"Great Expectations": charity reporting and their accountability to funders

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The charitable sector is reliant on government and philanthropic funding (Tucker & Basil, 2013). From 2007 onwards, the financial crisis has had a significant impact on charities, with many experiencing severe financial difficulties (Salamon, Geller, & Spence, 2009). Although the current environment is no longer in an economic downturn, the lack of funds available is still of concern in the charitable sector. As a major funder governments have had to trim their budgets and reduce the supply of funding, and some funding that had been promised to charities has not been delivered (Kerlin & Pollack, 2011). A survey concludes that nonprofit organizations (including charities) in Australasia are competing for a limited pool of funds, and some may not survive for more than six months if their current funding is not renewed (Grant Thornton, 2014). The limited amount of funding available means charities must compete with each other in getting more resources (Francisco & Alves, 2012). Such competition has led many charities to be more accountable as to their use of funds.

The purpose of accountability is "to provide mechanisms through which all those affected by an organization's actions can demand an account from the managers of that organization regarding how and why the organization has acted in the manner it has" (Unerman & O'Dwyer, 2006, p. 351). The information funders demand is not focused on how much has been spent, but rather how much has been achieved in addressing social needs. Therefore, the key to demonstrating the accountability of charities is outputs and outcomes reporting (Carman, 2010).

Outputs are the direct results of charitable services, and are measured in units (Buckmaster, 1999). For example, number of services and hours spent on each service, frequency of services and number of clients. Outcomes, on the other hand, are a more meaningful measure than outputs. They are the impacts or changes for individuals or communities who benefit from their services (Norman, 2007). By reporting both outputs and outcomes, charities can demonstrate that they not only deliver services and assist needy beneficiaries, but more importantly, they are making a social difference, i.e. the services they provide have an impact on their beneficiaries and change lives for the better. However, recent research conducted in this area have revealed that there are some differences between charities' reporting practices and funders' accountability expectations with regard to outputs and outcomes reporting.

Charities' Reporting Practices

Charities are required by funders to provide written reports on a semi-annual or annual basis that include both output and outcome information. Outputs are mainly numbers and financial allocation of resources. However, outputs do not contain any information about the effectiveness i.e. impact of the use of the charities' resources. On the other hand, outcomes demonstrate the impact of charitable services.

Outcomes are predominately captured in a form of qualitative narrative reporting. One service director of a charity interviewed explains the process of preparing the narrative reports. He says *"my report to the Ministry is mainly narrative reporting. I write those reports, each of my team, each month send me a monthly report on the* [charitable services] *that are happening within each of their regions. We also collect a narrative story on each of the more significant* [charitable] *projects."* Indeed, narrative reporting demonstrates outcomes by illustrating beneficiaries' experiences of charitable services. However, the process of recognizing and measuring these outcomes is often perceived as cumbersome and time-consuming, which requires substantial paperwork and lead time (Kramer & Grossman, 1987). As identified by several interviewees, charities are experiencing considerable difficulties in measuring their outputs and outcomes. Insufficient evaluative capacity, such as staff time, expertise and financial resources, and a lack of understanding of reporting outputs and outcomes are prevalent in the charitable sector (Carman & Millesen, 2005). Many interviewees indicate that they do not fully understand what they are asked to measure, or how to make sense of the outcomes. A large amount of data is gathered, but the interpretation can be rather ambiguous. These interviewees feel that not all important outcomes can be easily measured. Some interviewed operational staff believe that they intuitively know whether their clients have undergone behavioural changes and their works have some social impact, but they are not able to provide the evidence of such changes and the impact.

The difficulties in reporting outputs and especially outcomes cause some interviewees to be reluctant to prepare this information. A substantial resistance is observed in this research when charities' staff report outputs and outcomes to their funders. Some interviewed managers acknowledge that the practice of outputs and outcomes reporting is required by their funders, and they have to report more fully. However, in practice, outputs and outcomes reporting is considered "compliance reporting", which must be done but adds no value to the charities' beneficiaries. This is reflected in the comments of a manager of a charity, she states

"there is the compliance reporting which is boring and pretty dry. They say this is what we want your report to look like, so we do that because we want them to keep giving us money." Due to a lack of understanding of outputs and outcomes reporting, many staff are resistant to reporting their outputs and outcomes.

Another reason for the resistance on outputs and outcomes reporting is that many staff are not involved with the charitable services. This view is supported by interviewed managers who claim that more, and more, time is spent on compliance reporting, than on their actual charitable services. The environment of charities involves individual caring and a broader social justice commitment as their core mission, which is inherent in compassionate social relationships, in order to accomplish the charitable services. Some interviewed staff believe that they are drawn to the charitable sector because of the opportunity it provides to work with organizations committed to values of social and individual care, not administration and compliance reporting. A service director of a charity expresses his concern on the outputs and outcomes reporting, he says *"one of my worries is that we end up spending so much time collecting data and on administration and reporting, that we won't have much time to do the actual work."* The emotions of satisfaction and the social justice-orientation are embedded within the interviewees, who see themselves as caring and making an impact in society. Some interviewees believe that such social impact is only achieved through direct interactions with their beneficiaries. By emphasising outputs and outcomes reporting many staff are no longer directly involved in actual charitable services, and their emotions of satisfactions are not fulfilled. Therefore, non-involvement in actual charitable services causes staff frustration and resistance to outputs and outcomes reporting.

Funders Accountability Expectations

The income for New Zealand charities typically comes from two major sources: government and philanthropic funding (Sanders, O'Brien, Tennant, Sokolowski, & Salamon, 2008). Government and philanthropic funders expect greater accountability in the charitable sector (Carman, 2007). Funders are interested in understanding charities' effectiveness and emphasize the importance of measurable outcomes in demonstrating accountability (Hoefer, 2000). Thus, charities are subject to coercive pressures from the expectations and requirements of government and philanthropic funders when receiving their funding. Without providing satisfactory achievements, in terms of outputs and outcomes and meeting funders'

accountability expectations, funders will not grant charities additional funding. The following sections explain the accountability expectations of both government and philanthropic funders respectively.

Government Funding

Government plays an essential role in the charitable sector. Government is not only arguably the most important actor through its laws and legal mandates, but is also the largest funder for many charities (Sanders et. al., 2008). For those charities that receive government funding, it is important to comply with government funders' expectations. Their expectations are generally detailed in the service delivery contracts and grants agreements.

A survey of thirty-four New Zealand government departments provides an overview of government funding to New Zealand non-profit organizations (The Department of Internal Affairs, 2008). The survey results show that 93% of government funding relates to contracts for services, while only 7% of funding is reported as grant funding in 2005/2006. For this reason, charities and their government funders are mainly engaged in a purchase of service contractual relationships in which government funders finance public services and charities deliver them. Some interviewees indicate that funders' accountability expectations are much more detailed in government contract funding than grant funding.

A contract is a legal agreement in which a government funder purchases services, and a recipient charity provides them. One government funder who was interviewed states that contract funding is mainly provided to large charities for significant social impact. In return, government funders often require sophisticated outputs and outcomes reporting, together with additional assessment criteria for their service delivery contracts (Siegel, 1999). Another government funder emphasizes the importance in charities reporting more specific outputs and outcomes. He states, "*fundamentally charities need to recognise their need to report back to their funders. Otherwise, they are not going to continue to get funding."* The dependence on funding makes charities responsive to their funders' expectations. Charities must adopt the assessment criteria or any other requirements, which are specified in the funding contracts, to comply with funders' expectations.

The other form of service agreement between government funders and charities are grants. A grant is a form of short term funding that depends on available government budget resources, and requires less sophisticated reporting in terms of outcomes (Backman & Smith, 2000).

One government funder explains the difference between contract and grant funding, he states, "*grant funding is generally either one off or for a fixed period of time, whereas our* [contract] *funding is semi-permanent. There are appropriations of money that are put aside for the foreseeable future.*" Therefore, the extent of accountability reporting in terms of outcomes and the duration of the funding, are the key differences between contract and grant funding.

One issue of government contract funding is to manage the intended contractual results without sacrificing charities' mission imperatives. Being mission-driven is an important feature of charities, and the charitable mission indicates the social impact charities aim to have on the community. However, many government contracts may lead to an expansion of charities' services or an addition of new services, which consequently changes the charitable mission. As one government funder states, *"there are probably a lot of organisations out there that are now quite a long way away from what they originally were set up for. So there's that tension constantly as to the integrity of the original mission of the charitable organisation versus what is the current priority of government and funders."* The expectations of government funders impose significant limitations on charities to determine how to best deploy their resources. Charities are in a dilemma to choose between their charitable missions, or prescriptive contractual requirements. In fact dependence on government funding has forced many charities to change their charitable missions to be more compatible with funders' expectations (Froelich, 1999). Government funding, therefore, to some extent adversely affects charities' missions through prescriptive contracts.

Philanthropic Funding

Philanthropic funding comes from various organizations, such as, gaming trusts, community trusts, energy trusts and private family foundations (Tennant, et. al., 2006). Unlike government funding, philanthropic funding does not have a bias towards large charities for continuous contractual purposes. Instead, philanthropic funders may be more favourable to those less established charities. These include relatively smaller charities that are involved in direct actions and other forms of services (Toepler, 2003). Thus, these charities are highly dependent on philanthropic funding to survive. Sometimes, the dependency is not only for financial support, but also for ideas of services, networking with other charities, and a sense of legitimacy (Delfin & Tang, 2008). This is especially apparent when the government cuts its funding, forcing charities to be increasingly involved in fundraising activities and pursue more philanthropic funding (Kerlin & Pollak, 2011).

Grant funding is used predominately as a mean of philanthropic funding (Grønbjerg, Martell, & Paarlberg, 2000). Similar with government grant funding, philanthropic grant funding is made on a one-off basis or for a set period, and are explicit about their expected charitable services and results. However, unlike government funders this research finds that some philanthropic funders expected more quantitative output information, and less qualitative outcome reporting for their grant funding. The reason that grant funding focused less on outcomes is explained by a philanthropic funder. He states, "*we like to see numbers. We want to see quantification of the* [social] *difference made. The qualitative information is really useful as well, but it needs to be brief. We get a lot of qualitative narrative that is too lengthy and not specific enough. If the* [charitable] *organisation has been working on fifty clients and they only give one really lengthy example, it's not much use. It is pretty meaningless really.*" The quality of outcomes that charities provide is questioned by some philanthropic funders, as commented by another philanthropic funder, who says, *"I think the community sector are only just starting to think about outcomes in the last four or five years. So the quality would be very variable."*

Despite the low level of outcomes reporting that was expected, there are many philanthropic funders who believe that charities should provide evaluations of how funds are used, and identify the impact of achievements. As another philanthropic funder states, "*there is increasingly a need for charitable groups to show, not only what they are spending money on, but the impact of what they are achieving and actually what is the impact of the part that we have funded.*" Therefore, although previously the emphasis was on the outputs reporting, more specific outcomes reporting are increasingly expected by philanthropic funders.

Another feature of philanthropic funding is increased trust between funders and charities. Many funders who were interviewed treat charities as partners who share a common desire to promote social benefit, not grateful recipients who are never able to reciprocate. Some philanthropic funders who were interviewed refer to charities as "grantee" organizations. A philanthropic funder explains the reason that philanthropic funders are fond of the term grantee. She says, *"I don't like the word charity. It seems a bit patronising. So we talk about grantees, implying a bit more of a partnership.*" By treating charities as partners, trust generally applies in philanthropic funding, i.e. trust that charities will allocate the funds to good works. This research finds that philanthropic funders' trust is one of the major factors that underpin funding decision-making. One philanthropic funder states, "*as long as the application looks like it will work, and you know, there are no fatal flaws in it - then we can*

sign it off." Such level of trust without guarantees is prevalent in philanthropic funding and is in many ways to be applauded, but the reliance on trust can be too trusting. Many interviewees rely on the funders' trust and neglect the importance of the outputs and outcomes reporting. If charities fail to share the partnership with their funders, funders cannot obtain relevant outputs and outcomes reporting of the services they support. When outputs and outcomes reporting are ignored and "trust" determines funding decisions, accountability is jeopardised and the use of scarce resources could be misapplied.

Conclusion

There is a considerable difference between charities' reporting practices and funders' accountability expectations. The focus on outputs and outcomes reporting is of particular relevance to charities and their funders. In practice, charities are reporting both outputs and outcomes to meet their funders' expectations, but they also face many difficulties and staff resistance to measure their charitable services. Accountability, in terms of outputs and outcomes reporting, is being seen as a chore which achieves nothing for their charitable missions. Insufficient evaluation capacity and the lack of understanding of outputs and outcomes reporting are difficulties in the charitable sector. Staff resistance is reflected in the notion of compliance reporting and non-involvement in actual charitable services.

Alternatively, both government and philanthropic funders have various expectations in terms of charities' accountability through outputs and outcomes reporting. Government funders expect sophisticated outputs and outcomes reporting for the services they contracted and often put more expectations on charities to meet their prescriptive contractual requirements. Charities are subject to the coercive pressures from these expectations and they adopt the assessment criteria, specified in the contracts to receive funding from their funders. Consequently, many charities change their charitable missions when their missions are different from the prescriptive contractual requirements. On the other hand, philanthropic funders expect less sophisticated outputs and outcomes reporting in their grant funding. They are more reliant on trust to continue additional grant funding and charities are treated as partners to further social objectives. Philanthropic funders used to expect more outputs and less outcomes when charities demonstrate their accountability. However, many philanthropic funders who were interviewed identify that there is an increasing expectation for charities to report their outcomes.

By examining the differences in charities' reporting practices and funders' accountability expectations, the perceptions of both charities and their funders are better understood. It is important that charities try to minimize the difficulties of outputs and outcomes reporting to enhance their reporting practices, as well as, meet the "great expectations" of their government and philanthropic funders.

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