the sector, some high-profile scandals and increasing stakeholder demands for transparency on what charities do and the associated costs. Subsequently, the 'new normal' for charities increasingly involves 'doing more with less' and in this context the ability to monitor and improve performance and to control and reduce costs may be essential.

Demands for better information on performance

The new charity SORPs[1] specifically encourage all charities to report on the difference their work makes to the circumstances of their beneficiaries, and where practicable to society as a whole. For large charities the SORPs go further, asking charities to report on their inputs, activities, outputs, outcomes and impacts, with impact explained as the long-term effect of a charity's activities on individual beneficiaries and at a societal level.

However, charities are perhaps more acutely aware of information demands from their largest statutory or institutional funder. Previous research has indicated that funders increasingly demand evidence of outcomes as they try to direct their funds towards proven solutions to identified problems. Charities failing to provide such information risk falling short in an increasingly competitive funding arena. Moreover, research has indicated that information on outcomes and impact is increasingly demanded by other stakeholders including the general public and individual donors. Donors in particular expect to see evidence of the difference their donation can make to beneficiaries' lives in reports, websites and/or specific donor communications.

Internally, demand for outcomes and impact monitoring may also be increasing as charities seek to: track progress towards objectives or mission; identify more or less effective interventions; improve internal practices and decision making; and formulate future strategy.

[1] Compliance with the Statements of Recommended Practice (SORP) for charities is currently best practice in Northern Ireland and the Republic of Ireland, while development of accounting and reporting regulations and regulation itself is ongoing in both jurisdictions. Compliance is mandatory for many UK charities. For detail on the SORP requirements, see http://www.charitysorp.org/.

Demands for better information on costs

Externally, large funders (particularly statutory bodies paying for contracted-out services) now demand much more detailed cost information on a more regular basis than ever before. Forthcoming changes to accounting and reporting regulations for charities will also impact here, particularly if more charities are required to apply the SORP. Following recent scandals, other stakeholders including the media and general public see charities' financial statements as more newsworthy than ever before.

Internally, pressures to cut costs to enable the organisation to do 'more with less' has led to greater demands for cost information at all levels of the organisation, including: more accurate, faster (or real-time) reporting to cost centre managers; better facilities to 'drill-down' to cost centres and invoices; more detailed information on the breakdown of costs; and comparisons to previous and budgeted figures.

Possible approaches

Operationally, charities differ significantly from each other, and finding an off-the-shelf, one-stop-shop solution to the charity's information needs is unlikely beyond the smallest, simplest charities. Software that can improve reporting on costs is readily available, with large players in the accounting software market – including Sage, Oracle and Capita – increasingly offering tailored and integrated solutions to charities.

In contrast, reflecting the highly varied and complex nature of such information, where systems exist to monitor and report outcomes-related information these have often been developed in-house or by consultants for the largest charities. However, a range of technologies can support charities seeking to improve their recording, storage and reporting of such information, including: cloud-based technologies for the development of application environments and storage; collaborative software and internet technologies for recording and communication; and the use of business intelligence and analytics methods for analysis and reporting.

Considering investment in information systems in charities

As with any investment, charities need to carefully consider the possible costs and benefits of investing in their information systems, and a number of frameworks exist to understand and explain the possible value of such an investment.

Broadly speaking, for many charities the major benefit of effective investment in information systems will relate to the organisation's increased ability to meet the varied information needs of funders and donors from information routinely provided by the information system (that is, without having to resort to time consuming, ad hoc data gathering). Compliance with the SORP is also made easier in a system where such information is routinely available. Greater control of resources for cost centre managers and Head Office can lead to efficiency savings. However, some of the most important benefits are likely to stem from creating better accountability within the organisation for performance and costs and producing better information for both operational and strategic decision making.

It could be suggested that typical concerns about information systems change are magnified with respect to implementation in charities. Concerns about cost will be front and centre in any information systems change: from initial investment costs, continuing development and upgrade costs to staff retraining and maintenance costs. In charities such costs need to be particularly carefully justified and monitored given that such costs represent a diversion from frontline charitable activities (even if cost savings will eventually result). Given recent flux in the sector, the organisation will need to consider whether the planned system would still be suitable if the organisation was to reduce or increase in size. As in other sectors, human factors will impact on the success of any change: are cost centre managers (usually with an operational rather than a finance background) willing and able to use the system, and accept the responsibility for costs/performance being pushed down to them? Typical concerns with respect to data security and integrity may be even more important if we consider that a revenue stream may depend on the ability to evidence certain costs or outcomes, and that data may relate to vulnerable individuals.

Securing initial and continuing support for information system change is difficult in many organisations, but may be particularly so in resource-constrained charities. However, for some charities, investment in information systems may be seen as a necessary evil where current systems can no longer meet stakeholder demands or compliance obligations. For others, information systems can have an important role in facilitating the organisation to ‘do more with less’. Investment here may be an investment in sustaining the organisation and its ability to make a continuing positive societal impact in the ‘new normal’.