

# Small is bountiful: why local charities make perfect partners

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Philanthropy is no longer a simple act of giving – the new generation of philanthropists are committed, innovative and engaged – they want to be the driving force of social change.

**T**his generation want to see and understand the social impact that their donations are having. Moreover, most are not only motivated by the difference their money can make, but also by the difference they can make as individuals. They want to be the change they wish to see.<sup>1,2</sup>

The changing dynamics of philanthropic behaviour, if channelled properly, can go a long way to addressing some of the deepest, long-term issues facing the UK charity sector.

The too-often neglected local voluntary sector can particularly benefit from this change. As Localgiving's recent report has shown, beneath its fragile financial state, this is a sector with an abundance of untapped skills and unfulfilled potential. For those who see the value of their philanthropy beyond monetary terms, the local voluntary sector is awash with opportunity.

## The state of the sector

In October 2015 I co-authored a report on the sustainability of the local charity sector for Localgiving. This report found the local voluntary sector stretched to its absolute capacity with widespread concerns about the future. Local charities are severely lacking in time and resources, leaving them unable to build reserves or invest in alternative income sources, training and volunteer recruitment. Many groups fear for their survival, with just 47% of respondents confident that they will stay afloat over the next five years.<sup>3</sup>

This picture may not be one that immediately screams return on investment (ROI) to philanthropists looking to invest. Of course, it is true that significant skill, time and effort will need to be put in to make the sector flourish. However, the greatest opportunities for return (be it financial or social) do not lie in those organisations already flying high but in those with the greatest untapped skills, or unfulfilled potential. Local charities and community groups have potential in abundance.



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That there is a great need for the services provided by local groups is in no doubt. The sector has witnessed a year-on-year increase in service demand, with 81% of charities expecting a further increase in the upcoming year. This trend has been exacerbated by an economic climate that has seen deep cuts to statutory services. Many of the issues facing local charitable groups stem from this escalation in demand. At present, the sector simply does not have the resources or skills to keep up with this spiralling demand while remaining sustainable.

That there is a clear, identifiable need for the services provided by small, local groups does not automatically lead to the argument that philanthropists should invest in these groups.

Could it be, for example, that larger, national or international groups with greater resources could provide the same services at a lower cost – thus representing a greater ROI for philanthropists? Or do local groups have their own intrinsic value, which simply can't be replicated by larger organisations whose operations are dictated from afar?

### The true value of local charities

The local voluntary sector is wide and varied. There will, therefore, undoubtedly be some projects that could be provided by larger organisations. However, for the overwhelming majority of services in question, evidence suggests that small, local groups not only provide a better ROI for investors (in terms of input to outcomes) but are arguably the only providers able to achieve the desired outcomes.

- Firstly, it is necessary to point out that the often repeated assumption that larger charities are more financially efficient than their smaller counterparts has little basis. The evidence suggests that smaller charities demonstrate at least equal programme spending efficiency and administrative efficiency as larger groups. Whatever larger charities may gain from economies of scale, smaller charities more than adequately make up for it in resourcefulness, as well as lower overheads, fundraising and marketing spend.<sup>2</sup>
- Secondly, and crucially, the types of services that small, local groups often specialise in are heavily reliant on the trusting relationships and knowledge that come from being deeply embedded in a community. One cannot truly measure the impact of a coffee morning,

community garden or buddying session through outputs and feedback forms. The 'goods' produced by these services are hard to quantify and even harder to replicate. Perhaps the question, then, is not whether local or national groups represent a better ROI, but whether organisations without this community knowledge can deliver these services (and related goods) at all?

Grassroots groups are often at least as efficient as larger groups and, moreover, their strong community links make their work almost impossible for outside organisations to replicate. However, if current funding trends continue, the viability of this essential sector – including thousands of charities and their irreplaceable services – will be in serious doubt.

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This alone is a strong argument for philanthropists to invest in the local voluntary sector. The loss of these groups and services will not only damage the lives of individual beneficiaries, but could also lead to the degradation of our civil society as a whole. Through investing in local charities directly, in projects that enable the equitable dispersal of funds around these groups or in practical skills training for local voluntary sector personnel, philanthropists can play a fundamental role in changing this trajectory – helping to secure a forward-looking, flourishing civil society. Given the potential impact of such an investment, both at the micro and macro level, it is difficult to find a greater potential for ROI.

Of course, few philanthropists are motivated solely by such utilitarian ideals. While attaining some public or common good still lies at the heart of philanthropy, many philanthropists are also driven by the desire to make a personal difference and by the sense of self-worth and gratification they can take from this.

Like all major organisations, larger national charities often, by their very nature, provide little space for influence or innovation from individual investors. The contrast with small, local charities could not be greater. A carefully considered investment in the local voluntary sector will enable philanthropists to build tangible,

mutually beneficial relationships with groups, their beneficiaries and indeed the wider communities within which they are based.

- Many philanthropists are highly skilled people and would like their skills to be seen as assets by the organisations they work with. Most large organisations already possess core skills – including specialist teams for fundraising, marketing, finance etc – leaving limited space for a philanthropist’s skills to be utilised. Conversely, the local voluntary sector is severely short on these specialist skills.<sup>4</sup> Whether a philanthropist chooses to focus on one local charity or to offer his or her expertise to a number of local groups will come down to both the motivations of the philanthropist and the needs and skills gaps in any given area. Either way, smaller local charities are far more likely to welcome and benefit from such a skills-offer than their larger counterparts.
- Larger groups are often firmly entrenched in their practice, culture and politics, making them inflexible and closed to new ideas. Moreover, these groups frequently have multiple stakeholders, including major investors, all vying for influence over the group’s activities and direction. Smaller organisations are usually far more flexible – few have competing stakeholder interests or cumbersome decision-making structures standing in the way of change or innovation.
- Finally, one huge advantage of philanthropists becoming involved in local initiatives is that they are more likely to have an understanding of the area and community within which they are investing. As discussed, one of the great strengths of local charities is their ability to fully understand and provide for the specific, often highly nuanced needs of their communities. This also applies to philanthropists. Those who are part of a community are far better placed to evaluate whether their investment is achieving its intended outcomes and recognise gaps in provision.

These days, philanthropists want to see and understand the social impact that their investment is having. Moreover, the motivation behind philanthropy is changing. Philanthropists increasingly want to balance their time at the bank with work at the coalface.

Investing in the local voluntary sector provides both of these opportunities.

There will always be people who choose to invest in big charitable causes and organisations. Indeed, this must remain the case. Just as small, local organisations excel in delivering specialist community-based projects, larger groups are usually better suited to addressing global public goods and mobilising mass support or emergency assistance.

The issue is not that people should give to local groups over national, or small charities over large, but that different philanthropists are suited to different sectors.

For those philanthropists who wish to ‘be the change they want to see’ through offering their knowledge, time and skills as well as their money, local charities represent perfect partners.

<sup>1</sup> *Duncan, B. (2004), A Theory of Impact Philanthropy, Journal of Public Economics 88, 2159-2180*

<sup>2</sup> *Borgloh, Sarah and Dannenberg, Astrid and Aretz, Bodo, (2010) Small is Beautiful - Experimental Evidence of Donors’ Preferences for Charities . ZEW - Centre for European Economic Research Discussion Paper No. 10-052*

<sup>3</sup> *van der Heijden, H 2013, Small is beautiful? Financial efficiency of small fundraising charities, British Accounting Review, vol 45, no. 1, pp. 50-57., 10.1016/j.bar.2012.12.004*

<sup>4</sup> *Localgiving, (2015), Local Charity and Community Group Sustainability Report: [https://localgiving.org/reports/Local\\_Charity\\_Community\\_Group\\_Sustainability\\_Report\\_2015.pdf](https://localgiving.org/reports/Local_Charity_Community_Group_Sustainability_Report_2015.pdf)*

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