



Guiding the funders: a case for comparability

A guidance statement on relevant financial information for NFP grant decisions could be of benefit to funders and applicants alike.

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HOW do financial organisations (FOs) decide which not-for-profit organisations (NFPs) to fund? Our research focuses on what FOs look for in funding applications from (NFPs).

Just as significant is a need to tell those NFPs seeking funds what critical pieces of information they should provide to get financial support. In this respect, Jennifer Gill, the CEO of ASB Community Trust, suggests: "Funders need to get clear on what part of the funding process they will fund and then send the right signals" (Feasey, 2007, p.29). In other words, society might benefit if a more consistent and comparable process of funding application was followed by FOs and NFPs alike.

When questions were asked publicly about why 77% of the funds raised in 2008 were spent on operating expenses, the KidsCan organisation insisted that a large amount of its operating costs was covered by the funding organisation grants rather than the public donations (Beynen, 2009; McCracken, 2009; NZ Herald, 2009).

Did those FOs which made grants to KidsCan know they were spending on a charity that used less than 23% of the funds on delivering programmes? What criteria were used, or even available, when it came to making grant decisions?

Another recent issue was that funders the Century Foundation, Infinity Foundation, Perry Foundation and Lion Foundation could not justify the criteria they used for the grants made to four small trotting clubs that did not even have their own standard race tracks (Sunday Star Times, 2008).

FOs are being held increasingly accountable for grant-making decisions (Khumawala & Gordon, 1997). Such cases raised in the media reflect growing public concern about the lack of criteria and standards.

Feasey (2007) examines 16 FOs' application forms and reveals that financial statements and audited accounts are the common types of financial information which are sought (70%). In addition, 50% of the participating FOs specifically require a budget, and information about applications for funding from elsewhere.

Various types of non-financial information are sought by 50% of the participating FOs. Common information might be: purpose of organisation, national body affiliation, project description, project community benefit and legal status (Feasey, 2007).

The FOs Feasey sampled included many well-known community trusts and foundations including ASB Community Trust, JR McKenzie Trust, the Lion Foundation, the Tindall Foundation and Trust Waikato, as well as some umbrella organisations like Philanthropy New Zealand.

However, Feasey's study only looks at the types of information that the FOs seek in the grant application forms, not what they find useful. Considering the grant-making process as an iceberg, the financial and non-financial information required in the grant application forms are the part of the iceberg above the water surface. Critical pieces of information that FOs utilise in their actual grant decision-making processes are still not evident in the literature.

In interviews no strong pattern emerged as to how FOs allocate funds.

A majority said outcomes and key people are important. Financial information is less regarded.

While the media is interested in ratio of operating expenses to programme deliveries (Beynen, 2009; McCracken, 2009; NZ Herald, 2009), FOs do not consistently identify this ratio as critical.

Unlike their for-profit counterparts, NFP organisations are not constrained by returns to shareholders, earnings per share and the bottom line. They often have non-financial performance indicators. FOs largely concern themselves with non-financial information, which is usually not readily available in financial reports.

To explain the lack of established criteria, it is noted in (Brown & Purushothama, 2005) that many trustees and managers in NFP organisations lack expertise in business, especially in accounting and management. Idealism and enthusiasm compensate for business skills.

Thus, FOs often rely on an instinctive feel for projects and the character of the applicants (ie key people) when making funding decisions. Many FOs are happy to take accounting information at face value and reluctant to spend time demanding more detailed analysis.

The Charities Commission may be able to help FOs by introducing a standard guidance statement.

To this end, the findings of this study may be useful as a reference. More explicitly, from this study several recommendations are made.

STANDARD GUIDANCE STATEMENT (KEY PERFORMANCE INDICATORS) FOR GRANT MAKING

1. Indicators of financial health

- (a) Efficient operation and good governance
 - i) Fundraising ratio
 - ii) Percentage of resources spent on programme delivery
 - iii) Projected expenses for next year
- (b) Viability and sustainability
 - i) Variety of income streams –

- primary indicator
- ii) Projected income for next year
- (c) Duplicate funding
 - i) Details of government contracts
 - ii) Other funding applications for the same programme/ purpose

2. Indicators of Good Service Performance

- (a) Clearly identified purposes and strategies
- (b) Qualifications and experiences of board of trustees and chief executive
- (c) Clearly identified intended outcomes

The benefit to the NFPs seeking funds is that recommendations such as these would help them provide relevant information to FOs. ■

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