

**PERFORMANCE MEASUREMENT AND REPORTING
PRACTICES IN NEW ZEALAND CHARITIES**

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A thesis submitted to
Auckland University of Technology
in fulfilment of the requirements for the
Degree of Doctor of Philosophy (PhD)

2015

Faculty of Business and Law

Abstract

Performance measurement and performance reporting are both important aspects of how a charity discharges its accountability obligations, but have been investigated separately in the past (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003). Various performance *measures*, such as output and outcome measures, are used to measure the efficiency and effectiveness of organizational performance in the not-for-profit (NFP) sector (Barman & MacIndoe, 2012; van der Heijden, 2013). While the adoption of outcome measures has been found to be coupled with funding requirements (Benjamin, 2012; Zimmermann & Stevens, 2006), NFPs, including charities, are struggling to balance their funders' requirements for performance information with the reality of the challenges faced in providing the required information (Buckmaster, 1999; Salamon, Geller, & Mengel, 2010). The existing literature on performance *reporting* suggests that it is important for charities to disclose performance information to meet the information needs of their external stakeholders (Connolly & Hyndman, 2003, 2004, 2013b). Nonetheless, a relevance gap has been identified, since the information disclosed does not always meet the information needs of charities' stakeholders (Connolly & Hyndman, 2013a, 2013b). Although this relevance gap appears to have been reducing over the years, performance accountability is not yet discharged in an adequate manner in the charity sector (Connolly & Hyndman, 2013b).

In response to a call to consider both the performance measurement and reporting practices of charities (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003) and the extent to which these practices address the information needs of stakeholders (Connolly & Hyndman, 2013b), this study addresses this research gap in a New Zealand context by adopting a case study approach. Forty-six semi-structured interviews were conducted to explore the perceptions of twenty-five internal stakeholders (board members, managers and staff members) of two case study charities, and twenty-one external stakeholders (government funders, philanthropic funders, beneficiaries and volunteers). Neo-institutional Sociology (NIS) concepts of institutional isomorphism, decoupling and institutional work are employed to theorize this study.

The findings of this study reveal that the case study charities not only conform to external institutional pressures in measuring and reporting information to gain legitimacy in the eyes of their stakeholders, but also undertake various forms of institutional work aimed

at preserving their charitable purpose and missions in the face of external accountability demands. Both government and philanthropic funders actively engage in forms of institutional work to promote and cultivate what they consider appropriate performance reporting behaviours in the New Zealand charity sector, while enforcing the provision of performance information that meets their information needs.

This study contributes to the NFP accountability literature in regard to three issues: key stakeholders' information needs, performance measurement, and performance reporting. In regard to stakeholders' information needs, this study contributes to the prior literature (Carman, 2009; Connolly & Hyndman, 2003, 2004, 2013a, 2013b; Williams & Moxham, 2009) by identifying that key stakeholders (regulators, government funders and philanthropic funders) in the New Zealand charity sector perceive a clear need for background, financial and performance information, and impose various reporting mechanisms to enforce the provision of this information. However, compared to England and Wales, New Zealand's charity sector regulations are at an early stage of development in respect of their emphasis on performance measurement and reporting.

Regarding performance measurement, a combination of mimetic and normative pressures was identified as influencing the adoption of outcome measurement mechanisms. This differs from prior research that has identified only funders' mandates as the driving force behind outcome measurement practices (MacIndoe & Barman, 2013; Moxham & Boaden, 2007; Thomson, 2010). In addition, two forms of decoupling process (policy-practice and means-ends) were identified as means of coping with problems in the studied charities' outcome measurement practices. These problems include resource constraints, staff resistance, dishonest feedback from beneficiaries, misunderstanding of the funding contract, and misalignment between contractual requirements and charitable missions. In regard to performance reporting, this study contributes to the prior literature (Connolly & Hyndman, 2003, 2013a, 2013b; Carolyn Cordery, Baskerville, & Porter, 2010) by identifying additional reporting mechanisms and examining internal accountability (Ebrahim, 2010) in the context of New Zealand charities. For example, informal disclosures were identified as a means by which one charity gained trust from its government funders, adding a new dimension to our understanding of the government funder/charity accountability relationship. Both studied charities also used various reporting mechanisms to disclose performance information to their internal stakeholders.

This discharge of internal accountability has been largely unexplored in the prior literature.

This study also contributes to the theory and practice of performance measurement and reporting by NFPs, including charities. By drawing on the concept of institutional work, a recent development in NIS, this study has contributed to theory by identifying how the day-to-day institutional work of actors, within both charities and their key external stakeholders, can shape performance measurement and reporting practices. Concerning practice, this study provides useful insights into the practices and responses of New Zealand charities at a time when the regulations and legislation governing charity reporting are changing to require more performance information from the majority of charities.

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Abbreviations

AUTEC	Auckland University of Technology Ethics Committee
CDOI	Client-Directed Outcome-Informed
DIA-CS	Department of Internal Affairs-Charities Services
EG	Explanatory Guide
FBT	Fringe Benefit Tax
FRS	Financial Reporting Standard
FTE	Full Time Equivalent
GAAP	Generally Accepted Accounting Principles
GBP	British Pounds
GDP	Gross Domestic Product
GST	Goods and Services Tax
IAS	International Accounting Standard
ICNPO	International Classification of Non Profit Organizations
IDT	Interactive Drawing Therapy
InterRAI	International Resident Assessment Instrument
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department of New Zealand
IRS	Internal Revenue Service
KPI	Key Performance Indicator
NFP PBE	Not-for-Profit Public Benefit Entities
NFP	Not-for-Profit
NGO	Non-Governmental Organizations
NIE	New Institutional Economics
NIS	Neo-institutional Sociology
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZ	New Zealand

NZASB	New Zealand Accounting Standards Board
NZAuASB	New Zealand Auditing and Assurance Standards Board
NZD	New Zealand Dollars
NZSCNPO	New Zealand Standard Classification of Non-Profit Organizations
OIE	Old Institutional Economics
OPEX	Operating Expenditure
ORS/SRS	Outcome Rating Scale and Session Rating Scale
PBE	Public Benefit Entities
RBA	Results-Based Accountability
RDR	Reduced Disclosure Regime
SFR	Simple Format Reporting
SIR	Summary Information Returns
SOFA	Statement of Financial Activities
SORP	Statement of Recommended Practice
SSP	Statement of Service Performance
UK	United Kingdom
US	United States
USD	United States Dollars
VfM	Value for Money
XRB	External Reporting Board

Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Acknowledgements

The writing of this thesis has been an amazing journey and a fantastic intellectual challenge. It would not have been possible, without the encouragement and continuous support of many people. I am now using this opportunity to express my gratitude to them:

My Supervisors, Dr. Rowena Sinclair, Professor Deryl Northcott and Professor Keith Hooper: Rowena has been my supervisor from the beginning of this research journey. I am grateful to her for appreciating my research strengths and patiently encouraging me to improve in my weaker areas. Her guidance and support helped me overcome many difficult situations and finish this thesis. I would also like to thank Deryl for her constructive and insightful comments, particularly in the final stages of my PhD. I am thankful to her for enriching my ideas, teaching me how to re-structure my thesis, and holding me to a high research standard. A very special thanks goes out to Keith. He was the first to believe that I could teach and research. Without his motivation and encouragement, I would not have started my academic career.

My Colleagues and Friends: I am thankful to many colleagues in the Accounting department for their words of encouragement. Particularly, I would like to acknowledge **Associate Professor Helen Tregidga** for her valuable suggestions that have energized me to continue in academic research. I am grateful to **Barry Brunette** and **Dr. Anil Narayan** for their kind support and practical advice. I also owe a deep thank you to my remarkable colleague and friend **Agnes Masoe**, who was always willing to listen and give suggestions. It would have been a lonely journey without her. I am also thankful to her for babysitting and sending my daughter to school when I have had to teach night and early morning classes. I would like to thank my former colleague and friend, **Cynthia Orme**, for encouraging me to pursue this journey in the first place, and for her moral support from Houston over the years.

My Interviewees: I am deeply grateful to all 46 interviewees (and their organizations) for agreeing to participate in this research, and sharing with me their experience and candid views on the issues covered in this thesis. I believe that I am tremendously fortunate to have had their sharing, and I am deeply appreciative to each and every one of them for their important contributions.

My Proofreader, Necia France: I am very thankful to Necia for her prompt and efficient work, especially as she had to proofread my thesis in less than ten days.

Auckland University of Technology: I would like to thank the Auckland University of Technology for providing me with generous financial support throughout this research.

Finally, **My Family:** I have been blessed with a very loving and supportive family. I thank **my parents** for their love and encouragement through my entire life. Thanks Dad for stressing the importance of education to me, as it has shaped my values and made me the person I am today. I am also grateful to **my parents-in-law** for their unconditional love, support and sacrifices. Most importantly, I am deeply indebted to **my husband James Gai** and **my daughter Trinity Gai**. They have stood by me through the ups and downs of this journey. They have cherished with me every great moment and supported me whenever I needed it. Trinity, thank you for your understanding and patience, and for being such a bundle of joy and laughter. At many times, they were the highlight of my days. James, your dedication to work has pushed me to strive always for more in mine, and your confidence in me has enhanced my ability to get through it all and succeed in the end. For these reasons, I dedicate this thesis to you both - James and Trinity.

Chapter 1: Introduction

1.1 Introduction

Performance measurement and reporting practices in charities form the basis for providing essential information to support charities' managers in their planning and control functions, and to discharge accountability to external stakeholders (Connolly & Hyndman, 2003). The purpose of accountability is to:

provide mechanisms through which all those affected by an organization's actions can demand an account from managers of that organization regarding how and why the organization has acted in the manner it has (Unerman & O'Dwyer, 2006, p. 351).

In the context of a charity, accountability is defined as a “process by which assets devoted to charitable purpose¹ are put to their proper purpose and information about their use is made available” (Fishman, 2007, p. 13). Hence, charity accountability is discharged via the provision of different types of information, including background, financial and performance information (Connolly & Hyndman, 2003, 2013b). Connolly and Dhanani (2009, p. 62) identified that charities need to “measure performance internally before it can be reported externally”, and there is a need to design appropriate systems to measure and disclose both financial and performance information:

It is critical that there are appropriate systems in place. These systems are required to ensure that public monies are not misappropriated, and are appropriately and effectively spent for the communities that the funds were intended for, but also to sustain the health and longevity of both the [charity] sector and the groups and communities that they seek to serve. (Connolly & Dhanani, 2009, p. 9)

Connolly and Hyndman (2013b) highlighted that it is also important to consider the information needs of stakeholders prior to disclosing any information to them. The stakeholders that charities are accountable to include: regulators, funders, beneficiaries, volunteers, the board of trustees and paid staff (Connolly & Dhanani, 2009; Dhanani, 2009; Hyndman & McDonnell, 2009). While most of the literature focuses on reporting to external stakeholders, such as regulators and funders, charities can also be seen as having internal stakeholders, such as the board of trustees and paid staff. Among these stakeholders, charities need to seek legitimacy from, and discharge accountability to, their regulators, who legislate and oversee charities' registration and reporting processes, as

¹ Charitable purpose will be discussed in Section 1.2.2.2 and Section 5.3.1.1

well as to their funders, who provide funds to them (Dhanani, 2009; Hyndman & McDonnell, 2009). Hence, regulators and funders are key stakeholders that have high expectations of charity accountability. Nonetheless, prior research suggests that charities' accountability to their funders is not discharged in the most effective manner, with limited reporting of performance information to funders (Connolly & Hyndman, 2013b; Hyndman, 1990, 1991). Various difficulties such as limited funding, staff time and expertise are thought to hinder NFPs' performance measurement practices (Buckmaster, 1999; Carman & Fredericks, 2008; Salamon et al., 2010).

This study responds to a call in the prior literature (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003, 2013b) to examine charities' performance measurement and reporting practices and the extent to which the practices address the information needs of stakeholders. The next section provides a background to this study.

1.2 Research Background

Charities, the focus of this study, fall within the not-for-profit (NFP) sector, which is also known as the third sector, voluntary sector, community sector, civic sector or social sector. A definition of the NFP sector in a cross-national context has been developed, which includes five basic criteria emphasizing the structure and fundamental features of NFPs. They are "organized, private, non-profit-distributing, self-governing and non-compulsory" (Salamon, 2010, pp. 177-178). The five criteria describe the NFP sector in broad terms, and provide useful insights into New Zealand NFPs (Sanders, O'Brien, Tennant, Sokolowski, & Salamon, 2008). The following section discusses these criteria, which also apply to charities.

1.2.1 *Criteria of the NFP sector*

The criteria of 'organized' and 'non-profit-distributing' are relatively simple to recognize. NFPs that are 'organized' generally have some organizational regularity and are governed by some rules or constitution, and they are mostly established to promote public good that relates to their missions, rather than to generate and distribute profits (Salamon, 2010). While being organized does not usually mean that NFPs must be legally registered or formally constituted, a New Zealand NFP must meet specific registration requirements to be registered as a charity (see Chapter 5). Moreover, since NFPs' funders do not require a financial return, maximizing and distributing profits to stakeholders is not important in

the NFP sector (Carolyn Cordery & Sinclair, 2013). In this sense, NFPs are different to for-profit organizations or businesses.

The criteria of ‘private’ and ‘self-governing’ are increasingly being criticized (Anheier & Seibel, 1990; Carolyn Cordery & Sinclair, 2013). ‘Private’ is a criterion that applies when an NFP is institutionally separated from the government, and ‘self-governing’ applies where the internal governance of an NFP is not controlled by outside entities (Salamon & Anheier, 1997). These two criteria also apply to those NFPs that are funded predominantly by the government. Government funders generally impose their goals and requirements onto NFPs, which are expected to report against these goals and requirements (Carolyn Cordery & Sinclair, 2013). Where NFPs are seen as third party implementers that are used to perform government functions, the potential erosion of the NFPs’ autonomy and independence are identified (Anheier & Seibel, 1990). As such, the criteria of “private” and “self-governing” are questionable for those NFPs that are funded mainly by the government. In order to be less dependent on government funding, many NFPs, including charities, undertake commercial activities, such as financial investments, to maintain their sustainability (Kreander, Beattie, & McPhail, 2009). The issues of government funding and commercialization will be further discussed in Chapter 2.

The last criterion of ‘non-compulsory’ focuses on individual consent and has different interpretations in New Zealand. For example, Māori NFPs have unique cultural influences on their organizational forms. The Māori organizational form treats the provision of the stewardship for the affairs of iwi (tribes) as “a responsibility of being a part of the Māori community”, which seems to impose compulsory obligations (Sanders et al., 2008, p. 6). The notion of responsibilities encourages individuals to act for the greater good, without any formal sanctions for non-compliance. Hence, the Māori NFPs are voluntary and ‘non-compulsory’.

To be classified as a NFP, including a charity, an organization must meet all five criteria as discussed. The next section focuses on charities, their significance in terms of their social and economic contributions, and their uniqueness with respect to their charitable purpose, missions and objectives will be further discussed.

1.2.2 *The Charities*

There are a number of terms to describe organizations that meet the general criteria of NFP. These include charities, NFPs, non-governmental organizations (NGO), public

benefit entities (PBE), voluntary organizations and donee organizations. This study focuses on the term ‘charity’, as to be a charity an organization must have an exclusively charitable purpose and be established for public benefit. This is recognized in legislations². Nonetheless, it is still important to recognize the profusion of nomenclature employed within the NFP sector. For example, the term ‘public benefit’ is applied in charity law and, thus, PBE³ links to charity. This study does not intend to provide detailed explanations of each term, as charities are the focus of the study. The significance and uniqueness of charities are highlighted in the following sections.

1.2.2.1 *The Significance of Charities*

Charities play a significant role in delivering services and further social objectives to beneficiaries in need (Cullen & Dunne, 2006). A survey of charities in the United States (US) indicates that there were 987,033 charities in 2009. Of these, 512,889 filed Form 990 with the Department of the Treasury Internal Revenue Service (IRS)⁴ which recorded that they received US dollars (USD) 1.40 trillion in total revenues, and maintained USD 2.60 trillion in total assets (Sherlock & Gravelle, 2009). Salamon and Sokolowski (2006) also found that 9.4 million paid staff and 4.7 million unpaid full-time equivalent volunteers were engaged in charities, which represented 10.5 percent of the total workforce in the US in 2004. Unlike the general term ‘charities’ that describe organizations with a charitable purpose, registered charities must meet regulatory requirements and register with a Charity Commission or similar. The Charity Commission for England and Wales (2014) indicated that there were 164,097 registered charities which received British pounds (GBP) 64.05 billion as at 30th September 2014. These statistical evidence records show that the size of charity sector in the western countries is undoubtedly large. The social and economic significance of charities means that understanding their practices is becoming a focus for policy makers, academics and practitioners in the charity sector. This study intends to gain further understanding by investigating New Zealand charities’ performance measurement and reporting practices. The next section underlines the uniqueness of charities.

² For example, Charities Act 2011 [England and Wales], s1 (1); Charities Act 2005 [New Zealand], s 5(1).

³ United Kingdom (UK) and New Zealand accounting standard setters use the term PBE to distinguish these from for-profit organizations. The new UK Financial Reporting Standard (FRS) 102 and New Zealand International Accounting Standard (IAS) define PBE.

⁴ In the US, form 990 is the annual information return of an organization that is exempt from income tax, and is used by tax-exempt organizations, non-exempt charitable trusts, and section 527 political organizations, to provide the IRS with the information required by section 6033 of the internal revenue code (Sherlock & Gravelle, 2009).

1.2.2.2 *The Uniqueness of Charities*

Charities are established for exclusively charitable purposes, which have a special meaning in law since the *Statute of Charitable Uses*⁵ that was passed by Queen Elizabeth I in England in 1601 (Charities Services, 2015b). Although more than 400 years have passed, the statute continues to shape the meaning of charitable purposes in many countries in the common law world such as New Zealand, Australia, England and Canada (B. Bromley, 2001). The *Statute of Charitable Uses* provides an overview of the charitable purposes for which charities are established, and seeks to “rationalize the administration of private charities – to specify the purposes for which funds could be devoted to charity, to ensure such funds were applied to the uses specified by donors, and to place the private charity under the supervision of the State” (Hall, n.d., p. 2).

Milofsky and Blades (1991, p. 372) framed their study of health charities with a question: “governed neither by the profit motive nor by the need to face voters, what makes non-profit organizations accountable for the assets of society that they accumulate and distribute?” A unique values-driven motive that generally arises from religious, social or ecological purposes, which is presented in the form of a charitable mission and objectives, is the answer to the question (Kreander et al., 2009).

A number of terms are used to highlight the values-driven motive of charities, which include charitable purpose, mission, vision, aims, goals, and objectives. Charitable purpose, mission, vision, goals and aims refer to the general intentions of charities with “a broad indication of the area of need that they supported” but these intentions may not be directly measurable, while the charities’ objectives are “the more specific intentions of the period concerned” (Dhanani, 2009, p. 186). Apart from the specific and time-bound criteria, the objectives also need to be measurable, achievable and realistic (Connolly & Hyndman, 2013b). Anthony and Young (2003) argue that objectives are specific and measurable targets that are established to work towards the charitable purpose and mission, whereas charitable purpose and mission highlight the public benefits and social impact that the charities intend to accomplish. Moreover, Connolly and Hyndman (2013b) found that the most important types of information to funders include a statement of goals, and a statement of current and future objectives.

⁵ It is also known as the *Charitable Use Act* and *Statute of Elizabeth I*.

This study uses the term mission to represent the general intentions of charities, as it guides charitable activities and links the “presumably deeply held promises and the conduct of those representing the non-profit” (Lawry, 1995, p. 14). Despite many other NFPs also pursuing their missions to meet needs of stakeholders that are unmet by public and for-profit sectors (McDonald, 2007), the mission and objectives of charities correspond with their charitable purpose (Charities Services, 2015b). The charitable purpose provides a foundation to communicate the missions and objectives of charities to their stakeholders (Chew & Osborne, 2009), and to deepen their commitments to the social impact they have on the public (Stone & Ostrower, 2007). Hence, the uniqueness of charities is reflected in their charitable purpose which is rooted in statute, and in their missions and objectives which outline their areas of changes in community. Nonetheless, Sheehan (1996) reported that although many charities had clear mission statements, very few have revealed whether they had an impact on their mission. A number of researchers have focused on the use of performance measurement to examine the accountability of NFPs, including charities (Carman, 2007; Carman & Fredericks, 2008; LeRoux & Wright, 2010; Moxham, 2009; Moxham & Boaden, 2007; Williams & Moxham, 2009). Various measures such as financial, output and outcome measures are used by charities to measure the efficiency and effectiveness of their performance (Connolly & Hyndman, 2013b; van der Heijden, 2013). To be clear about the terminology and concepts used in this study, the next sections define performance, outputs and outcomes, and introduce an outcome framework to distinguish efficiency and effectiveness.

1.2.3 *Defining ‘Performance’*

The definition of performance for charities is ambiguous. Payer-Langthaler and Hiebl (2013, p. 220) defined performance as an “intentional action” for religious organizations. This definition is indeed broad and abstract, but it highlights the essence of a charity’s performance, which is to carry out an action of service delivery in order to accomplish its intended charitable purpose and mission. ‘Intentions’ can be translated into the charitable purpose and missions discussed in the previous section, and ‘actions’ are services and activities that charities deliver to accomplish their intentions (Goodin, 2003). However, good intentions, including charitable purposes and missions, are not a sufficient basis for securing continued financial resources, NFPs, including charities, are held accountable for their results, and must be able to demonstrate excellence in performance (Benjamin, 2010). Increasingly, information on outputs and outcomes is identified as important in

discharging the accountability of NFPs, including charities (Carman, 2010; MacIndoe & Barman, 2013; Moxham & Boaden, 2007).

1.2.4 *Defining ‘Outputs’ and ‘Outcomes’*

Both outputs and outcomes are key components of the performance information, that is important in discharging the accountability of charities (Connolly & Hyndman, 2004). Outputs are the direct and immediate results of services, and are generally measured in units (Buckmaster, 1999; Connolly & Hyndman, 2004), for example, the number of children fed or the number of activities provided. Outcomes are benefits or changes for beneficiaries “during or after their involvement with a program” (Hatry, Houten, Plantz, & Taylor, 1996, p. 2), which focus on any changes in the knowledge, attitudes, values, skills, behaviours, condition, or status of the beneficiaries (Plantz, Greenway, & Hendricks, 1997). The new charity reporting standards in New Zealand require many registered charities to provide performance information such as outputs and outcomes (see Chapter 5). This is because outcomes focus on what a charity is seeking to achieve in terms of its impact on society in a short to medium term, and are more likely to be closely related to the achievement of its charitable purpose and mission, while outputs are the goods or services that a charity delivered during the year (External Reporting Board, 2014d).

Outputs are clear and measurable statements of results, thus, they are the main performance measure required by government funders, and they are also used by the government to demonstrate its own accountability to the citizens (Norman, 2007). Nonetheless, outputs measure only the efficiency of the organization, but do not demonstrate actual changes in beneficiaries receiving a charity’s services, thus are deemed to be less meaningful compared to outcomes (Harris, Halfpenny, & Rochester, 2003; Hendricks, Plantz, & Pritchard, 2008). A number of advantages of measuring outcomes rather than outputs have been identified. For example, measuring outcomes motivates staff and directs future activities, it also increases opportunities to receive additional financial support (Hatry et al., 1996). Connolly and Dhanani (2009) further noted that it is important to disclose performance information, such as outputs and outcomes, evaluate the efficiency and effectiveness of charities’ performance, and to discharge accountability.

1.2.5 *An Outcome Framework: Distinguishing Efficiency and Effectiveness*

It has been almost 20 years since the first publication of an outcome framework in the United Way of America manual (Hatry et al., 1996), which discussed extensively whether NFPs, including charities, use resources efficiently and effectively to deliver services to their beneficiaries (Buckmaster, 1999; Hyndman & Anderson, 1995; Productivity Commission, 2010), as indicated in Figure 1-1.



Figure 1-1: An outcome framework - adapted from Hatry, Houten, Plantz and Taylor (1996)

Inputs are the resources including paid staff, volunteers and facilities that are used by charities to produce outputs (Hatry et al., 1996). Volunteers are considered an important input who bring immense value to charities (Carolyn Cordery, Proctor-Thomson, & Smith, 2013). Processes refer to the ‘actions’ (Buckmaster, 1999) discussed in Section 1.2.3, which include services and activities aiming to fulfil a charitable purpose and missions, and produce intended outputs and outcomes. Behn and Kant (1999) argue that outcomes are the ultimate results of the outcome framework, whereas input, processes and outputs are only counted when they help to produce outcomes.

Hyndman and Anderson (1998) noted that efficiency and effectiveness are the two main criteria for judging the performance of an organization. As demonstrated in Figure 1-1, efficiency highlights a relationship between processes and outputs, indicating the amount of input per unit of output (Connolly & Hyndman, 2004). Efficiency also aims to reduce cost, time or effort to maintain the same level of service (Sargeant, Jay, & Lee, 2006). Effectiveness considers whether the units of outputs produced are the right outputs (Schmaedick, 1993), and assesses the degree to which the charitable purpose, missions and objectives are being met (Connolly & Hyndman, 2004). This study investigates the performance measurement and reporting practices of charities. It is, thus, important to distinguish the efficiency and effectiveness of charities’ performance, which underpins this study.

Overall, this section has outlined the research background and clarified the terminology and concepts used in this study. It has also highlighted that key stakeholders of charities have information needs, and that appropriate performance measurement and performance reporting are necessary in meeting those needs. The next section outlines the research aim and questions.

1.3 Research Aim and Questions

There is a lack of empirical research that focuses on evaluating both performance measurement and performance reporting of charities (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003), and the extent to which the performance measurement and reporting practices address the information needs of key stakeholders (Connolly & Hyndman, 2013b) remain gaps in the literature. Moreover, a relevance gap is identified between the information disclosed and the information needs of stakeholders (Connolly & Hyndman, 2003, 2013b; Hyndman, 1990, 1991). Although the relevance gap appears to have been reducing over the years, charity performance accountability is not yet discharged in an adequate manner (Connolly & Hyndman, 2013a, 2013b).

This study aims to examine New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. The first research question explores performance measurement and reporting practices from the perspectives of the case study charities. The second research question builds on the first research question to explore the extent to which the performance measurement and reporting practices of the charities address the information needs of key stakeholders. In order to gain a deeper understanding of this issue, the information needs of key stakeholders are investigated from the perspective of key stakeholders themselves.

The two research questions underpinning this study, along with eight guiding sub-questions, are detailed below:

Research Question 1: What are the performance measurement and reporting practices of New Zealand charities?

- 1) What information is measured and disclosed by New Zealand charities?
- 2) How do they measure and disclose the information?

- 3) Why do they measure and disclose such information, and why do they use particular mechanisms to measure and disclose it?
- 4) Are there any problems perceived by the charities themselves with these measurement and reporting practices?

Research Question 2: How do the performance measurement and reporting practices of New Zealand charities address the information needs of key stakeholders?

This question will be answered by comparing the findings for research question 1 with the perspectives of charities' key stakeholders, captured via four further sub-questions:

- 5) What information is expected and required by the key stakeholders?
- 6) Why do they have such expectations and requirements?
- 7) How do they ensure the provision of the expected and required information?
- 8) Are there any problems perceived by the key stakeholders with these expectations and requirements?

This section has identified the research aim, two research questions and eight guiding sub-questions. Examining the research aim and questions will contribute to addressing key gaps in the literature on the information needs of stakeholders, and on charities' performance measurement and reporting. This study employs Neo-institutional Sociology (NIS) as a theoretical framework, which is outlined in the next section.

1.4 Outline of Theoretical framework

NIS is a dominant theory in organizational studies, which provides rich insights into understanding the relationship between organizational structures and the wider institutional environment in which organizations are situated (DiMaggio & Powell, 1983; J. Meyer & Rowan, 1977; J. Meyer & Scott, 1983). DiMaggio and Powell (1983) highlighted that organizations are under powerful and inexorable forces that lead them to become isomorphic with each other, and eventually all organizations would become homogenous. For this study, NIS supplies the theorization to explain the influence of the wider institutional environment, such as the information needs of key stakeholders, as well as how and why New Zealand charities measure and disclose their information in order to address the information needs and to conform to institutional pressures in an organizational field. The argument here is that coercive, normative and mimetic pressures

may influence the performance measurement and reporting practices of the studied charities, to increase their legitimacy and survival prospects.

Once legitimacy is achieved and resources for survival are guaranteed, some charities may decouple their actual practices from adopted formal structures (J. Meyer & Rowan, 1977). The reason they do so is that the formal structures may disturb the normal processes of daily operations and may not improve their internal efficiency. A recent contribution in the decoupling literature is emphasizing decoupling as a process rather than a state in categorizing different types of decoupling. Bromley and Powell (2012) identified two types of decoupling process (policy-practice and means-ends) that organizations may encounter. Therefore, the notion of decoupling may explain any gaps between the information needs of key stakeholders, and charities' measurement and reporting practices, as well as how and why charities use particular measurement and reporting mechanisms in their daily practices.

While NIS has succeeded in becoming a dominant perspective in macro organization theory, some organization theorists noted that the role of agency, which has been neglected, is seen as an important element to explain how individuals, who are embedded within the institutions, respond to institutional pressures, shape and are shaped by institutions (Lawrence, Suddaby, & Leca, 2011; Suddaby, Elsbach, Greenwood, Meyer, & Zilber, 2010). Institutional work is another recent development to NIS, which focuses on the purposive action of actors and organizations aimed at creating, maintaining and disrupting institutions. It can help to explain the conscious action of individual and collective actors that aim at changing the institutional order of an organizational field (Lawrence & Suddaby, 2006). There is currently no study in the context of charities that uses institutional work to explain organizational issues, such as actors' intentionality and effort aimed at creating, maintaining and disrupting institutions. This study therefore can contribute by using the NIS concept of institutional work to explain how conscious intentions and effort of actors embedded in the studied charities influence the performance measurement and reporting practices.

This section has outlined NIS, as a theoretical framework, to explain New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. The next section presents an overview of the research methodology and methods used for this study.

1.5 Outline of Methodology and Method

The study is a qualitative inquiry (Denzin & Lincoln, 2013) into the experiences and perceptions of New Zealand charities and their key stakeholders. It follows a constructivist paradigm to gain understanding by interpreting these experiences and perceptions from the perspectives of both actors within the studied charities and their key stakeholders. To understand performance measurement and reporting practices in New Zealand charities, I look into the multiple constructed perceptions in the charity sector. This perspective informs my position as value freed in order to be able to discover “how things really are or work” (Guba & Lincoln, 1994, p. 108).

This study uses the case study method to focus on *how* and *why* questions that seek to retain a holistic and real-world perspective, to investigate rich and in-depth information (Yin, 2009, 2014). In order to gain insights and understandings of how actors within the studied charities and their stakeholders think, feel and act (Simons, 2009), two information-rich cases are selected. The use of the case study method allows me to interpret meaningful understandings of the unknown areas by focusing on two cases, and to obtain rich and detailed information of the phenomenon under investigation. This, thus, provides a basis for “analytic generalization” (Yin, 2009, p. 15) instead of statistical generalization.

To explore the research questions and capture the richness of data, both internal stakeholders at different levels of the case study charities, and external stakeholders, are included. Forty-six semi-structured interviews are conducted, before saturation is reached, to explore the perception of 25 internal stakeholders including board members, managers and staff members of the case study charities, and 21 external stakeholders including government funders, philanthropic funders, beneficiaries and volunteers.

Document analysis is another method adopted by this study to corroborate and augment evidence collected from semi-structured interviews and ensure creditability (Matthews & Ross, 2010; Yin, 2009). Various documents in the public domain such as annual reports and those provided during the interview process are analysed. The documents triangulate with responses from interviewees and, thus, enhance the trustworthiness of this study (Denzin & Lincoln, 2013). The next section highlights the intended contributions of this thesis.

1.6 Intended Contributions of this Thesis

This study aims to contribute to the NFP accountability literature in regard to three issues: key stakeholders' information needs, performance measurement, and performance reporting.

The literature on the information needs of key stakeholders and performance reporting is largely based on the charity sector in the UK (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003, 2004, 2013a, 2013b; Connolly, Hyndman, & McConville, 2013; Hyndman & McDonnell, 2009). In this study, the expectations and requirements of New Zealand charities' key stakeholders and the case study charities' performance measurement and reporting practices will be identified and critically analysed. This study will examine issues that are previously unexplored or under researched in a New Zealand context. For example, by comparing the information needs of key stakeholders with the case study charities' performance measurement and reporting practices, the information and reporting mechanisms of the New Zealand charities, and their stakeholders' information needs and enforcement mechanisms this study will provide new insights into this area. Moreover, this study intends to gain further understanding into performance measurement by identifying the information measured by the charities, the measurement mechanisms, and the reasons that influence their measurement practices. In addition, concepts from NIS - specifically, isomorphism, decoupling and institutional work - are used to theorize this study. Drawing on recent developments in NIS with respect to institutional work, this study seeks to shed new light on the understanding of performance measurement and reporting practices related to NFPs, including charities.

This study also intends to contribute to practice. This is especially timely owing to the introduction of new reporting requirements for charities in New Zealand for periods beginning on or after 1st April 2015. Many charities are now required to prepare both financial and performance information in accordance with the new standards (see Chapter 5). At this time of regulatory change, this study intends to provide recommendations with respect to performance measurement and reporting practices for New Zealand charities and their key stakeholders.

1.7 Outline of this Thesis

The remainder of this thesis is structured as follows:

Chapter 2 (*Literature Review*) critically reviews the international literature with respect to the information needs of key stakeholders as well as performance measurement and performance reporting in the NFP/charity sector. It also discusses the competitive funding environment in the NFP sector in which the three major funding streams of NFPs, including charities, and related problems are analysed. A review of the existing literature identifies gaps in the literature and provides the foundation for this research.

Chapter 3 (*Theoretical Framework*) discusses the theoretical framework that this study draws on. The rationale for using NIS is presented, and key concepts of NIS (institutional isomorphism, decoupling and institutional work) are overviewed and related to this study.

Chapter 4 (*Research Methodology and Method*) presents the constructivism paradigm adopted as a methodological framework for this study. It also outlines the use of the case study method and details the collection and analysis of the empirical evidence.

Chapter 5 (*New Zealand Context*) outlines the New Zealand operating environment for charities in which the regulatory and funding environment of charities is introduced. This chapter also presents a background to the case study charities, to contextualize the findings presented in Chapters 6, 7 and 8.

Chapter 6 (*Information Needs of Stakeholders*), Chapter 7 (*Performance Measurement Practices by the Charities*) and Chapter 8 (*Performance Reporting Practices by the Charities*) present and discuss the empirical findings using the relevant NIS concepts. Chapter 6 focuses on the information needs of charities' key stakeholders in New Zealand including regulators, government and philanthropic funders. The expected and required information, the reasons for such needs, and the reporting enforcement mechanisms and perceived problems from the stakeholder perspective are analysed. Chapters 7 and 8 discuss performance measurement and reporting practices in the case study charities, and the extent to which these practices meet the information needs of stakeholders. The measured and disclosed information, the measurement and reporting mechanisms, the reasons for such practices and perceived problems arising from the practices from the perspectives of the charities are discussed. Together, Chapters 7 and 8 address the first research question focusing on performance measurement and reporting practices in the

charities. A combination of all three chapters addresses the second research question exploring the information needs of key stakeholders and the extent to which the charities' practices address such needs.

Chapter 9 (*Discussion and Conclusion*) summarises the key findings of the study in relation to the research questions. It highlights contributions to the existing literature in three areas: key stakeholders' information needs, NFPs' performance measurement, and performance reporting. This chapter also compares and contrasts the key findings of this study with the extant literature, to identify further contributions to literature, theory and practice. This chapter also considers the study's limitations and suggests directions for future research.

Chapter 2: Literature Review

2.1 Introduction

This chapter is an overview of the international literature concerning the competitive funding environment in the NFP sector, and the information needs of stakeholders, performance measurement and reporting. To recap, this study aims to examine the New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. This chapter clarifies the meanings of the terms 'information needs', 'performance measurement' and 'performance reporting' in the context of the NFP sector, and identifies what has been previously studied in these areas to highlight gaps in the literature.

Section 2.2 begins with an overview of the competitive funding environment in the NFP sector. Section 2.3 identifies the information needs of stakeholders. Section 2.4 discusses performance measurement of NFPs, including charities by considering the NFP literature. Section 2.5 reviews literature on performance reporting in terms of to whom, and by what means, information is disclosed, and these features are mainly charity-specific. The gaps in the literature to which this study will contribute are identified in Section 2.6. Section 2.7 concludes the chapter.

2.2 Competitive Funding Environment

Meyer and Simsa (2014) suggest that government contracting of public services to NFPs, including charities, has resulted in a competitive environment in the NFP sector. Edwards and Hulme (1996) note that NFPs should diversify their funding streams and pursue various strategies to raise funds in order to remain sustainable and accountable. The funding streams of NFPs, including charities, are categorized into three major sources: government funding, private philanthropy and commercialization (Sanders et al., 2008), which are explained in the following sections.

2.2.1 *Government Funding*

NFPs, including charities, are predominantly reliant on government funding (Tucker & Parker, 2013) and, thus, the government has been the most significant funder for these organizations (M. Meyer & Simsa, 2014). However, from 2007 onwards, the financial crisis has had significant effects on the funding streams of NFPs and many NFPs in the US experienced severe financial difficulties during the financial crisis (Salamon, Geller,

& Spence, 2009). Governments have had to trim their budgets and reduce the supply of funding, and some funding that had been promised to NFPs has not been delivered (Kerlin & Pollak, 2011). The diminishing resources indicate NFPs, including charities, must compete with each other to obtain more resources (Ebrahim & Rangan, 2010; Francisco & Alves, 2012; Huang & Hooper, 2011). Some NFPs in the UK suffered severe funding cuts from their government funders, which resulted in the downsizing of its NFP sector (R. Taylor, Parry, & Alcock, 2012). Although the current environment is no longer one of economic downturn, an invariant or even decreasing level of government funding is no longer meeting an increasing demand for the services of NFPs (M. Meyer & Simsa, 2014). As further noted by Meyer and Simsa (2014), some government funding is arranged into shorter term contracts, indicating less reliable, and possibly severe, financial shortages. Moreover, some government-NFP relationships were established through government contracting. Weisbrod (1988) proposed that NFPs delivered supplementary services to meet social service needs that were left unsatisfied by government. Conversely, Salamon (1987) suggested that NFPs partnered with government to deliver complementary services designed to meet the needs in a mutual manner. Young (2000) incorporated the notions of ‘supplementary’ and ‘complementary’, and further conceptualized another government-NFP relation i.e. ‘adversarial’, whereby NFPs seek to influence government policy. These three relationships have been examined in the US, the UK, Israel and Japan by looking at both sides of the relationships, with a complementary partnership relationship between the government and NFPs found to be prominent in each country (Young, 2000). As such, these government-NFP relations highlight the complexity in the competitive funding environment. In order to gain competitive advantage in this funding environment, it is essential to understand the relationships NFPs, including charities, have with their government funders.

Consequent on government funding cuts and complexity in the competitive funding environment, NFPs, including charities, have been forced to seek out private philanthropy and undertake commercial activities as alternative funding sources. The next sections discuss private philanthropy and commercialization respectively.

2.2.2 *Private Philanthropy*

Salamon (1994, p. 120) acknowledges that true NFPs “rely chiefly, even exclusively, on private voluntary action and philanthropic support”. Similarly, Weisbrod (1998, p. 168) states: “a pure non-profit organization may be...dependent entirely on...donations, in the

forms of contributions, gifts, or grants”. As such, private philanthropy is also called ‘private contribution’ (Froelich, 1999; Kerlin & Pollak, 2011), which emphasizes the word ‘private’ and, thus, largely differentiates from the other non-private income sources for charities, such as government funding.

Private contributions are categorized into individual contributions, corporate contributions⁶, and foundation grants (Froelich, 1999). As such, individual donors, corporate donors and grant-making foundations are philanthropic funders that provide private contributions to NFPs, including charities. Benjamin (2010) noted that grant-making foundations usually require evidence that NFPs are achieving goals that are pre-defined by the foundations. This group of philanthropic funders is referred to as ‘non-government funders’ by Coyte, Rooney and Phua (2013) in an Australian context. The grant-making foundations are a subgroup of a key activity group in the New Zealand NFP sector (see Appendix 1). The New Zealand operating environment for charities is discussed further in Chapter 5.

The relationships between government and private philanthropy are two-fold. On one hand, philanthropic funding is correlated with government funding through enhancing the credibility of a charity and its matching funding (G. Chen, 2009). On the other hand, philanthropic funders may be unlikely to fund a charity that is mainly funded by government (Brooks, 2000). Stone, Hanger and Griffin (2001) found that organizational characteristics varied significantly between NFPs receiving high levels of government funding, and those with high levels of philanthropic funding. Large size NFPs with small boards, low administrative complexity and few volunteers are significantly related to high levels of government funding, whereas large boards and high administration complexity and fundraising expenditures are associated with high levels of philanthropic funding (Stone et al., 2001).

2.2.3 *Commercialization*

Commercialization has become an increasingly significant funding source for NFPs, including charities (Backman & Smith, 2000; Guo, 2006; Lynn, 2002; Maier, Meyer, & Steinbereithner, 2014; Salamon, 1999; Weisbrod, 1997). Some studies have used the terms ‘business-like’ (Considine, O’Sullivan, & Nguyen, 2014; Dart, 2004), ‘business

⁶ Corporate contributions include cash and gifts of property and services contributed by a corporate, which differ from fees for service and other commercial income generated by NFPs, including charities.

ventures' (Dees, 2004), or 'commercial ventures' (Adams & Perlmutter, 1991; Zimmerman & Dart, 1998) to describe charities and other NFPs that are involved in commercial activities. Salamon (1999) found that the income from commercial sources increased by more than 600% between 1977 and 1996 in US social service sector NFPs. Dart (2004) proposed that being business-like comprised four categories: business-like goals, business-like organization service delivery, business-like organization in terms of management, and business-like organizational rhetoric, in distinguishing between NFP activities and business-like activities, and noted:

Non-profit is understood to be organized around an interconnected nest of prosocial and voluntaristic values and goals with few references to the means and structures by which these values are enacted. Business-like activities are generally understood to be those characterized by some blend of profit motivation, the use of managerial and organization design tools developed in for-profit business settings, and broadly framed business thinking to structure and organize activity. (Dart, 2004, p. 294)

Although the rapid growth of commercial activities in the NFP sector is captured in the literature, there is no generally adopted definition for commercialization. A commercial activity is defined by Skloot (1987, p. 381), one of the earliest scholars working in this area, as "sustained activity, related but not customary to the [charitable] organization, designed to earn money". This definition is simple but important. Examples that highlight the profit-focused and program-related activities include the sale of Girl Guide cookies, gift shops in museums, and fee-collecting hospital parking lots. Guo (2006, p. 124) emphasized the process of commercialization rather than stressing merely the revenue-generation goal:

Commercialization is a process in which...non-profits are geared toward sales revenues rather than donations or government grants...commercialization is not only manifested through growing reliance on service fees but also by non-profits' aggressive profit-seeking behaviour.

Charities' involvement in the commercialization process is a direct consequence of cutbacks in government funding and the inability of philanthropic funding to match the level of financial support needed (Adams & Perlmutter, 1991; Weisbrod, 1997). Stone, Hanger and Griffin (2001) found that commercial income is inversely associated with government and philanthropic funding. Guo (2006) confirmed this argument by exploring the commercialization of human service NFPs in the US. She noted the significant contribution of commercialization to the self-sufficiency of a NFP and its ability to attract and retain staff and reputation. Interestingly, Guo (2006) found that the organization's

mission, donor and volunteer retention, and service delivery have no association with the extent to which an NFP is commercialized. Another study of Australian job services NFPs found that becoming commercialized did not help NFPs to achieve positive outcomes for their beneficiaries, i.e., placing jobseekers into work (Considine et al., 2014). Conversely, using the US IRS' Statistics of Income database to track sources of income for NFPs from 1982 to 2002, Kerlin and Pollak (2011) argue that there is no association between increases in commercial incomes and declines in either government or philanthropic funding.

There are two opposing views with respect to NFPs' commercialization. One view supports commercialization, and argues that it is beneficial for NFPs by generating additional income to fill the gap created by decreasing government and philanthropic funding, thus enhancing self-sufficiency (Guo, 2006). It is thought that NFPs could accomplish more without many of the restrictions commonly attached to government and philanthropic funding, thus increasing independence and flexibility (Zimmerman & Dart, 1998). More aggressively, commercialization is also seen as an effective way to address the social objectives of NFPs. For example, a homeless shelter may start a retail bakery to train and employ shelter residents in order to help them become more employable (Dees, 2004).

The other view criticizes commercialization as it proposes a profit-seeking goal that contradicts NFP moral obligations and may result in 'mission drift', which is detailed in the next section (Zimmerman & Dart, 1998). The position of NFPs as service providers, community builders and advocates are thought by some to be undermined by the process of commercialization, so that the ability of NFPs to create and maintain a strong civil society is questioned (Eikenberry & Kluver, 2004; Maier et al., 2014). Backman and Smith (2000, p. 363) underlined the social networks that connect NFPs and their key stakeholders including beneficiaries, funders, staff, the Board of Trustees and volunteers, and concluded that "the shift toward commercialization may affect the nature of the relationships that non-profits have with many of their key stakeholders in ways that undermine their ability to create social capital". As such, it is important to understand the opposing views with respect to NFPs' commercialization, as they further highlight the complexity of the competitive funding environment in the NFP sector. The next section identifies problems of mission drift.

2.2.4 *Problems of Mission Drift*

A survey of 3,803 England and Wales charities undertaking government contracts commissioned by the Charity Commission (2007) suggested that charities delivering public services are more likely to be affected by mission drift. Bennett and Savani (2011, p. 218) believe that “mission drift arises when a charity’s priorities and activities are determined in part by external funders and, in consequence, the organization’s operations then deviate significantly from its original mission”. As identified in the earlier sections, the competitive funding environment, in which government contracting and commercialization encourage charities to adopt business-like management methods, has an economic aspect that encourages profit maximization and competition. This is thought to conflict with NFP values, such as charitable missions, voluntarism and community participation, thus entailing a danger of mission drift (Guo, 2006). Such conflict between “doing the right things” and “doing things right” is highlighted by Meyer and Simsa (2014, p. 211). The business-like management methods of ‘doing things right’ impose for-profit sector norms on charities, undermining the charitable purposes and values-driven motive of ‘doing the right things’. In addition, the significance of volunteers, who connect charities and their communities, are noted by Cordery, Proctor-Thomson and Smith (2011). This is extended by Hyndman and Jones (2011) by considering the counterbalance between volunteers’ passion for the cause and charities’ original mission, and may lead to mission drift in charities. Moreover, Weisbroad (1997, p. 548) identified the risks of sacrificing charitable missions when NFPs, including charities, increasingly engage in commercial activities:

Once non-profits enter the realm of finding saleable outputs, they are in the domain of private enterprise...non-profits that pursue revenue in the same ways that private firms do are likely to emulate those firms, and by becoming more like them, they undermine the fundamental justification for the special social and economic role they have played.

Bennett and Savani (2011) studied three UK charities that had experienced mission drift and found that mission drift was an inevitable consequence of charities receiving government funding, but argued that charities should be proactive in seeking to initiate, direct and control mission drift. Four strategies are accepted by the studied charities: (1) proactive engagement with government funders; (2) the provision of ancillary services, such as providing training and consultancy services to government funders; (3) attempts at controlling the direction of projects; and (4) the application of strategic account management to the relationships with funders, such as prioritizing requests from the

funders (Bennett & Savani, 2011). Hyndman and Jones (2011) also noted that beneficiary involvement in the process of charities' decision-making is seen as a factor that mitigates against the danger of mission drift.

Overall, this section has discussed three funding sources: government funding, private philanthropy and commercial income. Many charities are contracted by the government to deliver services, thus are subject to the government funders' expectations and are associated with one or many government-NFPs relations. Private philanthropy is another essential element in the NFP sector in which the support from private contributions is prominent for many charities. In addition, commercialization is the latest, but compelling, phenomenon in the sector, mainly due to decreasing government and philanthropic funding. Although diversified funding sources support charities to maintain their significance and uniqueness, as discussed in the Section 1.2.2, mission drift is identified by the literature as the main problem of charities' competitive funding environment. The next section discusses the information needs of stakeholders, including funders.

2.3 Information Needs of Stakeholders

Hyndman (1990, 1991) and Connolly and Hyndman (2013b) highlighted that it is important to consider the information needs of stakeholders prior to disclosing any information to them. Connolly and Hyndman (2013b) noted that philanthropic funders, including individual donors, are the most important stakeholders as they provide substantial resources to a charity, and do not expect to receive any financial returns. As indicated in Section 2.2.2, donors are one type of philanthropic funder providing individual contributions to charities, thus the term 'donors' is used interchangeably with the term 'philanthropic funders' or 'funders' in general to remain consistent in this study. An accountability relationship between funders and charities identified by Connolly and Hyndman (2003) is presented in Figure 2-1.



Figure 2-1: Charities’ accountability relationship with their funders - adapted from Connolly and Hyndman (2003)

Edwards and Hulme (1996, p. 967) define accountability as a “means by which individuals and organizations report to a recognized authority (or authorities) and are held responsible for their actions”. As demonstrated in Figure 2-1, funders provide resources to charities and expect the charities to supply accountability information in return, in order to satisfy their information needs. As such, charity accountability is discharged by supplying information related to the expectations of funders. Hyndman and Jones (2011, p. 153) clarified the expectations of government funders, which require charities to “focus on particular priorities of government; operate in prescribed ways mandated by government; [and] provide extensive financial and performance information required by government”. In addition to acknowledging the importance of funders’ information needs, Connolly, Hyndman and McMahon (2009) also highlighted that it is important to understand the information needs of beneficiaries. Their information needs were perceived to be similar to funders’ information needs, but various problems of engaging the beneficiaries were identified, and these are further discussed in Section 2.5.1.3. The following sections discuss three types of information that are generally expected by stakeholders: background, financial and performance information.

2.3.1 *Background Information*

The Statement of Recommended Practice (SORP) suggests that charities in England and Wales provide broad background information relating to their charity as part of a Trustees’ Annual Report (Charity Commission, 2015b). According to paragraph numbers 1.26-1.28 of the 2015 SORP, background information includes:

Details of the nature of the governing document (e.g. trust deed, memorandum and articles of association, Charity Commission scheme, Royal Charter, etc.); how the charity is constituted (e.g. limited company, unincorporated association, trustees incorporated as a body)...[and] reference and administrative information about a charity and its trustees [such as] the name of the charity...the charity registration number...[and] the address of the principal office of the charity (Charity Commission, 2015b, pp. 15-16).

Connolly and Hyndman (2003) identified seven items of background information (indication of the governing instrument; details of how a charity is constituted; review of the year; salient features of the accounts explained; names of trustees; names of principal officers; and address of principal or registered office), by analysing annual reports of the top 100 fundraising charities over two reporting periods 1996-1997 and 2001-2002. These items of background information in the annual reports of charities were further examined by Connolly and Hyndman (2004), who found that charities in England and Wales provided more background information than Irish charities, and large charities had greater disclosure for each of the items than small charities. As noted by Connolly and Hyndman (2003, 2004), the background information disclosed by the studied charities had three benefits: (1) it enabled charities' stakeholders to understand the structures and activities of the charities better; (2) it assisted the stakeholders to interpret the accounts and relate numerical aspects to the structures and activities; and (3) it provided a context for understanding the performance of charities. It is thus important to consider the information needs of stakeholders for background information, which is also a relatively less examined research area. Conversely, charity literature with respect to stakeholders' information needs for financial and performance information has received more attention. They are further discussed in the next sections.

2.3.2 *Financial Information*

Financial information is an important type of information that is normally contained in financial statements to show how a charity's funds are acquired and spent (Connolly & Hyndman, 2003; Hyndman, 1990). Connolly, Hyndman and McConville (2013) noted that funders need financial information, particularly in regard to organizational solvency and efficiency⁷. This is because the financial information enables funders to engage in formal financial assessment and monitoring, so that they can identify whether a charity has lived within its means and account back to their constituencies (Connolly & Dhanani,

⁷ Solvency indicates the ability of an organization to have enough assets to cover its liabilities, while efficiency information relates to administration costs or fundraising costs.

2009). Connolly and Dhanani (2009) further identified that larger philanthropic funders were likely to require and receive more detailed financial information than smaller funders.

In England and Wales, the quality of the financial statements is assessed in terms of charities' compliance with the extant SORP, which provides guidance on financial accounting and reporting for charities (Charity Commission, 2015a). Connolly and Hyndman (2013b) identified that audited financial information, including Operating Statement/Statement of Financial Activities (SOFA), Balance Sheet and Funds Flow/Cash Flow Statement, was most frequently disclosed by England and Wales charities in their annual reports. The SOFA follows a columnar format to separate unrestricted funds (general income and expenditure) from restricted income funds which are provided for a particular purpose and endowment funds⁸ (Charity Commission, 2015c). Although distinguishing between restricted and unrestricted funds was identified as useful, the terminology and columnar approach in the SOFA proved difficult for users to understand, as perceived by the auditors and preparers (Connolly et al., 2009). In addition, since unrestricted funds are not earmarked in any way or for any specific purpose, a charity's managers can decide how and when they are spent, highlighting a potential area for misusing the funds due to lack of restrictions.

Cherny, Herson and Gordon (1992) noted that the nature of NFPs is different from for-profit organizations, since the reporting of bottom line surplus or deficit is relatively unimportant to charities and their stakeholders and should not be considered as a criterion for legitimation. Connolly, Hyndman and other researchers investigating this area also found that financial information plays a limited role only in discharging accountability and a 'relevance gap' is highlighted between information disclosed and information needs (Connolly & Dhanani, 2009; Hyndman, 1989, 1990, 1991). The relevance gap is further discussed in Section 2.5.3. While audited financial statements were the most frequently disclosed information, they were identified as the least important information type by funders (Connolly & Hyndman, 2013b; Hyndman, 1990). Hyndman (1990) suggests that the information needs of funders are better met by simplified, rather than traditional, audited financial statements and argues that there may be a tendency to over-emphasise

⁸ Endowment funds are restricted funds which either cannot be spent (permanent endowment) or where there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it (expendable endowment) (Charity Commission, 2015c, p. 40).

the discharge of accountability through traditional financial statements at the expense of performance information.

2.3.3 *Performance Information*

Performance information has a non-financial nature, that relates to the intentions, efficiency and effectiveness of a charity (Connolly & Hyndman, 2013b). As indicated in Table 2-1 below, performance information includes statement of goals, information about problem or need areas, measures of output, measures of efficiency, statement of current objectives, statement of future objectives and budget information. This classification of performance information is similar to Connolly and Hyndman (2003), but the later study also included inputs as performance information. To identify changes over time, Hyndman's (1990) findings are compared with a recent study (Connolly & Hyndman, 2013b) and the findings are that the seven most important information types still largely hold (see Table 2-1)⁹ in respect of philanthropic funders (who are more knowledgeable).

Hyndman (1990)	Connolly and Hyndman (2013b)
1.Statement of goals (P)	1.Measures of output (P)
2.Problem/need area information (P)	2.Statement of current objectives (P)
3.Administration costs % (F)	3.Information on problem or need area (P)
4.Measures of output (P)	4.Statement of charity goals (P)
5.Measures of efficiency (P)	5.Measures of efficiency (P)
6.Statement of objectives (P)	6.Administration cost % (F)
7.Statement of future objectives (P)	7.Statement of future objectives (P)
8.Simplified operating statement (F)	8.Simplified balance sheet (F)
9.Budget information (P)	9.Budget information (P)
10.Simplified balance sheet (F)	10.Audited balance sheet (F)
11.Audited operating statement (F)	11.Simplified operating statement/SOFA (F)
12.Audited balance sheet (F)	12.Audited operating statement/ SOFA (F)
13.Audited funds flow statement (F)	13.Audited funds flow/ cash flow statement (F)
13. List of charity officers (B)	14.List of charity officers (B)

Table 2-1: Comparison the information needs of philanthropic funders (Connolly & Hyndman, 2013b; Hyndman, 1990)

⁹ P: Performance Information; F: Financial Information; B: Background Information

Table 2-1 compares two studies that examined the information needs of funders in order to identify changes over time. Funders were asked to rank 14 information types, including frequently disclosed information, and the seven most important information types sought by funders (highlighted in bold in Table 2-1) were mostly connected to past or future performance. Thus, performance information is viewed as paramount in meeting funders' information needs. Connolly, Hyndman and McConville (2013) also found that all stakeholder groups in their study perceived performance information, such as performance against objectives, governance arrangements and plans for the future, as particularly important. A study in the public sector found that, in the absence of performance information, "the concept of accountability and indeed the whole democratic process is simply a sham" (Boyne & Law, 1991, p. 179). Edwards and Hulme (1995, p. 9) argue that the absence of accountability, "begins to make the likelihood of ineffective or illegitimate actions by an organization much more probable". Nonetheless, in the context of charities, accountability to funders is identified as not being discharged in the most effective manner, with limited reporting of performance information to funders (Connolly & Hyndman, 2013b; Hyndman, 1990, 1991). This is the gap that this study seeks to address, by examining the New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. The next section discusses performance measurement of NFPs, including charities.

2.4 Performance Measurement

Performance measurement "involves the selection, definition, and application of performance indicators, which quantify the efficiency and effectiveness of service-delivery methods" (Fine & Snyder, 1999, p. 24). Performance measurement is also described as "a way to ensure accountability for the use of public money by both public and voluntary organizations" (Osborne, Bovaird, Martin, Tricker, & Waterston, 1995, p. 22). A number of research studies have focused on the use of performance measurement to examine the accountability in the NFP sector (Carman, 2007; Carman & Fredericks, 2008; LeRoux & Wright, 2010; Moxham, 2009; Moxham & Boaden, 2007; Williams & Moxham, 2009). The performance measurement literature to date covers many different aspects of performance measurement. Key findings include:

- Performance measurement supports NFPs, including charities, in various ways by increasing the level of effectiveness in strategic decision making, improving focus

on the long term goals and services delivery, enhancing reputations, increasing media exposure, and generating more funding (LeRoux & Wright, 2010; Salamon et al., 2010).

- Financial reporting and the demonstration of achievements were the common drivers for charities to measure their performance (Moxham, 2009).
- A number of studies have identified that outcome measurement is on the rise and many NFPs, including charities, are attempting to measure outcomes by using outcome measures (Carman, 2007; Carman & Fredericks, 2008; Moxham, 2009; Salamon et al., 2010; Zimmermann & Stevens, 2006).
- Funders heavily influence NFP performance measurement and accountability practices. Although NFPs have made a sincere attempt to evaluate some of their activities, they have considerable staffing and funding constraints (Carman, 2009; Carman & Fredericks, 2008).

Forbes (1998) noted two approaches to the measurement of performance: reputational and multidimensional. The reputational approach measures performance according to the self-reported opinions of clients, staff or professionals (Lecy, Schmitz, & Swedlund, 2012). An example of this approach is benchmarking (Moxham, 2014). Nonetheless, Herman and Renz (2008) argue that the performance of NFPs cannot be assessed by a single performance measure. The multidimensional approaches attempt to measure performance information from different perspectives simultaneously (Forbes, 1998). For example, Balanced Scorecard, which was initially developed for the for-profit sector, measures performance from the four perspectives of financial, customer, internal process and learning and growth (Kaplan, 2001). Unlike the for-profit sector, NFPs placed equal emphasis on the financial and consumer perspectives to ensure efficiency and effectiveness of their organizations (Martello, Watson, & Fischer, 2008). However, a study that investigated the implementation of the Balanced Scorecard among 20 German NFPs found that a majority of the NFPs were still in an early phase of Balanced Scorecard implementation (Greiling, 2010). Benjamin (2012) analysed a number of outcome measurement guides that offer normative ideas about what NFPs should measure in order to document their effectiveness, but he found that these guides, such as Balanced Scorecard and Results-Based Accountability, do not fully capture the work of frontline staff and, thus, could mischaracterize NFP performance.

In order to examine the complexity associated with measuring the performance of NFPs, including charities, and incorporate the outcome framework demonstrated in Section 1.2.5, the following sections discuss performance measurement in terms of two categories: measures of efficiency and measures of effectiveness.

2.4.1 *Measures of Efficiency*

Measures of efficiency are undoubtedly important for both charities and their stakeholders and are commonly used for comparison purposes (Moxham, 2009). Many NFPs, including charities, are concerned with efficiency measures, and these include mainly financial and output measures.

2.4.1.1 *Financial Measures*

Financial measures assess the extent to which charities spend their donations and funding efficiently in advancing their charitable missions and purposes (van der Heijden, 2013). Ritchie and Kolodinsky (2003) reviewed various financial measures for NFPs and identified three financial categories of measures that could be used in measuring the efficiency of NFPs in the US. These were:

- fundraising efficiency (total public support/fundraising expenses; total revenue/fundraising expenses);
- public support (total contributions/total revenue; direct public support/total assets); and
- fiscal performance (total revenue/total expenses; total contributions/total expenses).

Moreover, administration cost ratio (administrative cost/total expenditure), which was ranked as one of the seven most important information types by funders of England and Wales charities (see Table 2-1), is a financial measure to assess the extent to which charities spend money on management and administration (Connolly & Hyndman, 2013b; Hyndman, 1990). In addition, program service ratio (program-related expenditure/total income) and fundraising ratio (fundraising expenditure /fundraising income) are the other two measures commonly used by funders to determine whether a charity is worthy of their support, according to two studies of Dutch charities (van der Heijden, 2013; Williams & Moxham, 2009). A higher percentage in the program service ratio indicates that more income is directed towards program-related services and less income to the other non-program-related activities. Higher percentages for the administration cost ratio and fundraising ratio mean that less income is directed toward program and more income

is directed towards administration and fundraising. Tinkelman and Mankaney (2007) suggest that high administrative cost percentage is negatively associated with funders' contribution levels. Many charities are hesitant to measure and disclose their administration costs ratio, because it is perceived as producing "potentially damaging headline figures" associated with the efficiency of a charity (Connolly & Hyndman, 2013a, p. 956). Hence, a lack of disclosure of such information may imply an inefficiency with the charity.

2.4.1.2 Output Measures

In addition to financial measures, output measures are the most important information type sought by funders, and the ratio of outputs to inputs, or the amount of input per unit of output (such as cost per child fed), is used to measure the efficiency of charities (Connolly & Hyndman, 2013b). Carman (2007) found that 100% of social service-NFPs collected data on the number of persons served and 67% reported collecting data on other outputs. Similar findings are identified in Salamon et al.'s (2010) study, where 95% of NFPs surveyed were engaged in some output measurement. Moxham and Boarden (2007) also noted that the performance of all NFPs in their study was measured in terms of outputs only, as output performance indicators were stipulated by the funders. Morley, Vinson and Hatry (2001) suggested that output measures are one of the most common types of performance measurement engaged in by NFPs as outputs are relatively easy to identify and measure. This issue has been discussed in the public sector context in England and Wales. For example, Henley et al. (1992, p. 286) argue that performance "measures should not be used only because the measurement process is easier and, in particular, adequate weight needs to be given to quality, which is almost always difficult to measure".

The vast majority of NFPs, including charities, engage in some financial and output measures in an effort to improve their efficiency. However, efficiency "is not the reason why charities were originally set up" (Williams & Moxham, 2009, p. 19), thus, the focus of NFPs, including charities' performance measurement, should be on measures of effectiveness, as discussed in the following section.

2.4.2 Measures of Effectiveness

In addition to measuring efficiency, NFPs, including charities, also attempt to measure their effectiveness. Williams and Moxham (2009, p. 19) noted that measures of

effectiveness assess the whole reason for charities' existence, and are different from measuring their efficiency.

Measuring external effectiveness is very different from measuring internal efficiency. A highly efficient charity might waste its money on useless projects, while a very inefficient charity, even after profligate over spending on fundraising and administration, might still achieve amazing impact with the few programs funded by the little amount remaining in its coffers.

In order to examine the research questions of this study and, more particularly, how and why New Zealand charities measure performance such as outputs and outcomes, a number of organizational effectiveness studies, in addition to the NFP and performance measurement studies, are considered in order to shed light on measures of effectiveness in NFPs, including charities. As indicated earlier, a number of research studies have investigated the adoption and implementation of outcome measures by NFPs, including charities (Alexander, Brudney, & Yang, 2010; Barman & MacIndoe, 2012; Benjamin, 2012; Buckmaster, 1999; MacIndoe & Barman, 2013; Morley et al., 2001; Plantz et al., 1997; Thomson, 2010). This is because the effectiveness of charities is closely related to their charitable purpose and missions, and outcome measures seek to quantify the effectiveness and impact of NFPs, including charities, by comparing beneficiaries' level of a particular attribute before and after their services (Benjamin, 2008; Speckbacher, 2003). Prior literature has identified the outcome measurement practices of NFPs. For example, in a study of 178 community-based NFPs in New York, Carman (2007) found that 66% collect data on outcomes. Similar results were reported by Carman and Fredericks (2008), in a study of 189 Indiana NFPs, they found that 62% of NFPs collected information on outcomes, which are measured on a regular basis. Salamon et al. (2010) noted that almost 70% of NFPs used outcome measures to gauge the effectiveness of their services.

Moreover, previous studies also have identified that NFPs, including charities, adopted and implemented outcome measures:

- that were associated with organizational mission, size (budget and staff) and type of services (MacIndoe & Barman, 2013);
- that were influenced by resource providers such as funders (Benjamin, 2010; Carman, 2009; MacIndoe & Barman, 2013; Thomson, 2010; Zimmermann & Stevens, 2006), organizational networks such as national associations in the NFP

sector (MacIndoe & Barman, 2013; Zimmermann & Stevens, 2006), and internal stakeholders such as staff and the board of directors (MacIndoe & Barman, 2013)

Benjamin (2012) suggests that the adoption of outcome measures has become tightly coupled with funding requirements. Zimmermann and Stevens (2006) concur with this view, they found that 75% of the NFPs surveyed used outcome measures to evaluate their performance and over half the NFPs stated that the initial driver for measuring performance was to meet the external requirements of funding contracts. Although many research studies have examined NFPs outcome measurement, Thomson (2010, p. 612) argues that “structured inquiry into the extent of nonprofit outcome measurement is a relatively recent phenomenon”. MacIndoe and Barman (2013) support this argument and cite previous research that recognized outcome using outcome measures in one or more performance measures as simple dichotomous (yes/no) measures. Instead, they developed a multidimensional measure of NFP outcome measurement, which incorporates the extent of use of outcome measurement and assesses whether resources are allocated for such outcome measurement specifically (MacIndoe & Barman, 2013).

Prior literature on outcome measurement in measuring the effectiveness of NFPs has been reviewed. Although it is not a new topic, investigations into the extent and influence of outcome measurement are recent phenomena. The present study aims to contribute to this area by examining the outcome measurement practices of New Zealand charities and their reasons for measuring outcomes and using particular outcome measurement mechanisms.

2.4.3 Problems of Performance Measurement

A number of problems in measuring performance have been identified. Some are related to outcome measurement, focusing on charities in particular, while others highlight problems in NFPs’ performance measurement as a whole.

First, NFPs, including charities, may struggle to balance the funders’ requirements and the reality of an inability to provide the required information. Limited funding, staff time and expertise, and insufficient training provided are common reasons that restrict performance measurement (Buckmaster, 1999; Salamon et al., 2010). In order to respond to funders’ requirements, NFPs, including charities, are more likely to collect data on what is necessary for reporting purposes rather than what is important for internal development and learning (Christensen & Ebrahim, 2006). In a study of community-based NFPs, Carman (2007) identified that data collection for performance measurement

was conducted by internal staff, on top of their existing responsibilities, with little funding and support. Buckmaster (1999, p. 186) highlighted that “the greatest impediment to measuring outcomes is one of resource availability”.

Second, performance measures are useful to provide a “rationale or legitimization of a charity’s activities”, but there is no one-size-fits-all approach with all charities (Connolly & Hyndman, 2003, p. 28). Connolly and Hyndman (2003) further argue that charities generally define their objectives in terms of activities rather than outputs and outcomes, and this could lead to more expenses and may not necessarily mean better outcomes.

For some charities, especially those that are complex, multifaceted and have unclear cause and effect relationships, too much focus on detailed objectives, performance targets and performance measures in the planning and control system, at the expense of wider qualitative factors, may be inappropriate (Connolly & Hyndman, 2003, pp. 28-29).

Third, performance measurement may fall into the danger of becoming a ritualistic approach where performance measures serve as a ceremony only, and do not improve the efficiency and effectiveness of the charity (Connolly & Hyndman, 2003). Carman (2007) noted that some NFPs could not distinguish between their performance measurement and their reporting, monitoring, and management practices. Carman and Fredericks (2008, p. 51) also found that some NFP managers view performance measurement as a marketing and promotion tool, while others regard it as a “resource drain and distraction”.

Fourth, the reliability of performance information is questioned by Connolly and Hyndman (2003, p. 26):

If no verification of the performance numbers reported by a charity is required, then there may be a temptation to present performance in a manner, which is perceived as more acceptable to the reader, for example by exaggerating good performance, regardless of its accuracy.

Thomson (2010) supports this view, arguing that a majority of NFPs are attempting to measure outcomes, but self-selection of outcome measures and unverified self-reporting may bring potential biases.

Lastly, although previous research has identified that various funders are asking NFPs for performance measurement data, Carman (2009, p. 387) found that funding decisions were based on other factors:

On one hand, funders are asking non-profits to engage in a range of behaviours to empirically demonstrate and describe their performance. On the other hand, the decision-making processes about which organizations get funded appear to be based on a myriad of factors, which includes personal relationships, reputation, and trust.

In a similar vein, Williams and Moxham (2009) also identified that the type of activity was seen as more important than the effectiveness of a charity's activities when choosing a charity to support with donations.

This section has discussed the performance measurement of NFPs, including charities, and has highlighted problems identified in the literature. The next section introduces performance reporting.

2.5 Performance Reporting

A number of studies have focused on charity performance reporting (Connolly & Hyndman, 2003, 2004, 2013b; Hyndman, 1990, 1991; Hyndman & Anderson, 1998). They identified that it is important for charities to disclose performance information in order to meet the information needs of their stakeholders. This is in line with the information needs of stakeholders discussed in Section 2.3, in that financial information plays only a limited role in discharging accountability, and performance information is more important in meeting the information needs of funders. Saj (2013) concurs with this view, and found that performance reporting comprised a set of both financial and performance reports, and a system of direct accountability reporting through which management and governance was effected. Nonetheless, a charity's performance reporting practices cannot be properly understood without consideration of to whom, and by what means, information is disclosed to meet stakeholders' information needs. In particular, Connolly and Hyndman (2013b, p. 948) proposed two key questions that ask to whom a charity is accountable, and what form that account should take. As such, the questions of 'disclosure to whom' and 'forms of disclosure' are discussed in the following sections.

2.5.1 *Disclosure to whom?*

The salience of stakeholders is defined by Mitchell, Agle and Wood (1997, p. 869) as "the degree to which managers give priority to competing stakeholder claims", based on stakeholders possessing one or more of three relationship attributes: power, legitimacy, and urgency. They further argue that when a stakeholder is perceived by managers to

exhibit all three of these attributes, that stakeholder’s salience is high, and such a dominant stakeholder is called a “definitive stakeholder” (Mitchell et al., 1997, p. 878). Previous studies have identified a number of salient stakeholders that charities are accountable to, including: regulators, funders, beneficiaries, volunteers, the board of trustees, and paid staff (Connolly & Dhanani, 2009; Dhanani, 2009; Hyndman & McDonnell, 2009). One way of classifying these stakeholders is to divide them into two categories: external and internal (see Table 2-2).

Classification of Stakeholders	
External	Regulators
	Funders (government and philanthropic funders)
	Beneficiaries
	Volunteers
Internal	The Board of Trustees, Paid Staff, Volunteers

Table 2-2: Classification of stakeholders

External stakeholders are those outside the immediate management of an organization and are normally classified into upward and downward stakeholders (Ebrahim, 2003). Upward stakeholders comprise regulators, funders and volunteers that provide resources and perform an oversight function to a charity and, thus, have the power and authority to influence the work and practices of the charity (Connolly & Dhanani, 2009; Dhanani, 2009). Downward stakeholders are beneficiaries who benefit from a charity’s services and are often considered as lacking a voice to influence practices of the charity (Connolly & Dhanani, 2009; Dhanani, 2009). Hyndman and McDonnell (2009) recognized that the board of trustees (or directors), paid staff (including managers) and volunteers are internal stakeholders, as demonstrated in Table 2-2 above. In the following sections, external stakeholders (regulators, funders, beneficiaries and volunteers) and internal stakeholders are explained in detail.

2.5.1.1 *Regulators*

The government is identified by Hyndman and McMahon (2009, p. 462) as the most salient stakeholder to a charity as it holds the three attributes of stakeholder saliency noted earlier:

[the government has] a clear demonstration of power, as evidenced by enacting legislation, regulation and as a significant resource provider; a legitimating focus on promoting desirable improvement in the [charity] sector; and urgency, as evidenced by the government's willingness to legislate and shape the sector through publications and directions over fairly short time horizons.

In England and Wales, the Charity Commission is the key regulator with responsibility to oversee charities' registration and reporting processes. Together with the Office of the Scottish Charity Regulator, the Charity Commission issues a SORP to instruct how charities are expected to prepare their Trustees' annual report and financial statements (Charity Commission, 2013). The Trustees' annual report and financial statements are further explained in Section 2.5.2.1. The SORP provides a framework for charity accounting and reporting. It has evolved over the past 27 years, from the original 1988 SORP through five iterations to the current 2015 SORP, to encourage consistency in charity accounting standards and give recommendations for charity annual reporting (Connolly, Hyndman, & McConville, 2015). Hyndman and McMahon (2010) further identified that the SORP is influenced by the government to require more governance and performance information, and by the accounting profession to stimulate the use of appropriate financial accounting treatments. In New Zealand, both the Department of Internal Affairs-Charities Services (DIA-CS) and External Reporting Board (XRB)¹⁰ are key regulators in the charity sector for which the XRB is a standard setter that develops and issues reporting standards, and the DIA-CS oversees charities' registration and reporting processes, and provides guidance for charities to comply with the standards developed by the XRB. The roles and responsibilities of both the DIA-CS and XRB in New Zealand are further explained in Section 5.3 and the role of government as a resource provider is discussed in the next section.

2.5.1.2 *Funders*

Connolly, Hyndman and McMahon (2009) noted that funders were the key stakeholders for charities regardless of their size, jurisdiction and nature of activities. In addition to its legislative and regulative role, government is a significant funder that provides resources to charities often through contracting for public services (see Section 2.2.1). As an important resource provider, government funders exert direct authority over charities by requiring the charities to adhere to accounting and reporting practices as a basis for

¹⁰ XRB is an independent Crown Entity, which was established under section 22 of the *Financial Reporting Act 2013* and is subject to the *Crown Entities Act 2004* in New Zealand.

enhancing accountability (Hyndman & McMahon, 2010). Funders are also identified as one of the key external stakeholders of charities in a study of 28 roundtable events¹¹ and, thus, should be the main audience for charities' annual reports (Connolly et al., 2013).

Moreover, philanthropic funders including donors are viewed by charity paid staff¹², external auditors and funders themselves as key stakeholders of a charity, in Hyndman (1990, 1991) and Connolly and Hyndman's (2013b) study of England and Wales charities¹³. In a study of individual donors, Connolly and Hyndman (2013a) identified that donors have limited powers of interrogation and have to rely on external communication channels such as annual reports to meet their information needs. Dainelli, Manetti and Sibilio (2013) also suggest the salient stakeholders in their study of museums are philanthropic funders, and conclude that the museums must maintain and develop trust with them to receive larger grants and donations from these funders.

Hence, both government and philanthropic funders are other key stakeholders, and demonstrate a high degree of salience for the funded charities, in addition to the regulators. The next sections discuss the relative lower salience of stakeholder groups: beneficiaries, volunteers and internal stakeholders.

2.5.1.3 *Beneficiaries*

Beneficiaries are the ultimate recipients of the services charities provide and, thus, they are important stakeholders to whom charity accountability is owed (Connolly & Hyndman, 2013b; Connolly et al., 2009; Hyndman & McDonnell, 2009). Cordery and Baskerville (2011) identified that beneficiaries can also be assisted by the media. The involvement of beneficiaries in the decision-making functions of a charity is considered by Hyndman and McDonnell (2009), but the extent to which beneficiaries involved in such functions is identified as an issue. Moreover, Connolly and Hyndman (2013b) identified problems of engaging this group of stakeholders that included: an unwillingness for charities to forward questionnaires to some beneficiaries given their perceived vulnerable status, limited formal contact between charities and beneficiaries,

¹¹ The roundtable events were developed to allow the opportunity for deeper debate and dialogue with stakeholders and to ensure that the SORP development was properly informed by the views and concerns of stakeholders (Connolly et al., 2009).

¹²Hyndman (1991) and Connolly and Hyndman (2013b) used the term 'charity officials' to describe charity paid staff.

¹³ Connolly and Hyndman(2013a, 2013b)'s studies investigated the Summary Information Returns (SIR) of the top 100 UK fundraising charities. The SIR currently forms part C of the annual return that charities in England and Wales with an income over GBP 1 million have to complete and submit to the Charity Commission. Their studied charities are referred to as 'England and Wales charities'.

and limited willingness of beneficiaries to participate in the research. In the absence of beneficiaries' direct input to the roundtable events, funders were identified by Connolly, Hyndman and McMahon (2009, p. 8) as often attempting to take a beneficiary-focused view:

Some funders, whilst acknowledging their own specific information needs, recognized the needs of beneficiaries, saw them as being related to their own information needs, and reflected on the view that they saw their role as championing beneficiaries' interests.

As such, beneficiaries have relatively lower salience for accountability information from charities compared to other external stakeholders, such as funders. Instead, funders act on behalf of the beneficiaries, assuming that the beneficiaries' information needs align with their own.

2.5.1.4 *Volunteers*

As noted in Table 2-2, volunteers can be seen as both upward stakeholders and internal stakeholders depending on the roles they play. For example, due to a lack of resources, many charities are reliant on volunteers to deliver services (Mook, Sousa, Elgie, & Quarter, 2005; Salamon et al., 2010). Volunteers are classified as internal stakeholders but, when they provide valuable resources such as time, talents and skills to charities, they are seen as upward stakeholders (Hussain & Hoque, 2002). The significance of volunteer contributions in New Zealand is further discussed in Section 5.2. Nonetheless, the contributions of volunteers are rarely accounted for, and disclosure and reporting of volunteer contributions is less obvious (Mook et al., 2005). Similar to beneficiaries, volunteers are also less salient stakeholder groups compared to the key stakeholders (regulators and funders).

2.5.1.5 *Internal Stakeholders*

The main internal stakeholders of a charity include: the board of trustees, paid staff including managers, and volunteers (Hyndman & McDonnell, 2009). Evidence from New Zealand NFP primary health organizations suggests that some NFPs discharge accountability equally to their internal and external stakeholders (Carolyn Cordery et al., 2010), indicating that internal stakeholders are also salient stakeholders. This internal accountability (Ebrahim, 2003) represents the responsibility of a charity to its internal stakeholders and mission. Christensen and Ebrahim (2006) further suggested that informal interactions among staff members facilitate open communication and maintain

a focus on mission in a US NFP. The role of the board of trustees is identified by Cornforth (2003, p. 9) to “represent the interests of one or more constituencies or groups the organization serves”. Murray (2001, p. 10) recognized the importance of the board of trustees as an internal stakeholder.

It is the [board of trustees] to whom the rest of the organization is accountable and that, in turn, is accountable for the organization to the community, for which it acts as “trustee.” It follows that the board must be both legally and morally responsible for establishing the organization’s mission and ensuring that it is carried out.

However, tension in charity board-staff relations was identified by Cornforth (2003). Moreover, while internal stakeholders are salient stakeholders, Cordery, Baskerville and Porter (2010) identified that some NFPs still prioritised the information needs of their funders over the other stakeholder groups, including internal stakeholders. Hence, internal stakeholders are perceived as having relatively lower saliency, and their information needs are less likely to be prioritized.

Overall, charities are accountable to external stakeholders, including their regulators and funders, who are in a position to demand an account from them. They are also accountable to their beneficiaries, who may lack the power to demand accountability, as well as to their volunteers and internal stakeholders. Literature suggests that regulators and funders are key stakeholders who are more salient than other stakeholder groups such as beneficiaries. This study thus focuses on the information needs of both regulators and funders in New Zealand to gain further understanding of their expectations of accountability. The next section discusses the forms or mechanisms charities use to report to these stakeholders.

2.5.2 Forms of Disclosures

The previous section identified the salient stakeholders to whom charity accountability is owed, and this section introduces different forms of disclosures used by NFPs, including charities, in discharging accountability to their stakeholders. A large number of studies have investigated the area of disclosing information to regulators, funders and other external stakeholders such as beneficiaries and volunteers, but limited literature covers the disclosures provided to internal stakeholders. Among these studies, most of the research in the areas of disclosures to regulators and funders have been in England and Wales, thus this section focuses on the evidence from these countries. Limited evidence from other countries such as Norway and US was also identified with respect to the

disclosures to other external stakeholders. Nonetheless, this UK-based picture is probably indicative of the situation in other countries such as New Zealand, Canada and Australia. These forms of disclosures are discussed in the following sections.

2.5.2.1 *Disclosures to Regulators*

Section 2.5.1.1 identified that SORP is issued by the Charity Commission for England and Wales, and the Office of the Scottish Charity Regulator. The SORP suggests a charity to prepare a trustees' annual report to "discharge the trustees¹⁴' duty of public accountability and stewardship" (Charity Commission, 2013, p. 1). As noted by Connolly and Hyndman (2013b), annual reports have a more formalized role to legitimize a charity with greater regulatory oversight. The annual report is considered to be the most important medium of communication between a charity and their stakeholders, it is widely distributed to, and is read by, a large number of the stakeholders including funders and beneficiaries (Connolly & Hyndman, 2013b; Hyndman, 1990). The 2015 SORP provided recommendations on performance reporting in which more extensive information on the administration, governance and management of a charity are required. For example, the disclosure of a charity's objectives and activities is detailed in paragraphs 1.17 to 1.19; requirements on achievements and performance are highlighted in paragraphs 1.20; a review of financial information is considered in paragraphs 1.21 to 1.24; arrangements of structure, governance and management are outlined in paragraphs 1.25 to 1.26 (Charity Commission, 2015a). In addition, additional information is expected of larger charities¹⁵. For example, achievement and performance requirements are further highlighted in paragraphs 1.40 to 1.45 (Charity Commission, 2015a). As such, charities in England and Wales are required to prepare their annual reports according to the recommendations outlined in the extant SORP.

The SORP also provides recommendations to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in England and Wales, and Republic of Ireland (Charity Commission, 2015b). For example, in order to adhere to the 2015 SORP's requirements, the financial statements of a charity must

¹⁴ Trustee for a charity means any person (other than the charity itself, or a charity trustee of the charity) who holds the title to property belonging to the charity, and so includes a custodian trustee and a nominee (Charity Commission, 2013, p. 75). Charity trustees are those defined in section 177 of the Charities Act 2011, section 106 of the Charities and Trustee Investment (Scotland) Act 2005, section 180 of the Charities Act (Northern Ireland) 2008 or Part 1 of the Charities Act 2009 (Republic of Ireland) (Charity Commission, 2015b).

¹⁵ Larger charities are charities with a gross income exceeding UK £500,000 or 500,000 euros (Republic of Ireland) in the reporting period.

comprise a statement of financial activities, a balance sheet, notes and an optional cash flow statement. The next section discusses the disclosures to funders in which both annual reports and financial statements are also considered as important mechanisms to discharge charity accountability.

2.5.2.2 Disclosures to Funders

The previous section discussed the SORP as a regulatory force to shape the accounting and reporting practices in the England and Wales charity sector. It also influences the disclosures to both government and philanthropic funders who are identified as key stakeholders that charities are accountable to, as noted in Section 2.5.1. Connolly and Dhanani (2009) identified that charities provide SORP-compliant annual reports and financial statements to large funders, as they believe these funders prefer to receive standardized documents. However, Connolly and Dhanani (2009) noted that charities perceived the annual reports as being uninteresting for many small funders, who are also unlikely to understand the disclosed financial statements. Connolly and Hyndman (2013a) found that both annual reports and annual reviews¹⁶ are disclosed to small funders to meet their information needs, and that large funders generally demand customized information or reports relating to the projects they fund. The annual reviews are a more flexible and user-friendly mechanism to disclose performance information (Connolly & Dhanani, 2009). Analyzing both annual reports and annual reviews of the top 100 England and Wales fundraising charities, Connolly and Hyndman (2013b) identified that annual reviews have become the main means of discharging charity accountability to their philanthropic funders, including donors, because there was very little disclosure of audited financial statements, and great emphasis was placed on disclosure of performance information. This story-based document is likely to be of interest to smaller funders (Connolly et al., 2013). Moreover, storytelling is identified by Merchant, Ford and Sargeant (2010) as a method to raise additional funds and engage stakeholders in the US. Connolly, Hyndman and McConville (2013, p. 65) found that large funders have more power to require specific information tailored to their needs directly from charities in the form of a funding application and monitoring reports.

Large funders, such as charitable trusts and government agencies, often require charities that are seeking resources to make a detailed application outlining such things as how the money will be spent and what is likely to be

¹⁶ Annual Review is a shorter and more condensed version of annual report. It includes some of the information in the annual report, and many stories, photographs and diagrams in a less formal language (Connolly & Hyndman, 2013a).

achieved. In addition, over the period of the funding, they may require funded charities to provide periodic reports on progress in terms of planned achievements and actual spend to date (monitoring reports).

As identified in Section 2.3, charity reports are largely dominated by background information while lacking in performance information (Connolly & Hyndman, 2003). In contrast, another study also conducted in the UK suggests that charities disclosed more performance information than basic background information about the charities (Jetty & Beattie, 2009). Connolly and Hyndman (2013b) found that disclosure of almost all performance information types has been increasing substantially in the annual report, indicating that the relevance gap between funders' information needs and the information disclosed has closed considerably over time.

2.5.2.3 Disclosures to Other External Stakeholders

Unlike the annual report with financial statements which are a mandatory document published in the England and Wales, many charities also disclose an annual review, which is a voluntary document providing general publicity for a charity (Charity Commission, 2004). The annual review is seen as a shorter version of the annual report, but the style, structure and content of these reviews were much more attractive and user-friendly compared with those of the annual report (Charity Commission, 2004). Connolly and Dhanani (2009) found that the annual review enables charities to tell their story, and is targeted at smaller funders, beneficiaries and the public at large. Moreover, internet-based technologies are increasingly providing stakeholders with the ability to gain access to information they perceive to be important (Gallhofer & Haslam, 2006). As noted by Eimhjellen (2014), the use of the internet by Norwegian NFPs is widespread and those organizations using the internet have strengthened their vitality and financial sustainability. More particularly, internet disclosures have enhanced NFPs, including charities' ability to communicate with their stakeholders (Sikka, 2006). In their study of 117 US community foundations, Saxton and Guo (2011) found that the websites have been used efficiently to provide financial and performance disclosures, rather than to provide a dialogic mechanism for stakeholder input and interactive engagement.

By analysing the websites of the studied charities, Connolly and Dhanani (2009) identified the importance of internet disclosure to target downward stakeholders by disclosing charitable missions and detailed discussions of their activities. However, given that approximately one-third of the charities examined failed to upload their annual reports onto their websites, the study found that charities failed to use the full potential of

the internet disclosures. In the area of charitable giving in social networking environments, Saxton and Wang (2013) suggest from the US that philanthropic funders including donors contribute to a charity online via social media channels, such as Facebook, due to its web capacity, rather than relying on the efficiency and financial capacity of the charities.

The prior literature suggests that charities in England and Wales disclose annual reports and financial statements mainly to their regulators and funders in meeting their information needs, and in discharging accountability. Nonetheless, annual reviews are voluntarily disclosed by the charities to small funders and other external stakeholders such as beneficiaries and volunteers. Moreover, evidence from other countries such as Norway and the US suggests that internet-based technologies are used by charities to disclose information to their external stakeholders. The next section discusses the disclosures to internal stakeholders.

2.5.2.4 *Disclosures to Internal Stakeholders*

There has been limited research with respect to the disclosures to internal stakeholders. Wise (1995) provides some insights into internal performance disclosure and noted that many charities had some performance information available at their routine management meetings. By comparing charities with different sizes, it seems that large charities disclose more performance information internally than smaller charities (Wise, 1995). Christensen and Ebrahim (2006) identified staff meetings and informal gatherings as being important for staff members to remain accountable to each other for their actions, as well as to ensure better responsiveness to client needs and to keep track of funder requirements. Chen (2013) noted, in a study of a voluntary organizations in the US, that storytelling is seen as an informal disclosure mechanism used to fulfil the demand from internal stakeholders for accountability to their needs for recognition and voice.

Disclosure to Whom	Forms of Disclosures
Regulators	Annual reports; Financial statements
Funders	Annual reports; Financial statements; Customized reports
Other External Stakeholders	Annual reports; Annual reviews; Internet disclosures
Internal Stakeholders	Routine management meetings; Staff meetings; Informal gatherings

Table 2-3: Summary of performance reporting identified in the NFP/charities literature

Overall, this section has reviewed performance-reporting disclosures by charities that have been identified in the literature. This section follows a structure of ‘disclosure to whom’ and ‘forms of disclosures’ as demonstrated in Table 2-3. The disclosures to external stakeholders include annual reports, financial statements, annual reviews and internet disclosures mainly, whereas the disclosures to internal stakeholders contain routine management meetings, staff meetings and informal gatherings. While regulators and funders are thought to receive more attention in terms of performance reporting, the disclosures to internal stakeholders have received relatively little attention in the charity sector literature. As identified in Section 2.5.1.5, internal stakeholders are also salient stakeholders. Thus, they should be seen as an important constituency in charities’ performance reporting. This is a gap that this study aims to address by investigating the disclosures by New Zealand charities to their internal stakeholders. The next section highlights some problems in regards to performance reporting.

2.5.3 Problems of Performance Reporting

Several problems with respect to charity performance reporting can be identified from the prior literature. First, previous studies have identified a relevance gap between the information disclosed by charities and the information needs of funders (Connolly & Hyndman, 2003, 2013b; Hyndman, 1990). Two comparative studies (Connolly et al., 2013; Hyndman, 1990) are illustrated in Table 2-4 to explain this problem:

Hyndman (1990)		Connolly and Hyndman (2013b)		
Information Needs	Information Disclosed	Information Needs	Information Disclosed	
Philanthropic funders	Annual Reports	Philanthropic funders	Annual Reports	Annual Reviews
1.Statement of goals (P)	1.Audited operating statement (F)	1.Measures of output (P)	1.Audited operating statement/ SOFA (F)	1.Information on problem or need area (P)
2.Problem/need area information (P)	2.Audited balance sheet (F)	2.Statement of current objectives (P)	1.List of charity officers (B)	2.Measures of output (P)
3.Administration costs % (F)	3. List of charity officers (B)	3.Information on problem or need area (P)	1. Information on problem or need area (P)	3.List of charity officers (B)
4.Measure(s) of output (P)	4.Audited funds flow statement (F)	4.Statement of charity goals (P)	4.Audited balance sheet (F)	4.Statement of charity goals (P)
5.Measures of efficiency (P)	5.Statement of goals (P)	5.Measures of efficiency (P)	5.Audited funds flow/ cash flow statement (F)	5.Statement of current objectives (P)
6.Statement of objectives (P)	6.Measure(s) of output (P)	6.Administration cost % (F)	6.Statement of charity goals (P)	6.Statement of future objectives (P)
7.Statement of future objectives (P)	7.Simplified operating statement (F)	7.Statement of future objectives (P)	7.Measures of output (P)	7.Simplified operating statement/SOFA (F)
8.Simplified operating statement (F)	8.Administration costs % (F)	8.Simplified balance sheet (F)	8.Statement of future objectives (P)	7.Simplified balance sheet (F)
9.Budget information (P)	9.Simplified balance sheet (F)	9.Budget information (F)	9.Statement of current objectives (P)	9.Measures of efficiency (P)
10.Simplified balance sheet (F)	10.Problem/need area information (P)	10.Audited balance sheet (F)	10.Measures of efficiency (P)	10.Administration cost % (F)
11.Audited operating statement (F)	10.Budget information (P)	11.Simplified operating statement/SOFA (F)	11.Administratio n cost % (F)	11.Audited balance sheet (F)
12.Audited balance sheet (F)	12.Measures of efficiency (P)	12.Audited operating statement/ SOFA (F)	12.Simplified operating statement/SOFA (F)	12.Audited operating statement/ SOFA (F)
13.Audited funds flow statement (F)	13.Statement of future objectives (P)	14.Audited funds flow/ cash flow statement (F)	12.Simplified balance sheet (F)	13.Audited funds flow/ cash flow statement (F)
13. List of charity officers (B)	14.Statement of objectives (P)	13.List of charity officers (B)	14.Budget information (F)	14.Budget information (F)

Table 2-4: Problem of the relevance gap between information disclosed and information needs - adapted from Hyndman (1990) and Connolly and Hyndman (2013b)¹⁷

In line with the discussion in Section 2.3.3 includes Table 2-1, performance information is viewed as paramount in meeting funders' information needs, and such needs are largely held after twenty years of the classic Hyndman's (1990) study. More particularly, the

¹⁷ P: Performance Information; F: Financial Information; B: Basic Background Information.

seven most important information types¹⁸ continued to be ranked one to seven by funders studied by Connolly and Hyndman (2013b). However, Table 2-4 shows that the funders' information needs for performance information are not met, given the information disclosed by charities in their annual reports in Hyndman's (1990) study, and in their annual reports and annual reviews in Connolly and Hyndman's (2013b) study. Both studies brought into question the relevance to funders of their studied charity reporting. Although almost all performance-related disclosures increased substantially over this time, a relevance gap between the information disclosed by charities and the information needs of funders in the annual reports and annual reviews still exists.

Second, a problem of unwillingness to disclose financial and performance information has been identified (Connolly & Hyndman, 2003, 2013a). For example, as demonstrated in Table 2-4, disclosure of some information types, such as a statement of current objectives and measures of efficiency in the annual reports, remains relatively low. Such lack of performance information disclosure may suggest inadequate performance measurement and poor management planning control within the charity (Connolly & Hyndman, 2003).

Lastly, Williams and Moxham (2009) argue that charities do not have standardized reporting systems designed to inform stakeholders about their performance, thus making it difficult for funders to compare the efficiency and effectiveness of charities. Also, Connolly, Hyndman and McMahon (2009) found that the general public could not understand the financial statements provided by charities. The significance of these identified problems to this current study is outlined next to identify gaps in the literature.

2.6 Identifying Gaps and Situating this Research Project

In the last two decades, a convergence of forces such as a competitive funding environment (see Section 2.2) and enhanced stakeholders' needs for information on charities' performance (see Section 2.3), has increased the need for accountability in the charity sector. A number of studies have focused on the use of performance measurement to assess the efficiency and effectiveness of NFPs, including charities, and to examine their accountability (Carman, 2007; Carman & Fredericks, 2008; LeRoux & Wright, 2010; Moxham, 2009; Moxham & Boaden, 2007; Williams & Moxham, 2009). While

¹⁸ The highlighted information types (in bold) were the seven most important information types identified by philanthropic funders in these studies, which are in line with Table 2-1.

measuring performance, especially on outcomes, is on the rise, NFPs, including charities, are struggling to balance the funders' requirements and the reality of their inability to provide the required information (Buckmaster, 1999; Carman & Fredericks, 2008; Salamon et al., 2010). In terms of performance reporting, two questions underpin the discharge charity accountability: "to whom is a charity accountable"; and "what form should that account take" (Connolly & Hyndman, 2013b, p. 948). Nonetheless, a relevance gap is identified between the information disclosed and the information needs of key stakeholders (Connolly & Hyndman, 2003, 2013b; Hyndman, 1990, 1991). Although the relevance gap appears to have been reducing over the years, charity performance accountability is not yet discharged in an adequate manner (Connolly & Hyndman, 2013a, 2013b).

The prior literature identifies that there is a lack of empirical research that focuses on evaluating both performance measurement and performance reporting practices of charities (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003), and the extent to which these practices address the information needs of key stakeholders (Connolly & Hyndman, 2013b). In response to a call from prior literature, this study seeks to address gaps in the literature by assessing both performance measurement and performance reporting practices in New Zealand charities and the extent to which these practices address the information needs of key stakeholders. From the stakeholders' perspectives, relevant contributions to knowledge include the information expected and required by key stakeholders, reasons for such expectations and requirements, mechanisms to ensure the provision of the expected information and problems perceived by key stakeholders with these expectations and requirements. From the charities' perspectives, similar questions are investigated, i.e., information measured and disclosed by New Zealand charities, mechanisms used in measuring and disclosing the information, reasons for measuring and disclosing such information and reasons for their use of particular mechanisms, as well as problems perceived by the charities themselves with these measurement and reporting practices.

Moreover, this study broadens the existing literature to consider the information needs of multiple stakeholders including regulators, government funders and philanthropic funders, rather than merely focusing on the information needs of individual donors studied by Connolly and Hyndman (2013a, 2013b). As discussed in Section 2.2.2, individual donors are one group of philanthropic funders. Although individual donors are

identified as the most important stakeholders to charities in England and Wales, they have to rely on charities' formal disclosure channels such as annual reports, to meet their information needs (Connolly & Hyndman, 2013a, 2013b). Unlike this prior literature, the philanthropic funders in this study will include grant-making organizations that usually have the power to require performance information from charities.

2.7 Chapter Summary

This chapter has reviewed the NFP literature relating to the competitive funding environment, information needs of key stakeholders, performance measurement and reporting. The competitive funding environment in the NFP sector was outlined by introducing three income sources for NFPs, including charities, i.e., government funding, philanthropic funding and commercial income, and problems of mission drift that arise in the funding environment were identified. In addition, the literature on the information needs of key stakeholders, performance measurement, and performance reporting was reviewed, and various problems with respect to the performance measurement and reporting of NFPs, including charities, were highlighted. The existing literature provides a foundation to this study and gaps in the literature were identified to situate this research project. The next chapter reviews New Institutional Sociology, which is the theoretical framework for this study.

Chapter 3: Theoretical Framework

3.1 Introduction

This study investigates New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. Neo-institutional Sociology (NIS) is employed as a theoretical framework for the study as outlined in this chapter. Section 3.2 outlines NIS and identifies the three "pillars of institutions". Next the key concepts of NIS: institutional isomorphism, decoupling, and institutional work; are reviewed respectively. The rationale for using NIS is explained in Section 3.6. Concluding comments are made in Section 3.7.

3.2 NIS and the Three Pillars of Institutions

There are three branches of institutional theory: Old Institutional Economics (OIE), New Institutional Economics (NIE), and NIS. They share a common voice: "institutions matter" (Moll, Burns, & Major, 2006, p. 184). OIE theory explores institutions at a macro or societal level and focuses on the process of change, such as why and how particular behaviours emerge, sustain and change over time (Moll et al., 2006). OIE originally stems from the work of the late 19th and early 20th century scholar Thorsten Veblen (1898), who rejected neo-classical economics with its emphasis on deliberative-rationalised action. In OIE, institutions are seen as "settled habits of thought common to the generality of men" (Veblen, 1919, p. 239). Hodgson (1988) extended Veblen's conception of institutions and includes individual habits, cultural characteristics and routinized behaviour.

NIE has moved from a macro level to a micro level analytical approach to explain the existence, appearance and disappearance of institutions (Moll et al., 2006). A definition of an institution within NIE theory is "institutions, composed of rules, norms of behaviour, and the way they are enforced, provide the opportunity set in an economy which determines the kind of purposive activity embodied in organizations (firms, trade unions, political bodies, and so forth) that will come in to existence" (North, 1993, p. 242). Hodgson (2004) argues that NIE focuses on explaining the survival of certain institutions due to their ability to lower transaction costs relative to alternative institutions, from an actor perspective.

Both OIE and NIE have limited application to this study, because OIE focuses on the process of change at a macro level and NIE stresses organizational behaviour in terms of

economic forces. Instead, NIS is the chosen branch of institutional theory for this study, as it offers a rich framework for examining the performance measurement and reporting practices in the case study charities. The following sections provide an overview of the key notions of NIS (Section 3.2.1) and identify the three pillars of institutions (Section 3.2.2).

3.2.1 *NIS*

As a dominant theory in organizational studies, NIS provides rich insights into the relationship between organizational structures and the wider institutional environment in which organizations are situated (DiMaggio & Powell, 1983; J. Meyer & Rowan, 1977; J. Meyer & Scott, 1983). The structures of organizations are assumed to be the appropriate organizational choice that “dramatically reflect the myths of their institutional environments instead of the demands of their work activities” (J. Meyer & Rowan, 1977, p. 341). The institutional environments are “characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy” (Scott & Meyer, 1991, p. 123). Meyer and Rowan (1977, p. 343) in their influential article on institutionalized organizations placed great emphasis on institutionalized rules as rational myths that have effects on organizational structures:

In modern societies, the elements of rationalized formal structure are deeply ingrained in, and reflect, widespread understandings of social reality...such elements of formal structure are manifestations of powerful institutional rules which function as highly rationalized rationale myths that are binding on particular organizations.

The social reality is a taken-for-granted concept that defines that the “way things are and/or the way things are to be done” (Scott, 1987, p. 496). Being embedded in the institutional environment that defines social reality, organizations are rewarded for conforming to the institutionalized rules and adhering to the prescriptions of rationalized myths or shared belief systems, to increase the similarities among organizations in the institutional environment (Boxenbaum & Jonsson, 2008; J. Meyer & Rowan, 1977; Scott & Meyer, 1991). This is because “organizations which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments” gain legitimacy, and increase their resources and survival prospects (J. Meyer & Rowan, 1977, p. 352). Accordingly, organizations become increasingly similar to one another because they strive for greater legitimacy within their larger environment.

Failing to do so would “undermine their social legitimacy and risk the loss of important resources and support” (Greenwood & Meyer, 2008, p. 261).

In their classic ‘iron cage’ paper, DiMaggio and Powell (1983) extend Meyer and Rowan’s (1977) institutional analysis from the societal level to the level of organizational field, which is “sets of organizations that, in the aggregate, constitute a recognized area of institutional life; key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio & Powell, 1983, p. 148). They highlighted that organizations are under powerful and inexorable forces that lead them to become isomorphic with each other, and eventually all organizations would become homogenous (DiMaggio & Powell, 1983). Such structural change is not driven by competition or the need for immediate efficiency. Instead, organizations that operate in similar environments are expected to experience comparable demands and conform to a legitimate structural form (DiMaggio & Powell, 1983; J. Meyer & Rowan, 1977). This is described as a homogenization of organizations in which organizations are becoming homogeneous in structure, culture and output, but not necessarily efficient (DiMaggio & Powell, 1991). In the initial stage of the homogenization process, organizational actors tend to shape the structuration of an organizational field by making rational decisions, changing organizational goals and developing new practices. However, once the field becomes highly structured, it, in turn, constrains the ability of actors to make decisions, as “the aggregate effect of individual change is to lessen the extent of diversity within the field” (DiMaggio & Powell, 1991, p. 65). DiMaggio and Powell (1991, p. 66) suggest that the concept that best captures the process of homogenization is isomorphism, which is “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions”. Institutional isomorphism assumes that “organizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness” (DiMaggio & Powell, 1991, p. 66). Three mechanisms for institutional isomorphic change were identified, i.e. coercive, mimetic and normative isomorphism (DiMaggio & Powell, 1983). Institutional isomorphism is discussed in detail in Section 3.3.

While NIS has succeeded in becoming a dominant perspective in macro organization theory to understand how organizations operate, are structured, and relate to each other (Greenwood, Oliver, Sahlin, & Suddaby, 2008), some organizational theorists noted that

limited attention has been given to organizational micro-practices (Ezzamel, Hyndman, Johnsen, Lapsley, & Pallot, 2007; Suddaby et al., 2010). More particularly, the role of agency, which has been neglected, is seen as an important element to explain how individuals, who are embedded within the institutions, respond to institutional pressures, shape and are shaped by institutions (Lawrence et al., 2011; Suddaby et al., 2010). This study examines the New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. In doing so, it is important to consider the institutional work of the actors embedded in an organizational field, and affecting institutions. As such, an alternative focus for the development of institutional studies of organization is the notion of "institutional work" which describes the practices of individual and collective actors aimed at creating, maintaining, and disrupting institutions (Lawrence & Suddaby, 2006). Intentionality and effort are central to the determination of institutional work. These concepts and the three categories of institutional work, i.e., creating, maintaining and disrupting institutions, are further explained in Section 3.5.

Although many arguments support the view that institutions are subject to a process of homogenization, another argument suggests that there is heterogeneity among institutions and decoupling increases when an organizational field becomes more heterogeneous (Boxenbaum & Jonsson, 2008). Meyer and Rowen (1977) proposed that decoupling occurs when organizations adopt a formal structure for legitimacy purposes, but do not implement it in technical activities due to practical efficiency considerations. In addition, Thornton, Ocasio and Lounsbury (2012) argue that organizations exist in an environment that consists of multiple and often contradictory institutional logics. The term "institutional logics" was first introduced by Alford and Friedland (1985) and further developed by Friedland and Alford (1991, p. 248) to explore the interrelationships between individuals, organizations, and society. Institutional logics are taken-for-granted social prescriptions that enable actors to make sense of their situation, and guide their behaviour by providing "assumptions and values, usually implicit, about how to interpret organizational reality, what constitutes appropriate behaviour, and how to succeed" (Thornton, 2004, p. 70). Knutsen (2012) investigated multiple institutional logics enacted by NFPs and found that NFPs often adapt to external institutional logics and are forced to change due to competing logics. In a similar vein, another case study of the evolution of a NFP and its governance structure suggests that its significant transformation from a grassroots and advocacy agency into a multimillion dollar contractor with the

government, can be understood as a response to contradictory logics embedded in the institutional environment of NFPs (Stone, 1996). Although investigating institutional logics is beyond the scope of this study, this concept highlights the complex and heterogeneous nature of the organizational field for NFPs, including charities. As such, decoupling may occur in this heterogeneous field. The concept of decoupling is further discussed in Section 3.4.

NIS sees the organizational field not as static, but as constantly evolving. It draws heavily upon the concept of socially constructed reality, in which organizations behave in accordance with collective beliefs, or shared systems of meaning, to reduce ambiguity and uncertainty (Greenwood, Suddaby, & Hinings, 2002; Hoffman, 1999). It is important to recognize that “most types of organizations confront multiple sources and types of symbolic or cultural systems and that they exercise some choice in selecting the systems with which to connect” (Scott, 1991, p. 181). Moreover, Scott (2008) identified three pillars that comprise institutions, which provides a useful analytical framework to this study. The next section discusses the three pillars of institutions.

3.2.2 *The Three Pillars of Institutions*

Scott (2008, p. 48) defines institutions as being “comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life”. These three elements are called ‘pillars’ to identify their role as central building blocks of institutional structures. Organizations must incorporate these building blocks to avoid illegitimacy, as they are considered “proper, adequate, rational and necessary” (J. Meyer & Rowan, 1977, p. 345). The regulative, normative, cognitive pillars construct a “common meaning system”, which is embedded in “a community of organizations whose participants interact more frequently and fatefully with one another than with actors outside” the community (Scott, 1994, pp. 207-208). The three pillars work in interdependent and mutually reinforcing ways to support institutions and provide boundaries for setting off legitimate from illegitimate activities (Mezias & Scarselletta, 1994; Scott, 2008).

The regulative pillar is the symbolic legal element of institutions, and involves a stable system of rules, whether formal or informal, backed by surveillance and sanctioning power that is accompanied by feelings of fear and guilt, or innocence and incorruptibility (Scott, 2008). The regulatory processes operate, either by highly formalized approaches such as formal written rules, or informal mechanisms such as unwritten codes of conduct,

to constrain or empower social behaviour (Scott, 2008). Through regulatory compliance such as rules establishment, conformity monitoring, and sanctions manipulation, organizations receive rewards or gain legitimacy for compliance, or punishments for violation.

The normative pillar introduces a “prescriptive, evaluative and obligatory” element into social life, which emphasizes appropriate behaviour (Scott, 2008, p. 54). In a normative concept of institutions, both values and norms are included but norms are not simply values, “they exist in much more specific and powerful ways in the rules, understandings, and meanings attached to institutionalized social structures” (J. Meyer & Rowan, 1977, p. 343). Norms are identified as central to social behaviour and they specify how things should be done and how specified actors are supposed to behave (Scott, 2008).

The cultural-cognitive pillar of the institutional environment consists of “the shared conceptions that constitute the nature of social reality and the frames through which meaning is made” (Scott, 2008, p. 57). In the cognitive paradigm, there are taken-for-granted beliefs and shared understandings that are imposed on, or internalized by, social actors (DiMaggio & Powell, 1983). Taken-for-granted rules and beliefs are established among individuals and groups through social interactions among various participants.

This section outlines the key concepts of NIS and outlines the three pillars of institutions. The next section discusses three types of isomorphism: coercive, mimetic and normative and accentuates institutional isomorphism in the context of NFPs, including charities.

3.3 Institutional Isomorphism

As briefly outlined in Section 3.2.1, the central tenet of institutional isomorphism is that organizations are subject to coercive, normative and mimetic pressures to become isomorphic with each other, and eventually all organizations would become homogenous (DiMaggio & Powell, 1983). These institutional pressures result from increasing structuration at an organizational field and more than one isomorphism may operate within the organizational field simultaneously (DiMaggio & Powell, 1983; Scott & Meyer, 1991).

NFPs, including charities, are subject to more than one isomorphic pressure in the organizational field whereby they comply with funders’ expectations, adopt socially accepted norms and mimic other successful organizations to gain legitimacy (Arvidson

& Lyon, 2014). Bielefeld (1992) found that the greater the charities' dependence on their funders, the more likely they modelled themselves after other charities they thought particularly successful. Leiter (2013, pp. 1040-1042) further highlighted the institutional isomorphic processes of NFPs, including charities:

Non-profit isomorphism arises more from a search for legitimacy through coercive, mimetic, and normative processes ... [NFPs] are often subject to the power of other organizations, especially funders and the state; their goals are often ambiguous and their technologies unsettled; and they are becoming increasingly enmeshed in professional networks.

To increase legitimacy and survival prospects, the argument here is that coercive, normative and mimetic pressures may influence the performance measurement and reporting practices in the New Zealand case study charities. Three types of institutional isomorphism are discussed in the following sections.

3.3.1 *Coercive Isomorphism*

Coercive isomorphism “results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function” (DiMaggio & Powell, 1991, p. 67). These pressures may be in the form of regulative force or persuasion, through laws, regulations and requirements established by the government, and affect many aspects of an organization's behaviour and structure (DiMaggio & Powell, 1991; J. Meyer & Rowan, 1977; Scott, 2008). This aligns with the regulative aspects of institutions to constrain and regularize behaviour (Scott, 2008). DiMaggio and Powell (1991) provided an example relating to NFPs in which they must maintain accounts to meet certain regulatory requirements, such as financial reporting requirements, to ensure eligibility for receiving government contracts. While the government dominates many arenas of social life, other examples of coercive isomorphism include direct authority that is outside the governmental arena (DiMaggio & Powell, 1991). For example, to be compatible with the parent company, subsidiaries may be obliged to adopt practices, rules and plans that are institutionalized and legitimated by the parent company. Because of coercive isomorphism, organizations become increasingly homogeneous within the common legal environment. The more organizations are dependent on their source of finance, the more homogeneous they become (DiMaggio & Powell, 1991).

In the context of NFPs, including charities, Leiter (2005) noted that NFPs are subject to coercive isomorphic pressures because they are highly dependent on their funders for

financial support. Also, Krashinsky (1990) found in his study of US and Canadian NFPs, government funding and its related reporting criteria have direct impact on the ways NFPs behave. Two studies in Australian NFPs also highlighted the vulnerability of NFPs, including charities, when they are heavily reliant on financial support to continue their service provision (Dolnicar, Irvine, & Lazarevski, 2008; Tucker & Parker, 2013). In addition, many smaller NFPs are highly dependent on philanthropic funding, and the NFP depends on this, not only for financial support, but also for program ideas, networking with other organizations, and a sense of legitimacy (Delfin & Tang, 2008; Snow, 1992).

The literature also identifies that coercive isomorphism influences the behaviour and practices of NFPs, including charities, and, more particularly, influences their adoption of performance measurement. Thomson (2010) argues that the extent of outcome measurement among NFPs is in line with funders' outcome reporting requirements. Brignall and Modell (2000) identified that when coercive pressures from funders for improving performance are in place, NFPs are expected to pursue a particular performance evaluation. Barman and MacIndoe (2012) found that NFPs supported by philanthropic funders are more likely to adopt outcome measurement, since engaging in outcome measurement is a condition of their funding. These studies suggest that NFPs, including charities, are subject to coercive pressures to adopt performance measures in order to gain legitimacy from their funders. Otherwise, their organizational legitimacy is compromised, which could result in the loss of tax-exempt status, funding contracts and/or donations (Miller-Millesen, 2003). Nonetheless, the coercive pressures are not the only constraints forced upon organizations, as mimetic isomorphism also influences organizations, including charities.

3.3.2 *Mimetic Isomorphism*

Mimetic isomorphism occurs “when organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty” (DiMaggio & Powell, 1991, p. 69). Ambiguous goals and strategies lead to organizational imitation of a seemingly successful model, so fashionable features are spread from one organization to others (Sevón, 1996; Tolbert & Zucker, 1983). As a result, organizations may model themselves after other organizations in their field, and copy practices undertaken by other organizations, which are perceived to be more successful or legitimate (Ashworth, Boyne, & Delbridge, 2009; DiMaggio & Powell, 1991). Scott (2008) suggests that, based on a taken-for-granted assumption, the successful practices of

organizations are deemed to be culturally supported and conceptually correct. An example of mimetic isomorphism is the Japanese modelling of new governmental initiatives on western prototypes, to enhance legitimacy and demonstrate to their stakeholders that they are at least trying to improve their working conditions (DiMaggio & Powell, 1991).

Haveman (1993) found that organizations imitate large and successful organizations when they enter into new markets. Profitability is seen as a symbol to demonstrate success, so less profitable organizations imitate the actions of more profitable organizations that they perceive as successful (Wholey & Burns, 1993). Nonetheless, profitability is not a criterion for legitimation in the NFP sector. Instead, by imitating the actions of successful organizations, such as by adopting performance evaluations, legitimacy may be enhanced. Kanter & Summers (1987) provided evidence that for-profit performance measures were used by NFPs to reduce uncertainty in measuring their performance. In addition, Eckerd and Moulton (2011) found that a particular performance evaluation was used by many NFPs in a similar service area in their study of 490 NFPs in the US. Galaskiewicz and Wasserman (1989) found that NFPs mimic not only those organizations that they perceive to be successful, but also those that they trust. Hence, mimetic isomorphism can be used to explain why NFPs, including charities, model themselves after other NFPs, or copy their practices, such as performance measures, in the organizational field.

3.3.3 *Normative Isomorphism*

Normative isomorphism, which stems from professionalization, is associated with formal educational processes, through training, certification and accreditation, or professional networks (Carmona, Ezzamel, & Gutierrez, 1998; Carmona & Macías, 2001; DiMaggio & Powell, 1983). Formal education and professional networks are two aspects of professionalization that are important sources of normative isomorphism. Normative isomorphism occurs when the organization's norms about organizational and professional behaviour are developed and promulgated from universities, professional training institutions or professional and trade associations (DiMaggio & Powell, 1991). "Unlike externally enforced rules and laws, norms are internalized by participants; behavior is guided by a sense of what is appropriate, by one's obligations to others, by a commitment to common values" (Scott, 2003, p. 136). The "right thing to do" is generally a term to describe the shared norms of society, which explains "what is widely considered a proper

course of action, or even a moral duty” (Boxenbaum & Jonsson, 2008, p. 80). In addition, DiMaggio and Powell (1983, pp. 152-153) explained the role of professional networks:

[They] create a pool of almost interchangeable individuals who occupy similar positions across a range of organizations...[the] exchange of information among professionals helps contribute to a commonly recognized hierarchy of status, of centre and periphery that becomes a matrix for information flows and personnel movement across organizations.

Personnel flows within an organizational field reinforce the homogenization process (DiMaggio & Powell, 1991). This is because staff with common career titles and paths seek to further their own careers by changing jobs.

The spread of insights, models, and normative rules is facilitated by professional networks and the formal education of NFP’s managers and boards (Verbruggen, Christiaens, & Milis, 2011). Increasingly NFPs, including charities, are relying on managers and boards who have higher education, and also the education of NFP managers indicates the degree of professionalization (Leiter, 2013). Normative isomorphism results from the spread of structures and practices that are approved by the experts through the employment of college-educated professionals or use of consultants (Leiter, 2005, 2013). In a study of nonprofit boards, Abzug and Galaskiewicz (2001) suggest that the term ‘highly educated professionals’ tends to be a prescribed criterion when NFPs recruit their boards. Another study of 240 YMCAs finds that 39% of YMCAs use external professional consultants in their strategic planning processes (Siciliano, 1996), suggesting a further potential source of normative isomorphism.

In addition, professional networks are identified as a normative pressure that influences NFPs, including charities. Professional networks involve experts from whom NFPs are increasingly seeking advice, for example universities, government agencies and private consultants (Leiter, 2005). Roy and Seguin (2000, p. 456) further suggest:

As do inter-organizational networks, professional networks give salience to emerging phenomena and provide fertile grounds for promoting new successful endeavours, by means such as newsletters, conferences, and so forth (Roy & Seguin, 2000, p. 456).

As another common professional network where members are themselves NFPs, umbrella associations serve to convene these diverse NFPs, to deliberate with one another around common interests and norms (Young, 2001). In the US, approximately one-fifth of NFPs belong to a national umbrella association (Hodgkinson, Weitzman, Noga, &

Gorski, 1993). For example, the notion of outcome measurement is diffused through a professional network such as the Child Welfare League of America, Big Brothers Big Sisters of America, and Girl Scouts of America, and their member organizations (MacIndoe & Barman, 2013; Plantz et al., 1997; Zimmermann & Stevens, 2006). In New Zealand, Sinclair and Bolt (2013) described a group of umbrella associations, which include: Philanthropy New Zealand, the Association of Non-Governmental Organizations of Aotearoa, Volunteering New Zealand, the New Zealand Council of Social Services, and the New Zealand Federation of Voluntary Welfare Organizations¹⁹.

This section has discussed three types of institutional isomorphism that intermingle in empirical settings: coercive isomorphism that stems from political influence that is forced upon organizations; mimetic isomorphism that occurs when organizations imitate other organizations that are perceived to be legitimate and successful; and normative isomorphism associated with professionalization. These isomorphic pressures are a key aspect of NIS. In the next section, the concept of decoupling is discussed as another important concept underpinning the NIS theory used in this study.

3.4 Decoupling

The previous section discussed institutional isomorphism where organizations respond to external institutional pressures and conform to legitimate structural forms (DiMaggio & Powell, 1983). However, the adopted structures may not offer efficient solutions for the organizations and, thus, some organizations succumb only superficially by institutional pressures, without necessarily implementing the related practices. In order to protect technical activities and preserve organizational efficiency, organizations may decouple their actual practices from the adopted structures (Boxenbaum & Jonsson, 2008; J. Meyer & Rowan, 1977). This separation between external image and actual practices, which could be either intentional or unintentional, is called decoupling (J. Meyer & Rowan, 1977; J. Meyer & Scott, 1983; Weick, 1976).

Decoupling enables organizations to maintain standardized and legitimating formal structures, as a means of securing their legitimacy, while their activities vary in response to practical considerations (J. Meyer & Rowan, 1977). Oliver (1991, p. 155) used the term “buffering” to explain organizational attempts to reduce external pressures by partially

¹⁹ Some of these umbrella organizations have merged and changed names. For example, the New Zealand Federation of Voluntary Welfare Organizations is now Social Development Partners. It amalgamated with the Association of Non-Governmental Organizations of Aotearoa in 2014.

detaching or decoupling their technical activities from their external contract. Decoupling is also referred to as “symbolic compliance” by Sandholtz (2012, p. 658), signifying a defensive action.

Recent developments in the decoupling literature have broadened its scope. Boxenbaum and Jonsson (2008) identified that decoupling could be a strategic response, for proactive rather than defensive reasons, towards multiple and often contradictory pressures within a heterogeneous organization field. Such a strategic response is characterized as ‘manipulation’ by Oliver (1991), indicating that organizations try to influence the prevailing norms, and to deliberately change the organizational environment in a certain direction (Oliver, 1991; Pache & Santos, 2010). Hirsch and Bermiss (2009) support this view, and used ‘strategic decoupling’ to highlight the proactive aspect of a decoupling process designed to navigate change.

Another recent contribution in the decoupling literature, is emphasizing decoupling as a process rather than a state in categorizing different types of decoupling. Bromley and Powell (2012) identified two types of decoupling process that organizations may encounter. They are policy-practice decoupling and means-ends decoupling. As demonstrated in

Figure 3-1, formal policies, daily practices and intended outcomes are aligned in an “ideal type”, whereas these elements are not strongly connected within the two types of decoupling.

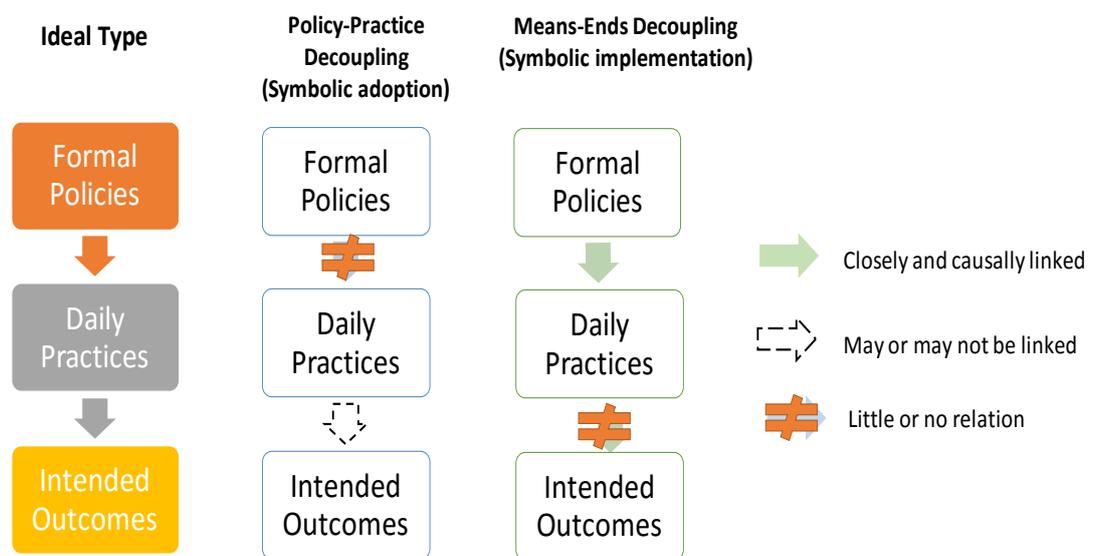


Figure 3-1: Typology of decoupling - adapted from Bromley and Powell (2012)

3.4.1 *Policy-practice Decoupling*

The first type, policy-practice decoupling, refers to a gap between policies (or structures) and practices (or technical activities). As indicated in

Figure 3-1, this type of decoupling implies that institutional changes are mere ceremonial window dressing and have little or no relation to the actual practices and may or may not be linked with the intended outcomes. Organizations adopt policies only to confer legitimacy and gain resources, but do not implement them due to the lack of will or capacity. This type of decoupling can be understood as “symbolic adoption” where the adoption of policy is a symbolic act only, and has little or no relation to the practice (P. Bromley & Powell, 2012, p. 497). Bromley and Powell (2012, pp. 495 - 496) noted that policy-practice decoupling is likely to occur if “adoption is motivated by legitimacy rather than technical demands; it is early in the adoption process; there is weak capacity to implement policies; and internal constituents do not reinforce external institutional pressures”. However, the concept of policy-practice decoupling has been criticised as being too narrow to determine that institutional changes are merely window dressing and have no real organizational effects (Coburn, 2004).

Earlier empirical studies have concentrated on symbolic adoption. Westphal, Zajac and other scholars investigated the adoption of some instrumental initiatives such as long-term CEO compensation plans and stock repurchase programs, but the implementation of these initiatives differed substantially (Fiss & Zajac, 2006; Westphal & Zajac, 1994, 2001). Similarly, Abernethy and Chua (1996) found that some governments adopted Generally Accepted Accounting Principles (GAAP) for purposes of institutional legitimacy, but did not use GAAP information in making financial management decisions. An example of symbolic adoption in the context of charities is that of a health care charity, which adopted activity-based costing voluntarily to present itself as up-to-date and modern to its external controlling environment, without actually implementing it (Arnaboldi & Lapsley, 2004).

3.4.2 *Means-ends Decoupling*

Means-ends decoupling takes a step beyond the common ‘symbolic adoption’ (P. Bromley & Powell, 2012). Specifically, as indicated in

Figure 3-1, formal policies are thoroughly implemented into daily practices and become routine, but the practices are not directly congruent with the intended outcomes or core

goals of an organization, and may represent tenuous or opaque organizational goals (P. Bromley, Hwang, & Powell, 2013; P. Bromley & Powell, 2012). Bromley, Hwang and Powell (2013) provided some examples of means-ends decoupling including charitable contributions, service learning and political action committees. Means-ends decoupling occurs:

in settings where formal structures have real organizational consequences, work activities are altered, and policies are implemented and evaluated, but where scant evidence exists to show that these activities are linked to organizational effectiveness or outcomes. (P. Bromley & Powell, 2012, p. 496)

This type of decoupling is considered as ‘symbolic implementation’, which explains the reason why organizations dedicate resources to implement some practices that have little known relationship to intended outcomes (P. Bromley & Powell, 2012).

Pache and Santos (2010, p. 460) pointed out that organizational goals and the means for achieving these goals are often conflicted, “when technical prescriptions are so institutionalized that they become ends in themselves”. Bromley and Powell (2012, pp. 508-509) suggest that means-ends decoupling could occur in the following situations:

- in contexts where the effects of actions are difficult to measure;
- over time, as rationalizing pressures expand into arenas where outcomes are hard to measure;
- when conflicting pressures are more institutionalized in hard or soft law, especially when law emphasizes procedure over outcomes;
- when internal constituents champion an external cause; and
- when the rationalized environment is fragmented.

Thornton, Ocasio and Lounsbury (2012) noted that symbolic implementation may be central to understanding post-adoption heterogeneity as organizations operate in fields in which multiple and conflicting institutional logics compete.

Unlike studies of symbolic adoption, empirical studies in the area of symbolic implementation are relatively few and it is perceived as an overlooked form of decoupling (P. Bromley & Powell, 2012). In a study of NFPs in the US, Bromley, Hwang and Powell (2013) provided evidence of both forms of decoupling and identified the relationships between them. They found that when the implementation of a symbolic structure becomes more thorough, policy-practice decoupling reduces but means-ends decoupling increases. In another study of the governance of social enterprises identified as hybrid organizations, Ebrahim, Battilana and Mair (2014) found that top managers legitimated their commercial

activities by pursuing a social mission, but in practice those commercial activities were detached from the mission, indicating means-ends decoupling occurred between revenue-generating organizational activities and intended social outcomes.

This section has considered the concept of decoupling by referring to both fundamental ideas and recent developments in the decoupling literature. Decoupling occurs when organizations make symbolic actions to conform to institutional pressures by adopting socially accepted structures, while simultaneously protecting their technical practices from interruption (J. Meyer & Rowan, 1977). This notion is considered as “policy-practice decoupling” by Bromley and Powell (2012) and they proposed another type of decoupling: “means-ends decoupling” to highlight a process of symbolic implementation. The concept of institutional work is the key NIS concept that relates to this study, and is discussed in the next section.

3.5 Institutional Work

Lawrence and Suddaby (2006, p. 215) define institutional work as “the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions”. The notion of “work” connects with “effort” towards a goal and thus institutional work can be understood as “physical or mental effort done in order to achieve an effect on an institution or institutions” (Lawrence, Suddaby, & Leca, 2009, p. 15). Lawrence, Suddaby and Leca (2011, p. 55) suggest that the notion of institutional work re-examines the relationship between agency and institutions:

It not only accounts for the institutional embeddedness of actors but also for their capacity to reflect on this embeddedness, relate to their own self, and develop conscious intentionality.

A high degree of conscious intentionality is central to the study of institutional work (Lawrence et al., 2009). It considers not only the importance of enduring structures in shaping the action of actors from their past interactions or habits, but also the potential for actors to reshape social situations consciously and strategically. However, although habitual action is intentional, actors may “affect unanticipated institutions in unintended ways, including disrupting those institutions or creating ones very different from those originally conceived of by the actors involved” (Lawrence et al., 2009, p. 11).

The concept of ‘institutional work’ is rooted in early works on agency in institutional studies (DiMaggio, 1988; Oliver, 1991, 1992) combined with the practice turn in social

theory (Bourdieu, 1993; Schatzki, Knorr-Cetina, & Von Savigny, 2001). DiMaggio (1988) and Oliver (1991, 1992) recognized the effects of actors on institutions as central to NIS. DiMaggio (1988) describes the concept of ‘institutional entrepreneurship’ that highlights the role of actors in creating new institutions. Institutional entrepreneurs are actors “who leverage resources to create new institutions or to transform existing ones” (Maguire, Hardy, & Lawrence, 2004, p. 657). However, these actors are often portrayed as powerful, ‘heroic’ figures who dramatically shape institutions, whereas the notion of institutional work is different because it focuses on day-to-day ‘unheroic’ action (Lawrence et al., 2009). Oliver (1991) proposed a framework for articulating the range of strategic responses to institutional processes, and Oliver (1992, p. 564) highlighted that the process of deinstitutionalization is the “failure of organizations to reproduce previously legitimated or taken-for-granted organizational actions”. Based on these early works, Lawrence and Suddaby (2006) argue that the creation and maintenance of institutions require not only the resources and skills of institutional entrepreneurs and the reproduction of taken-for-granted concepts but, more importantly, the active involvement of institutional work by a wide range of actors. Drawing on Bourdieu’s (1993) notion of habitus, Lawrence and Suddaby (2006) suggest that individuals reflect on their life history so that they consciously engage in institutional work when interacting with institutions to create, maintain or destroy the institutions.

As such, the concept of institutional work is developed as an alternative focus for the role of agency, which insists on the institutional embeddedness of actors and their conscious intentionality and effort to reflect on this embeddedness in active and reflexive ways (Lawrence et al., 2011). Institutional work is viewed as “intelligent, situated institutional action” (Lawrence & Suddaby, 2006, p. 219), which focuses on actors’ everyday, rather than ‘heroic’, effortful practices and routines through which institutions are established and maintained (Willmott, 2011). Three key elements of institutional work are summarized by Lawrence and Suddaby (2006, pp. 219-220):

1. It highlights the awareness, skill and reflexivity of individual and collective actors; and
2. It generates an understanding of institutions as constituted in the more and less conscious action of individual and collective actors; and
3. We cannot step outside of action as practice – even action that is aimed at changing the institutional order of an organizational field occurs within sets of institutionalized rules.

Based on the key notions and elements of institutional work, Lawrence and Suddaby (2006) proposed three broad categories of institutional work that are aimed at creating, maintaining and disrupting institutions. The following sections discuss each category of institutional work and, within each type, different forms of institutional work are also outlined.

3.5.1 *Creating Institutions*

Institutional work aimed at creating institutions has been extensively examined in the literature, which primarily builds on the concept of institutional entrepreneurship discussed earlier (Lawrence et al., 2009). Lawrence and Suddaby (2006) categorised the nine forms of institutional work associated with creating institutions into three types. The types and forms of institutional work and definition of each form are outlined in Table 3-1.

Types of institutional work	Forms of institutional work	Definition
Political work	Advocacy	The mobilization of political and regulatory support through direct and deliberate techniques of social suasion
	Defining	The construction of rule systems that confer status or identity, define boundaries of membership or create status hierarchies within a field
	Vesting	The creation of rule structures that confer property rights
Changes in norms and belief systems	Constructing identities	Defining the relationship between an actor and the field in which that actor operate
	Changing normative associations	Re-making the connections between sets of practices and the moral and cultural foundations for those practices
	Constructing normative networks	Constructing of inter-organizational connections through which practices become normatively sanctioned and which form the relevant peer group with respect to compliance, monitoring and evaluation
Alter abstract categorizations	Mimicry	Associating new practices with existing sets of taken-for-granted practices, technologies and rules in order to ease adoption
	Theorizing	The development and specification of abstract categories and the elaboration of chains of cause and effect
	Educating	The education of actors in skills and knowledge necessary to support the new institution

Table 3-1: Creating institutions - adapted from Lawrence and Suddaby (2006, p. 221)

As indicated in Table 3-1, institutional work aimed at creating institutions reflects three broad types. According to Lawrence and Suddaby (2006), the ability to establish rules

and construct sanctions and rewards to enforce the rules is essential to creating institutions. The first type relating to political work includes ‘vesting’, ‘defining’ and ‘advocacy’ in which actors “reconstruct rules, property rights and boundaries that define access to material resources” (Lawrence & Suddaby, 2006, p. 221). This rules-based work tends to have greater potential to construct new institutions, and leads to relatively immediate institutionalization of practices.

The second type focuses on reconfiguring actors’ belief systems, that comprise ‘constructing identities’, ‘changing norms’ and ‘constructing networks’, indicating the normative work that is “more often associated with the creation of institutionalized rules, practices and technologies that parallel or complement existing institutions” (Lawrence & Suddaby, 2006, p. 228). Compared to the first type of institutional work, which emphasizes rule compliance, normative work depends on moral force that is embedded in communities of practice. As such, the second type of institutional work relies significantly on “the co-operation of those communities to make real the intended new institutions” (Lawrence & Suddaby, 2006, p. 228).

The last type of institutional work aimed at creating institutions emphasizes “actions designed to alter abstract categorization, in which the boundaries of meaning systems are altered”, including ‘mimicry’, ‘theorizing’ and ‘educating’ work (Lawrence & Suddaby, 2006, p. 221). This relates to the “cognitive side of institutions – the beliefs, assumptions, and frames that inform action by providing meaningful and understandable interaction patterns to be followed” (Lawrence & Suddaby, 2006, p. 228).

3.5.2 *Maintaining Institutions*

Institutional work aimed at maintaining institutions has received relatively little attention in organizational research (Lawrence et al., 2009). The six forms of institutional work relating to maintaining institutions can be categorised into two types, as demonstrated in Table 3-2.

Types of institutional work	Forms of institutional work	Definition
Ensuring adherence to rule systems	Enabling work	The creation of rules that facilitate, supplement and support institutions, such as the creation of authorizing agents or diverting resources.
	Policing	Ensuring compliance through enforcement, auditing and monitoring
	Deterring	Establishing coercive barriers to institutional change
Reproducing existing norms and belief systems	Valourizing and demonizing	Providing for public consumption positive and negative examples that illustrates the normative foundations of an institution
	Mythologizing	Preserving the normative underpinnings of an institution by creating and sustaining myths regarding its history
	Embedding and routinizing	Actively infusing the normative foundations of an institution into the participants' day to day routines and organizational practices

Table 3-2: Maintaining institutions - adapted from Lawrence and Suddaby (2006, p. 230)

Table 3-2 indicates two types of institutional work aimed at maintaining institutions. The first type addresses the maintenance of institutions through ensuring adherence to rule systems, including 'enabling', 'policing' and 'deterring' work. For example, Guler, Guillen and Macpherson (2002) identified that regular monitoring was conducted to ensure compliance after being awarded the International Organization for Standardization 9000 quality certification. This 'policing' work involves the use of monitoring as a means of maintaining institutionalized practices.

The second type of institutional work aimed at maintaining institutions: 'valourizing and demonizing', 'mythologizing' and 'embedding and routinizing' focusses on reproducing existing norms and belief systems. The valourizing and demonizing work illustrates the normative foundations of an institution through demonstrating "what was right and what was wrong" (Lawrence & Suddaby, 2006, p. 232) to the public. For example, competition, machismo and violence were recognized as successes at a Christian Brothers College in Australia (Angus, 1993). This norm and belief system valourized students who were competitive and had macho ethic. In contrast, boys who failed to demonstrate such

characteristics were demonized as girls or ‘poofers’ in the eyes of other boys and male teachers. Hence, the institutional work valourizing and demonizing is used to maintain the power of institutional beliefs.

The mythologizing work emphasizes preserving a myth that is part of the normative underpinning of institutions. This form of institutional work focuses on the history which is deemed as the ‘myth’. For example, promoting competition is in the central facet of the Christian Brothers College’s culture, which matched the traditional combative nature of the Brothers’ social, economic and academic objectives (Angus, 1993). This myth was preserved by actors (students and teachers) in the college.

The embedding and routinizing work emphasizes the embedded routines and day-to-day organizational practices through training and education. For example, the feminist norms in which warmth, empathy and acceptance were routinized and infused into a rape crisis centre in Israel (Zilber, 2002). The Christian Brothers School example is also used to explain the concept of embedding work. Angus (1993, p. 247) found that boys were strapped when committing offences and in this incident female teachers were excluded from “the scene of public humiliation before the strapping could proceed”. This is because the notion of ‘women are weak and they are not real teachers’ was embedded in the college through implicit education. While there is currently no study in the context of charities, the embedding and routinizing work may explain charities’ day-to-day performance measurement and reporting practices designed to achieve their charitable missions and maintain the institutions.

Lawrence and Suddaby (2006, p. 230) note that, generally, institutional work aimed at maintaining institutions includes “supporting, repairing or recreating the social mechanisms that ensure compliance” in which actors devote considerable effort to deal with changes in the organization or its environment.

3.5.3 Disrupting Institutions

Similarly with institutional work aimed at creating institutions, the third category of institutional work aimed disrupting institutions gains substantive attention following the concept of deinstitutionalization proposed by Oliver (1992). Nonetheless, Lawrence, Suddaby and Leca (2009) find that very little research focusses on actors purposively engaging in disrupting institutions but, rather, highlights indirect processes relating to

creating institutions. Table 3-3 provides a summary of the forms of institutional work on disrupting institutions.

Forms of institutional work	Definition
Disconnecting rewards and sanctions	Working through state apparatus to disconnect rewards and sanctions from some set of practices, technologies or rules
Disassociating moral foundations	Disassociating the practice, rule or technology from its moral foundation as appropriate within a specific cultural context
Undermining assumptions and beliefs	Decreasing the perceived risks of innovation and differentiation by undermining core assumptions and beliefs

Table 3-3: Disrupting institutions - adapted from Lawrence and Suddaby (2006, p. 235)

According to Lawrence and Suddaby (2006), institutional work aimed at disrupting institutions involves actors engaged in action intended to attack or undermine the controls which underpin institutions. The three forms of institutional work: disconnecting rewards and sanctions, disassociating moral foundations and undermining assumptions and beliefs, all disrupt institutions by “lowering in some way the impact of those social controls on non-compliance” (Lawrence & Suddaby, 2006, p. 238).

Since institutional work is a recent development in NIS, there is limited empirical research in this area. In the analysis of actors and their institutional work, Marti and Mair (2009, p. 101) highlighted a difference between actors who are organized and powerful, and those who are powerless, disenfranchised and under-resourced, arguing that the latter “seemingly have no choice other than compliance, [and] are also doing important institutional work”. Tilcsik (2010) demonstrates empirically an account of agency that influences decoupling processes in a post-Communist governmental agency case study. To my knowledge, institutional work has not yet been used to explain organizational issues in the context of charities. This study aims to explore whether the concept and various forms of institutional work shed light on the performance measurement and reporting practices of charities in New Zealand.

Overall, this section discussed the key concepts and categories of institutional work aimed at creating, maintaining and disrupting institutions. Within each category, various forms

of institutional work are identified. The next section justifies the rationale for using NIS as a relevant theoretical framework underpinning to this study.

3.6 Rationale for Using NIS

In this section, the use of NIS as the most relevant tool to theorize this study is justified. The aim of this study is to examine the New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. Two institutions are focused at an organizational level on how and why the case study charities measure and disclose information and, in addition, on the external influences on the charities at a macro level. For this study, NIS supplies the theorization to explain the influence of the wider institutional environment. This includes the information needs of key stakeholders outlined in Chapter 2, the regulatory and funding environment of charities in New Zealand (see Chapter 5), and how and why the charities measure their performance and disclose information to their stakeholders, and conform to institutional pressures in an organizational field.

Previous accounting literature has used NIS to explore the adoption and implementation of particular accounting systems in response to a need to conform to external pressures rather than to increase internal efficiency (Abernethy & Chua, 1996; Modell, 2001, 2003). For example, by investigating the effects of a control system on the organizational performance in a Australian public hospital, Abernethy and Chua (1996) found that the system must be coherent with its internal and, more significantly, its external institutional environment. Other studies conducted by Modell (2001, 2003) also found that public sector organizations in his studies maintained their legitimacy by adopting performance measurement systems to provide performance information. Although prior studies have identified organizations who adopted accounting systems because they must conform to external pressures in gaining legitimacy, there is no study, to my knowledge, focused on why charities measure and disclose their information. In a process of becoming homogeneous, charities may adopt measurement and reporting mechanisms to obtain legitimacy in the eyes of their stakeholders and to secure resources that are essential for their survival. This process of homogenization may be driven by the three types of isomorphism: coercive, normative and mimetic that lead organizations to become isomorphic with other organisations in their institutional environment. Coercive pressures are from legislation, political influence and from the legitimating of decisions; normative pressures arise from conforming to a set of professional norms; while mimetic pressures,

especially in conditions of uncertainty, tend to push organizations, including charities, to model themselves on other organizations in their field that they perceive to be more legitimate or successful (DiMaggio & Powell, 1983). Charities are likely to be influenced by all three of these isomorphic pressures, therefore the concept of institutional isomorphism can help to explain how and why charities measure and disclose their information.

In addition, the three pillars constitute the systems of rules, beliefs, norms, and symbols in which all organizations are embedded. They can provide a useful framework for analysing charities in New Zealand. All three pillars may be mutually reinforcing in the charities under study. The reasoning and tensions of measuring and reporting their outputs and outcomes may be found by charities within each pillar, and in the interaction between the regulative, normative and cultural-cognitive dimensions of the charities. Each pillar provides only a partial picture of the charitable sector as a social construction and the basis of compliance and legitimacy can be different across three pillars. In the context of charities, these cognitive, normative and regulative elements of institutions are interdependent but mutually reinforce each other. Central to the regulatory pillar is the role of regulation and coercive pressure from funders and other stakeholders, which could not be sustained without the development of norms. The normative pillar guides and shapes the charitable mission to advance social services. The cultural-cognitive pillar is the common beliefs designed to legitimise actions such as funders and charities' actions. The regulatory pillar relies on the normative and cultural-cognitive pillars for much of their robustness and, in turn, the normative and cultural-cognitive pillars need the government and other stakeholders to establish a framework of rules and boundaries that confine social behaviours.

NFPs, including charities, assert uniqueness over their competitors, to convince other actors, particularly their funders in the organizational field, that they deserve resources (Barman, 2002). Once resources for survival are guaranteed and legitimacy is achieved, some charities may decouple their actual practices from adopted formal structures (J. Meyer & Rowan, 1977). The reason they do so is that the formal structures may disturb the normal processes of daily operations and may not improve internal efficiency. As such, the everyday organizational practices and implementation are detached from the adopted structures to ensure this does not occur. Therefore, the notion of decoupling may explain any gaps between the information needs of key stakeholders and charities'

measurement and reporting practices. Decoupling may also explain how and why charities implement particular measurement and reporting mechanisms in their daily practices.

Institutional work is a recent development to NIS, which focuses on the purposive action of actors and organizations aimed at creating, maintaining and disrupting institutions. It can help to explain the conscious action of individual and collective actors aimed at changing the institutional order of an organizational field (Lawrence & Suddaby, 2006). To my knowledge, no study of charities uses institutional work to explain organizational issues, such as actors' intentionality and effort aimed at creating, maintaining and disrupting institutions. This study therefore can contribute by using the NIS concept of institutional work to explain how conscious intentions and effort of actors embedded in the case study charities, influence their performance measurement and reporting practices.

In summary, NIS offers a rich framework to explain New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. The next section concludes the chapter.

3.7 Chapter Summary

This chapter has discussed the theoretical framework drawn upon in this study, to explain the New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. The three pillars of institutions as an analytical framework have been discussed and the concepts of institutional isomorphism, decoupling and institutional work have been considered. The rationale for using NIS was presented, and the understanding of NIS employed in this study along with the identification of some key concepts were outlined and critically discussed. Through this framework, the research questions presented in Chapter 1 were addressed, and arguments and analysis of the findings will be illustrated in Chapters 6, 7, 8 and 9. The next chapter discusses the research methodology and methods.

Chapter 4: Research Methodology and Method

4.1 Introduction

This chapter discusses the research methodology and methods employed for this study. Section 4.2 provides a review of the research questions. Section 4.3 presents the constructivism paradigm adopted for this study, followed by a discussion of the case study method in Section 4.4. The rationale for using the case study method and types of case study and multiple case study designs are discussed in this section. The methods in collecting and analysing the case study evidence are discussed in Sections 4.5 and 4.6 respectively. Finally, the ethical implications are identified in Section 4.7 and a chapter summary is given in Section 4.8.

4.2 Research Questions

This study aims to examine New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. The research questions investigated in this study are outlined below:

1. What are the performance measurement and reporting practices of New Zealand charities?
2. How do the performance measurement and reporting practices of New Zealand charities address the information needs of key stakeholders?

These two research questions are derived from research gaps identified in the literature. As noted in Chapter 2, performance measurement and reporting are employed by charities to examine and discharge accountability and to gain legitimacy in the eyes of their stakeholders. The first research question explores New Zealand charities' performance measurement and reporting practices. This question emphasizes the measured and disclosed information, the measurement and reporting mechanisms, the reasons for measuring, disclosing and using particular mechanisms, and the problems perceived by the charities with these measurement and reporting practices. The second research question examines the information needs of key stakeholders (regulators and funders), and the extent to which charities' performance measurement and reporting practices, as identified from the first research question, address the stakeholders' information needs. Hence, the first research question focuses on the two charities' performance measurement and reporting practices, and the second research question aims to reveal the multiple

realities in the New Zealand charity sector through both the charities' and their key stakeholders' perceptions of performance measurement and reporting. In order to investigate these perceptions and experiences of the charities and their key stakeholders, this study adopts a constructivist paradigm, discussed in the following section. The findings of the research questions are presented and critically analysed in Chapters 6, 7 and 8.

4.3 Constructivist Paradigm

The study is a qualitative inquiry (Denzin & Lincoln, 2013) into the experiences and perceptions of two charities and their key stakeholders in the New Zealand charity sector. It follows a constructivist paradigm to gain understanding by interpreting these experiences and perceptions from the perspectives of actors both within the charities and their stakeholders. A paradigm is defined by Guba and Lincoln (1994, p. 105) as:

a basic belief system based on ontological, epistemological and methodological assumptions...it represents a worldview that defines, for its holder, the nature of the world, the individual's place in it, and the range of possible relationships to the world and its parts.

The socially constructed nature of reality (ontology), the relationship between the researcher and research subjects (epistemology), and the process of the research (methodology) are three fundamental assumptions of any paradigm including the constructivist paradigm (Denzin & Lincoln, 2013; Guba & Lincoln, 1994; Lincoln, Lynham, & Guba, 2011). These assumptions are “interconnected in such a way that the answer given to any one question, taken in any order, constrains how the others may be answered” (Guba & Lincoln, 1994, p. 108). The appropriateness of the constructivist paradigm and three fundamental assumptions of ontology, epistemology and methodology are discussed in the next sections.

4.3.1 *Ontology*

The constructivist paradigm adopts a relativist ontology which assumes that “realities exist in the form of multiple mental constructions, socially and experientially based, local and specific, dependent for their form and content on the persons who hold them” (Guba, 1990, p. 27). The diversity among institutions and actors in this study suggests that there are likely to be multiple perceptions of realities within the New Zealand charity sector. In particular, actors embedded in an institutionally defined context may attempt to create, maintain and/or disrupt institutions (Lawrence et al., 2009), and this highlights the

alterable nature of the construction of realities (Guba & Lincoln, 1994). As noted by Lawrence, Suddaby and Leca (2011), an institutional work perspective, which is used as part of the theoretical framework in this study (see Chapter 3), asks questions of “why” and “how” instead of “what” and “when”, which aligns with a relativist ontology.

Researchers are encouraged to shift their gaze away from the organizational field and large-scale social transformations, and attend more closely to the relationship between institutions and the actors who populate them. This will demand a more holistic account of institutional action that moves beyond simple dyadic relationships and discrete logics, toward the assumption that actors, at any given time, are subject to pressures from many different institutions and are often responding locally, creatively, incrementally, and more or less reflexively (Lawrence et al., 2011, p. 57).

The concept of institutional work highlights the role of actors, their institutional actions and the relationship between actors and institutions. This is consistent with the views of Lincoln and Guba, which see multiple realities as the products of human intellects (Guba & Lincoln, 1994), and “social reality is a construction based upon the actors’ frame of reference within the setting” (Lincoln & Guba, 1985, p. 80).

Actors within charities and their key stakeholders construct the multiple realities in the New Zealand charity sector. Various perceptions about performance information held by actors within the charities are constructed through their experiences of the charities’ performance measurement and reporting practices. Likewise, key stakeholders of charities, such as funders, also construct their information expectations and perceptions through interactions with their funded charities and other members of society. As such, individual actors within the charities and the key stakeholders provide a partial picture of multiple realities by sharing their particular perceptions and experiences (Lincoln & Guba, 1985). In addition, as a researcher, I also co-construct the knowledge and understanding of the performance measurement and reporting practices in New Zealand charities by interpreting the meaning of lived experiences shared by the research subjects (actors) of this study. During the inquiry process, I have ensured that knowledge produced is reflective of their realities, not my own voice (Lincoln et al., 2011).

4.3.2 *Epistemology*

In the constructivist paradigm, epistemology means that the “inquirer and inquired into are fused into a single entity. Findings are literally the creation of the process of interaction between the two” (Guba, 1990, p. 27). As such, the constructivist paradigm

suggests that the researcher, institutions and actors are interactively linked so that the findings are co-created as the research proceeds.

Given that the relativist ontological position of this study, the epistemological assumption is that further inquiries into the relationship between the knower and what can be known is constrained by the multiple realities that are previously identified (Guba & Lincoln, 1994; Lincoln & Guba, 1985). To understand performance measurement and reporting practices in New Zealand charities, I look into the multiple constructed perceptions in the charity sector. This perspective informs my position as value freed in order to be able to discover “how things really are or work” (Guba & Lincoln, 1994, p. 108). This is contrary to a dualist and objectivist epistemological assumption in the positivist paradigm in which the researcher and research subjects are objectively disconnected, and the researcher is able to proceed the research without influencing it or being influenced by it (Guba & Lincoln, 1994; Guba, Lincoln, & Lynham, 2013).

As identified in Chapter 2, a core function of the regulators, such as the Department of Internal Affairs-Charities Services in New Zealand and the Charity Commission in England and Wales, is to promote public trust and confidence (Poirier, 2013). This suggests that the regulative practices enacted by the regulators ensure trust, and resources flow into a charity. Moreover, various relationships including supplementary, complementary and adversarial relationships can exist between government funders and NFPs, including charities (Young, 2000). Hence, relationships and relationship-building are essential for both charities and their stakeholders.

Given that I used to work in a New Zealand charitable trust, the difficulties that I encountered when measuring and reporting performance information motivate me to conduct this research. This motivation also shapes the way the research is carried out and interpreted. My previous work experience included responsibilities, such as reviewing the performance of frontline staff members in different regions and in the organization as a whole, accounting for and reporting both financial and non-financial information, and being involved in many information technology-related projects that promoted organizational efficiency and effectiveness. This experience facilitates my understanding of performance measurement and reporting practices, enables connections with some interviewees, and informs my interpretation of multiple constructed perceptions in the charity sector. Being an insider provides relatively easy access, creates a degree of closeness in the interview situation in which a relaxed atmosphere conducive to open

conversation and willingness to disclose is generated (Hodkinson, 2005; Patton, 2002). The insider status also allows more rapid and more complete acceptance by the research participants to enable a deeper level of inquiry (Dwyer & Buckle, 2009). After I introduced my previous experience and people I know, many interviewees tended to be more open to the interview questions, and some of them even actively discussed topics they perceived to be important and relevant to the research, which were additional to the questions on the initial interview guide (see Appendices 2 and 3). Such a high degree of closeness was due to my insider status, and improved my ability to carry out the study. Nonetheless, being an insider has potential limitations (Kanuha, 2000, p. 444):

For each of the ways that being an insider researcher enhances the depth and breadth of understanding a population that may not be accessible to a non-native scientist, questions about objectivity, reflexivity, and authenticity of a research project are raised because perhaps one knows too much or is too close to the project and may be too similar to those being studied.

To mitigate possible limitations, such as being too close to see a problem, I used a cautious and reflective approach in order to be authentic in my interactions with the research participants and to reframe my understanding of the situation. This reflexivity is “an awareness of the researcher’s role in the practice of research and the way this is influenced by the object of the research, enabling the researcher to acknowledge the way in which he or she affects both the research processes and outcomes” (Haynes, 2012, p. 72). I constantly self-reflect on my insider status that allowed me to carry out this research, and reflected about the participating subjects. The questions of self-reflexivity and reflexivity about those studied included “*what do I know?*” “*How do I know what I know?*” “*What shapes and has shaped my perspective?*” “*How have my perceptions and my background affected the data I have collected and my analysis of those data?*” “*How do those studied know what they know?*” “*What shapes and has shaped their worldview?*” (Patton, 2002, p. 495). To avoid my own experience overriding the voices of the research subjects, I was sensitive and responsive to any contradictory evidence. I regularly reflected on and questioned the similarities and differences between my understandings gained from the NFP literature in the areas of performance measurement, performance reporting and key stakeholders’ information needs, my previous experience, and the perceptions of the research subjects.

In addition, I used a case study method that sought to explain the performance measurement and reporting practices in two case study charities and the extent to which

these practices address their key stakeholders' information needs. The rationale for using the case study method is further discussed in Section 4.4.1, and the discussion of methodology follows next.

4.3.3 *Methodology*

The methodological question inquires into the process of research (Creswell, 2007). As identified earlier, all fundamental questions in a given paradigm are interconnected. The answer that is given to the methodological question is constrained by the answers previously provided to the ontological and epistemological questions. In the constructivist paradigm, the methodology is hermeneutical and dialectical (Guba & Lincoln, 1994). This suggests that “individual constructions are elicited and refined hermeneutically, and compared and contrasted dialectically, with aim of generating one or a few constructions on which there is substantial consensus” (Guba, 1990, p. 27). The origin of the term hermeneutics is from ancient Greece, emphasising the interpretation of the messages of the gods (Mueller-Vollmer, 1985). Following that principle, hermeneutics in a constructivist inquiry provides a “theoretical framework for interpretive understanding, or meaning, with special attention to context and original purpose” (Patton, 2002, p. 114). As an interpretive methodology, hermeneutics requires the researcher to be self-reflexive and to focus on the context and history of the organizational phenomenon being studied (Prasad, 2002). In order to understand and interpret complex social phenomena, this study adopts a case study method, which is discussed in the next section, to enable an in-depth investigation within real-life contexts.

4.4 **Case Study Method**

4.4.1 *Rationale for Using Case Study Method*

A case study is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2009, p. 18). The case is a specific, complex, functioning thing (Stake, 1995). The contemporary phenomenon outlines the distinctiveness of a case, which draws boundaries of, and gives prominence to distinguish, what is and what is not a case (Flyvbjerg, 2011). Given that the aim of this study is to examine New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders, *how* and *why* two New Zealand case study charities measure and disclose performance information is examined. As such, the case study method is an appropriate research

method for this study as it allows the researcher to focus on *how* and *why* questions that seek to retain a holistic and real-world perspective and to investigate rich and in-depth information (Yin, 2009, 2014). An institutional perspective, as outlined by Lawrence, Suddaby and Leca (2009, p. 6), also provides support for using a case study method. They suggest that:

...with institutional approaches...the temporality...tends to be of an intermediate nature – long enough for social action to influence institutional structure or for institutional structures to change and thus affect social action, but short enough for these rhythms of change not to be overwritten by the *longue duree* of history.

The intermediate nature of the institutions and social actions are reflected in the research participants' practices and experiences in the New Zealand charity sector over a reasonably long period of time, which fits well with the case study method. The case study method calls for a detailed examination which focuses on understanding the dynamics present in a single or a relatively small number of units in considerable depth (Eisenhardt, 2002; Stake, 2008). It encompasses "the logic of design, data collection techniques, and specific approaches to data analysis" (Yin, 2009, p. 18). Through analysis and interpretation of how actors within charities and their key stakeholders think, feel and act, insights and understandings of the two cases are gained (Simons, 2009).

One common criticism of the case study method is its findings are not generalizable to broader populations, compared to other research methods, such as surveys (Gomm, Hammersley, & Foster, 2000). In this study, such criticism is not seen as a limitation of the case study method, it is rather a rationale for using this method. This is because case studies provide a basis for "analytic generalization" that expands and generalizes theories, instead of statistical generalization (Yin, 2009, p. 15). This involves using theory to "understand and explain the specifics, rather than to produce generalizations" (Scapens, 2004, p. 260). The use of theory is essential in case studies as it helps to refine case study design, organize initial data analysis, and generalise to theoretical propositions, but not populations or the universe (Yin, 2009). It therefore allows me to interpret meaningful understandings of the unknown areas by focusing on two cases and to obtain in-depth, rich and detailed information of the phenomenon under investigation. Yin (2009, 2014) also suggests the use of multiple-case studies (see Section 4.4.3) to assist analytical generalization.

Moreover, Stake (2000, p. 19) argues that the case study method involves “naturalistic generalizations” in which “case studies may be epistemologically in harmony with the reader’s experience and thus, to that person, a natural basis for generalization”. The naturalistic generalization, referred to as “transferability” by Lincoln and Guba (2000, p. 36), is “intuitive, empirical, based on personal direct and vicarious experience”, and provides useful extensions of readers’ understandings. As a powerful means for building analytical and naturalistic generalizations, the use of case study method is thus appropriate for this study. The next section determines the types of case study.

4.4.2 Determining the Types of Case Study

The case study is a common research method to understand complex social phenomena in different fields such as sociology, psychology, business, education and social work (Yin, 2009, 2014). Scapens (1990, 2004) noted that the case study method has been increasingly used to investigate accounting practice. Five types of case studies are employed in accounting research, they are descriptive, illustrative, experimental, exploratory and explanatory case studies (Scapens, 2004). The descriptive and illustrative case studies are used to describe accounting practices, and illustrate innovative practices, whereas experimental case studies are helpful to examine problems in implementing a proposed accounting procedure and technique. While exploratory case studies can be used to explore reasons for particular accounting practices, generally they are a preliminary investigation that generates hypotheses for later empirical testing (Scapens, 2004). This study adopts explanatory case studies, which intend to provide explanations for observed accounting practices by using theory.

As noted in Chapter 2, the prior literature identifies that there is a lack of empirical research that focuses on evaluating both performance measurement and performance reporting practices of charities (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003), and the extent to which these practices address the information needs of key stakeholders (Connolly & Hyndman, 2013b). As such, explanatory case studies are essential to this study because they offer rich and revealing insights (Yin, 2012) into charities’ performance measurement and reporting practices. In addition to gaining insights from actors within the charities, wider stakeholder groups are included in the study, as they are integral to understanding the contextual and complex conditions of the cases being studied (Yin, 2012, 2014). The two case study charities could not be considered or understood without considering the context (Yin, 2014). Thus, it is essential

to obtain the views and expectations of the wider stakeholder groups, such as regulators and funders, who largely influence the decisions and practices of actors within the charities in measuring and disclosing information. That these multiple perspectives of actors within the case study charities and their key stakeholders are valued in the case study method is consistent with the relativist ontology discussed in Section 4.3.1.

4.4.3 *Multiple Case Study Design*

This study follows a multiple-case design comprising two cases. Multiple cases are considered as multiple experiments that follow a replication logic (Yin, 2009), which, as is explained by Eisenhardt (1989, p. 542), can confirm or disconfirm emergent relationships.

Cases which confirm emergent relationships enhance confidence in the validity of the relationships. Cases which disconfirm the relationships often can provide an opportunity to refine and extend the theory.

Compared with a single case that provides one unique setting, the multiple cases allow the researcher to analyse within each setting and across settings so that the similarities and differences between the cases are understood (Baxter & Jack, 2008). As such, the analytic conclusions arising from the multiple cases is more compelling, and the contrasts between cases make the study more robust and reliable. Thus, multiple cases are preferred over a single case-design, where one case is likely to be unusual, rare or critical (Yin, 2009).

The aim of this study is to examine the New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. Thus, selecting two information-rich cases provides insights and in-depth understanding rather than statistical generalizations, and aligns with the rationale for using the case study method presented in Section 4.4.1. The cases are selected purposefully (Patton, 2002) to enhance understanding and illuminate the research aim and questions outlined in Section 4.2.

The logic and power of purposeful sampling lie in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the inquiry, thus the term purposeful sampling (Patton, 2002, p. 230).

Compared with the random sampling approach, the purposeful sampling approach is useful for insuring that the selected cases are suitable to provide the necessary relevant

and detailed data needed for the study, and thus has a profound effect on the quality of the study (Bryman & Bell, 2007; Patton, 2002). The details of selecting the cases are discussed in the next section.

4.4.3.1 *Selecting Cases*

Two case study charities, namely, Charity A and Charity B have been carefully selected to provide in-depth examination into the multiple realities in the New Zealand charity sector. The evidence from these two cases is more powerful and substantial than that from a single case (Yin, 2009). The case selection criteria, such as nature of institutions and types of services and activities, are presented in Table 4-1 below.

Case Selection Criteria	Charity A	Charity B
Registered Charities	In 2008	In 2009
Charitable Missions	To build healthy communities together, free from addiction harm	To turn lives around
Nature of Institutions	Provide counselling services to beneficiaries who suffer from a single addiction harm, and prevent addiction problems at a community level	Provide social services and community development to a wide range of beneficiaries
Types of Services and Activities	Counselling services; Public health activities, Policy development activities	Homecare services; Family services; Early childhood education; Homeless services; Community development activities
Annual income and expenditures	Approx. NZD 5 million	Approx. NZD 12 million
Funding Structure	Government funding; Philanthropic funding; Commercial income	Government funding; Philanthropic funding; Commercial income
Saliency of Stakeholders	Key Stakeholders: Regulators; Government funders; Philanthropic funders;	Key Stakeholders: Regulators; Government funders; Philanthropic funders;
	Less Saliency Stakeholders: Beneficiaries (addiction people and their family); Volunteers; Addiction practice venues and related organizations and individuals; Charity A's managers and board of trustees; Charity A's staff members	Less Saliency Stakeholders: The religious organization; The property management organization; Beneficiaries (Older people and those living with disabilities, Families, Children, Homeless people, Local communities); Volunteers; Charity B's managers and board of trustees; Charity B's staff members

Table 4-1: Case selection criteria

Table 4-1 indicates some similarities and differences between the cases to provide common themes, which contribute to high quality findings (Patton, 2002; Yin, 2009). The focal institutions of the study are charities. Thus, both cases must be registered charities

that have their own missions and charitable purpose. Charity A is in an area of single addiction treatment and its mission is to build healthy communities together, free from addiction harm, whereas Charity B provides broader social services and community development activities and its mission is to turn lives around. Charity A was the first single addiction treatment provider, which started in 1988. Charity B has a long history dating back to the 1850s. It is a church-based organization, which has religious values and the ethos of moral obligations. A strong connection has been established between the religious values and Charity B's social service delivery, and this provides a uniqueness to Charity B compared with other non-religious charities such as Charity A.

Both charities provide services and activities to their beneficiaries. Charity A provides counselling services to people with addiction problems and their families, and it actively engages in public health and policy development activities, to reduce addiction harm. Charity B provides its beneficiaries with various social services and community development activities, including homecare services, family services, early childhood education and services for the homeless as well as some community development projects. Thus, Charity B has a wider range of beneficiaries, who are older people and those living with disabilities, families, children, homeless people and local communities.

The original notion of including the total income and expenditures criterion was to exclude small charities that are less likely to measure performance and disclose performance information. During the period of this research, there has been some changes to the regulations and legislation over charity reporting. A tiered framework through the new reporting standards was developed in 2014. Both charities are under Tier 2, i.e., their total annual income and expenditures are under NZD 30 million but above NZD 2 million, so that they are following a reduced disclosure regime (External Reporting Board, 2013, 2014b). However, standards on Service Performance Reporting for Tier 2 charities are currently under development, and the New Zealand Accounting Standard Board is intending to issue a proposed standard for comment by early 2016. Although there is currently no regulatory requirements for Tier 2 charities to disclose their performance information such as outputs and outcomes, it is important to understand their performance measurement and reporting practices and the extent to which these practices address the information needs of key stakeholders (regulators, government and philanthropic funders). As such, this study aims to investigate the measurement and reporting

mechanisms employed by the case study charities. The new reporting requirements in New Zealand are outlined in Chapter 5.

The majority of both charities' income is from their government funders. More than 80 percent of Charity B's income is from two government funders for its homecare services. Similarly, Charity A received more than 90 percent of government funding in the areas of counselling services, public health and policy development activities. The income other than the government funding is mainly from philanthropic funding and commercial income. Compared with Charity A, Charity B receives more philanthropic support in that almost nine percent of its total income is received from its fundraising events. In addition, Charity B receives approximately eight percent of its total income from commercial activities such as property investment activities. Charity B applies its philanthropic funding and commercial income to the other services and activities apart from the government funded homecare services. The inclusion of commercial activities is in line with the commercialization in the NFP sector captured in the literature (see Section 2.2.3), which may indicate that the competitive funding environment is also evident in New Zealand.

The saliency of stakeholder groups is also included as a case selection criterion to offer multiple realities in the charity sector. The stakeholders of both charities A and B are largely similar. The key stakeholders include regulators, government and philanthropic funders, whereas the remaining stakeholders are the less salient stakeholders, such as beneficiaries, volunteers, board members, managers and staff members. The beneficiaries for both charities are mostly different since the charities provide different services and activities. The other less salient stakeholders for Charity A are the addiction practice venues and related organizations and individuals that either receive Charity A's training and support or collaborate with Charity A to conduct activities such as organizing international addiction conferences. The religious organization and the property management organization provide commercial income to Charity B and, thus, are considered as stakeholders to which Charity B should be accountable.

Although some differences were identified in the context of the case study charities, this study purposefully selected two similar cases and any variation in their performance measurement and reporting practices is thus interesting to examine with respect to its drivers. The next section outlines how individual participants are selected.

4.4.3.2 *Selecting Participants*

This study follows a snowball sampling strategy when selecting participants for interview (Patton, 2002). The key to snowball sampling is the location of information-rich key informants and who will recommend people for the researcher to interview (S. J. Taylor & Bogdan, 1998). This strategy was particularly useful in this study as it identified potential participants who have good sources of information and some participants in the charity sector that are difficult to assess such as beneficiaries (see Section 2.5.1.3). For example, in the case of Charity A, I have a pre-existing relationship with the Director of Clinical Services from my previous work experience in the sector. She recommended some higher-level organizational managers and a board member for me to interview. After that, some interviewed managers referred frontline staff members, who then referred two beneficiaries and two volunteers to share their experiences and perceptions of the importance of performance information. In doing so, the snowball sampling was appropriate for this study. However, one of the potential drawbacks of the snowball sampling technique was that it can limit the diversity of informants (S. J. Taylor & Bogdan, 1998). This potential drawback was mitigated by specifying the required characteristics of new sample members who are dissimilar to the existing participants in particular ways (J. Ritchie, Lewis, & Elam, 2003).

The participant selections were guided by the research questions discussed in Section 4.2. In order to examine New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders, it is essential to include both internal stakeholders at different levels of the case study charities and external stakeholders, including funders. This will facilitate investigation of the contextual and complex conditions of the cases studied. As such, the study purposefully selected a range of interviewees that include both internal and external stakeholders of the two case study charities, as presented in Table 4-2. The internal stakeholders were drawn from different levels, such as managers and board members, as well as staff members and volunteers, whereas external stakeholders, including government and philanthropic funders, and other stakeholders, collaborate with the case study charities. As discussed in Chapter 2, both government and philanthropic funders are key stakeholders that charities are accountable to, and it is important to gain these stakeholders' perceptions and experiences on their expectations of charity performance measurement and reporting practices.

Stakeholders	Roles	Charity A	Charity B	Total
Internal Stakeholders	Managers and board members	9	8	17
	Staff members	4	4	8
External Stakeholders	Beneficiaries	2		2
	Volunteers	2		2
	Third Party Evaluators		2	2
	Academic	1		1
	Government funders			5
	Philanthropic funders			9
Total Stakeholders				46

Table 4-2: Participant selections

Table 4-2 indicates that managers, board members, and staff members are the actors within the case study charities. They are the internal stakeholders. This classification follows Hyndman and McDonnell (2009) who categorized the board of trustees, and paid staff in terms of managers and staff members as internal stakeholders. It is important to understand the experiences and perceptions of these internal stakeholders on the charities' performance measurement and reporting practices. Similarly, external stakeholders are those outside of the immediate management of an NFP, including a charity, and generally include government and philanthropic funders and other stakeholders, such as volunteers, who provide resources and support to a charity, as well as beneficiaries, who are the recipients of the charities' services (Connolly & Dhanani, 2009; Ebrahim, 2003). After her interview, the community development worker in Charity B acknowledged that the community development projects were evaluated by independent third party evaluators. It is therefore important to include these external stakeholders, to provide insights on what performance information is disclosed, and how the third party evaluated Charity B's community development projects. One academic in the area of addiction research was also included, because her research centre collaborated with Charity A to co-host international conferences on addiction issues. It was interesting to hear her perceptions on Charity A's measurement and reporting practices. In capturing the richness of data from both internal and external stakeholders, 46 individual participants were selected before saturation was reached. The term saturation is referred to as data adequacy, which suggests that no further new information is obtained from interviewees (Morse, 1995). The next section discusses the details of collecting case study evidence in which the roles of the selected participants are further illustrated.

4.5 Collecting Case Study Evidence

This study employs both semi-structured interviews and qualitative document analysis to collect data. Through interactions with participants and review of relevant documents, I look into the multiple constructed perceptions and views of charities' performance measurement and reporting practices. Knowledge is accumulated and findings are co-created from the process of interaction between the researcher and research participants (Guba, 1990). These sources provide “multiple measures of the same phenomenon”, and thus help to establish the construct validity and reliability of the case study evidence (Yin, 2009, p. 117).

4.5.1 *Semi-structured Interviews*

Interviews are not only one of the most commonly recognized forms of data collection methods, but also is “one of the most important sources of case study information” (Yin, 2009, p. 106). Described as “conversations with a purpose” (Mason, 2002, p. 62), qualitative interviewing offers insights into the research aim i.e. to examine the New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. Given the epistemological position of this study, semi-structured interviews give voice to the research participants, encourage them to talk about their experiences, access what they think and feel about the research topic in their own words and allow a close personal interaction between the researcher and participants (Fylan, 2005; Kvale, 2006). Hence, in-depth information such as thoughts, intentions and reasoning for actions is pursued from this data collection method (Patton, 2002; Seale, 1999).

Since this study aims to examine interviewees' perceptions and experiences of performance measurement and reporting practices, semi-structured interviews are an appropriate data collection method. The interviews were guided by the interview guides for both internal stakeholders (see Appendix 2) and external stakeholders (see Appendix 3). These interview guides allowed me to focus on a particular subject, but allow new questions to be brought up during the semi-structured interviews, providing more scope for general and flexible discussion (Mason, 2002). Nonetheless, it is important to note the time-consuming nature of semi-structured interviews. The willingness of interviewees to engage in such a lengthy interview process can be a constraint on using this type of data collection method. Next, pre-planning for interviews (Section 4.5.1.1), conducting interviews (Section 4.5.1.2) and recording interviews (Section 4.5.1.3) are discussed.

4.5.1.1 *Pre-planning for Interviews*

There are a series of steps to ensure that a smooth flow and a successful data collection process prior to conducting semi-structured interviews (W. L. Miller & Crabtree, 2004). To locate internal stakeholders, I firstly emailed the invitation letter (see Appendix 4) and participant information sheet (see Appendix 5) to the informants whom I knew from previous work experience in the New Zealand charity sector, with explanations for the aim of the study and a detailed description of the type of information I was interested in (Ghuri & Gronhaug, 2005). The informants forwarded the invitation email to many managers in both charities A and B, and copied it to me. As such, I obtained the email addresses of potential participants. Two managers replied soon after receiving this email and agreed to participate, but most did not reply. One week later, I sent a follow up email to the potential participants, outlining that the interview would take no more than one hour of their time, and that they could contact me to seek further information or to clarify any concern. The remaining 15 participants gradually replied and agreed to participate in this study.

During email correspondence, some confirmed participants also referred more potential participants, including staff members, volunteers and beneficiaries who were not included in the first email sent by the informants. For example, one manager in Charity A revealed that two other managers based in Christchurch: one the Director of Public Health and the other the National Operations Director, would attend a meeting in Auckland. Their perceptions and experiences of Charity A's performance measurement and reporting practices would be highly valuable to this study. To obtain the agreements of these potential participants, I sent more invitation emails and mentioned the referred managers in the content, and also copied the managers in the emails, indicating that I was introduced by someone they trust and work with (Patton, 2002). In addition, I also made several follow up phone calls to confirm the interview time and date when their phone numbers are available on the websites of the charities, and answered some general questions regarding to the study. For external stakeholders, such as government funders, contact details were provided by the internal stakeholders of charities A and B. Similar snowball sampling was applied to the external stakeholders, and to the key informants in this stakeholder group, such as one philanthropic funder, who was introduced by a manager of Charity A, and one third party evaluator, who was referred by another manager in Charity B.

Once participants confirmed their participations, another email was sent to request their preferred time, date and location for the interview. A consent form (see Appendix 6) that sought their formal consent and an interview guide that outlines the scope of questions that would be asked in the interview were attached to the email. The interview guide in Appendix 2 was prepared for the internal stakeholders and the one in Appendix 3 was prepared for external stakeholders (government and philanthropic funders, beneficiaries, volunteers, academic, and third party evaluators). The aim of the interview guides was to ensure that the same basic lines of inquiry are pursued with participants in each category (internal and external) of stakeholders (Patton, 2002). It also allowed me to decide how to use the limited time available in each interview and which information to pursue in depth (Patton, 2002).

Although recruiting internal, and many external, stakeholders was relatively straightforward, it was extremely difficult to recruit beneficiaries for interview. Initially, following snowball sampling, I located a supervisor of Charity A, who supervises a counselling team in the Auckland region, and she provided consent for a focus group of six beneficiaries to be interviewed, but it was subject to a leading counsellor's approval. Since this counsellor agreed to participate in the study herself, I had her contact details and sent an email that explained my request for some beneficiaries to be interviewed, and the supervisor provided her consent. Unexpectedly, the leading counsellor refused this invitation completely. The reason was that she believed I would ask sensitive questions in the interview and, since her clients were in an unstable condition, any questions were likely to trigger their problems. Even after explaining that all interview questions were not sensitive in nature and emailing the interview guide for beneficiaries to her, the counsellor did not reveal her clients' information. A similar situation also happened in Charity B, where both staff members and managers were very protective for their beneficiaries to be interviewed. The difficulty in recruiting beneficiaries for this study indicates that beneficiaries are perceived as being vulnerable by the charities' staff members. The previous literature also identified this problem in which the studied charities' staff members are unwilling to forward questionnaires to their beneficiaries (Connolly & Hyndman, 2013b). After realizing such protective attitudes, I changed my strategy to locate beneficiaries who were discharged from the case study charities, as they were relatively less vulnerable. The attitude of staff members of Charity B was still negative, but one manager in Charity A agreed to ask some former clients. The manager made a number of calls to the former clients. Some beneficiaries were not interested, but

two agreed to participate in the study. The difficulty in recruiting beneficiaries was unexpected considering my insider position, and it is, thus, a limitation of the study.

In order to manage the flow of interviews better, an interview time schedule was prepared and a reminder email was sent to each participant prior to conducting the interview. Before conducting interviews, I checked the availability of all equipment and materials thoroughly, including digital recorder, recorder charger, pens, and notepaper. I also prepared some copies of consent forms and participant information sheets. Some interviewees completed their consent forms ahead of the interviews, but the majority of interviewees completed these during the interview. Interviews were conducted at either the participants' place of employment or another suitably pre-arranged public location such as a café and the Auckland Gallery. The locations of interviews were dependant on the participant's own choice (Legard, Keegan, & Ward, 2003).

4.5.1.2 Conducting Interviews

After a thorough process of pre-planning for the interviews, the research consists of 46 interviews comprising 25 internal stakeholders in which 17 interviewees were managers and board members and eight interviewees were staff members. The 21 external stakeholders included two beneficiaries and two volunteers from Charity A, two third party evaluators related to Charity B, one academic collaborator for Charity A, five government funders and nine philanthropic funders (see Table 4-2). In order to capture perceptions from these internal and external stakeholders to reach saturation, all interviews were conducted from April 2012 to June 2014. I followed some protocols to ensure all possible information for the study was gathered while, at the same time, the interviewees could feel comfortable during the interviews (S. J. Taylor & Bogdan, 1998). In the following sections, these protocols are discussed in detail.

At the beginning of each interview, I introduced myself as a researcher and expressed appreciation for the participant's involvement. Then, I shared some information on my previous work experience in the New Zealand charity sector, and described how it motivated me to conduct this research. This created a positive atmosphere between the participants and myself, so that they felt comfortable to talk openly (Ghauri & Gronhaug, 2005; S. J. Taylor & Bogdan, 1998). After that, the purpose of the interview, why the data is being collected, and how it would be used was explained (Gray, 2009; S. J. Taylor & Bogdan, 1998). Since I am fluent in both English and Chinese, Chinese-speaking interviewees were provided with an opportunity to choose a language that they were

comfortable with prior to the interview (Gray, 2009). Three interviewees took this opportunity, and these interviews were conducted and recorded in Chinese.

This was followed by introducing the consent form (see Appendix 6), if it had not been completed prior to the interview. The participants read the consent form, asked questions if there were any unclear aspects, and had them answered before signing the consent forms. I then discussed the anticipated length of the interview, reinforced confidentiality and asked participants' permission for digital recording and note taking (Gordon, 1975; Legard et al., 2003). I re-affirmed that the digital recorder could be turned off if desired. This ensured the right to privacy and protection of identity and that all precautions were taken to protect the participants (W. L. Miller & Crabtree, 2004). Compared with other stakeholder groups, government funders were more conservative in sharing their reality, although they have extensive experiences and perceptions toward the research topic. For example, one government funder stated, "you have got me on record, so I cannot comment on what actually happened" and another government funder refused to be recorded, as she believed that the information she shared would be subject to change, so notes were taken for that interview. This was unexpected, as the prior literature (Connolly et al., 2009) does not seem to have any difficulty obtaining funders' inputs in England and Wales.

Prior to the interview, all participants were assured that the interviews would remain confidential and anonymous. Neither the charities nor the participants were identified by name. Also, prior to the transcription of interviews, each participant was labelled with a code to provide anonymity (Bryman & Bell, 2007). Given the epistemological stance of this study, I acted as a facilitator instead of imposing thoughts on the participants, they were encouraged to freely talk about their experiences and viewpoints relating to this study (Legard et al., 2003). Although some understandings of the research topic were not entirely correct, e.g., some interviewees used outputs and outcomes interchangeably, even though these terms represent different meanings, I accepted all answers and did not correct any perceived mistakes. This is because the aim of this study: to examine the New Zealand charities' performance measurement and reporting practices, and the extent to which the practices address the information needs of key stakeholders, has no right or wrong answers. Thus, I tried not to be judgemental to any response of interviewees, and tried to find out why and how they formed their understandings and perceptions.

Despite sending out the interview guides to the interviewees prior to the interview, I allowed questions to flow naturally, based on the information provided by the interviewees, who were encouraged to share their experiences. As identified earlier, semi-structured interviews provided a relaxed atmosphere, so that interviewees were more comfortable in sharing information (S. J. Taylor & Bogdan, 1998). This is particularly important when interviewing different types of stakeholders (Rubin & Rubin, 1995). I also used strategies such as attentive listening and active observation of participants to collect data (Gray, 2009). On one hand, it is important to listen and try to see the meaning behind the interviewees' words and look for threads in the answer that could usefully be picked up on (Cameron & Price, 2009). For example, when a participant sounded doubtful about a view, it acted as a signal for further examination. On the other hand, interviewees' bodily and facial gestures, pauses, silence, and laughter provided an opportunity for obtaining more insights (Seale, 1999).

Not every session of interview lasted one hour, but some sessions exceeded one hour. The longest session consumed approximately 1.5 hours when interviewing one government funder. In that case, I ensured that I did not force or push the pace unnecessarily, and ensured that everything had been covered sufficiently. As a result, sufficient time was spent in the interviews to collect data and the interview time was between approximately 30 minutes to 1.5 hours, averaging 45 minutes for each interview. Also, I gave interviewees time to think about a particular question rather than filling the pauses (Legard et al., 2003). It allowed the interviewees to think about the questions and their answers. I found sometimes a moment of silence was extremely important in interviews, and usually had very productive results. At the end of each interview, I always asked interviewees for further questions they would like to add or ask and thanked them warmly for their valuable time. A few interviewees added more insights that were interesting after the digital recorder was turned off, so I encouraged them to talk openly and took notes. This is consistent with Bedard and Gendron's (2004) study, in which interviewees often continued to provide information when the recorder was turned off.

A summary of interview schedules, including interviewees' roles, interviewee number, date of interview, duration of interview, are included in Appendices 7 and 8 for all 46 interviewees. Appendix 7 detailed the interview schedule for internal and external stakeholders (32 interviewees in total) relating to both charities A and B, whereas Appendix 8 outlines the 14 interviewed government and philanthropic funders.

4.5.1.3 *Recording Interviews*

I recorded each interview by using digital audio recording and note taking to enhance the quality of interview data and minimize bias (Cameron & Price, 2009). I found that audio recording was useful as I was concentrating on listening attentively to the interviewees and trying to probe with more follow up questions, note taking can be only selective and my writings were sometimes difficult to read. Acknowledging that the entire interviews were recorded, I would devote my full attention to listening attentively to the participants and probing in-depth (Legard et al., 2003). Another advantage of audio recording, was that it captured more details, including interviewees' hesitations and tone, which might not be captured in the interviews (Legard et al., 2003). In total, 45 interviews were recorded out of 46 interviews. This was achieved by emphasizing that it was completely up to the participants whether the recorder was used, and it could be switched off at any point prior to or during the interviews. There was little reluctance by the participants to be audio recorded after I explained the value of audio recording and reassured participants about confidentiality. This may also be because audio-recording is becoming a more neutral and less intrusive way of recording the interviews (Cameron & Price, 2009). One interviewee mentioned that he understood the benefits of using audio recording, as he used it to record his own meetings.

Although there are many advantages of using a digital audio recorder, it is still helpful to make notes during interviews (Arthur & Nazroo, 2003). Notes were taken in all 46 interviews. To aid note taking, I printed the interview guides (see Appendices 2 and 3) with large spaces. I found using the interview guides as the basis for notes allowed myself to see at a glance, which areas had been or had not yet been covered, as interviewees often followed a different logic, and interview questions were not asked in order. Moreover, I also took notes as a reminder for future questioning. Nonetheless, note taking was time consuming (Gray, 2009), and also gave interviewees unintended cues, for example, interviewees waited when I was taking notes (Legard et al., 2003).

Out of 46 interviews, 43 were transcribed by a professional transcriber to allow reliability of the transcripts to be used in the data analysis process, and I validated the transcripts by repeatedly listening to the recordings and matching them with the transcripts to ensure accuracy (Bedard & Gendron, 2004). The transcripts captured not only interviewees' words, but also any pauses, laughter, mispronunciations, and incomplete sentences, to aid data analysis. There were three interviews conducted in Chinese. I transcribed these

interviews in Chinese to avoid losing meaning in the transcription stage. I then translated the relevant information in the data analysis stage and a native Chinese-speaker validated the information. Both transcriber and Chinese-speaker signed confidentiality agreements, which are provided in Appendix 9. The next section discusses the second data collection method, document analysis.

4.5.2 *Document Analysis*

In addition to semi-structured interviews, document analysis is another method adopted by this study to collect case study evidence for the research topic. Documents play an important role in case studies in that they are unobtrusive, stable, and have a broad coverage of time, events and many settings (Yin, 2009). Documents are also useful to corroborate and augment evidence collected from other sources such as semi-structured interviews, to ensure creditability (Matthews & Ross, 2010; Yin, 2009). To understand the context of the two case study charities and identify meanings and themes (Mason, 2002), I examined documents that were in the public domain, such as annual reports, or provided through the interview process, such as Charity A's contractual funding agreement with its government funder. These documents, triangulate with responses from interviewees and, thus, enhance the trustworthiness of this study (Denzin & Lincoln, 2013). All relevant documents, both public and private, that were analysed are listed in Table 4-3.

Documents		Charity A	Charity B
<i>Public Documents</i>	Annual Reports	2	4
	Media Releases	10	7
	Newsletters	10	5
	Websites	various	various
	Audited Financial Statements	6	5
	Annual Returns in Charities Register	6	5
	Companies Office Societies and Trust Online	1	1
	The Family Services Fundraising Proposal	1	
	Outcome Rating Scale/Session Rating Scale Related Articles;	8	
	New Zealanders' Participation in Addiction (Results from the 2010 Health and Lifestyles Survey)	1	
	New Zealanders' Knowledge, Views and Experience of Addiction and Addiction Harm(Results from the 2010 Health and Lifestyles Survey)	1	
	Addiction Related Fact Sheets	various	
	Third Party Evaluation Reports (for homeless services and community development activities)		3
	InterRAI Brochure 2012		1
	Audit Requirement: Home and Community Support Sector Standard NZS 8158:2012		1
	Health for Older People Strategy		1
	Charity B's Two Partners (Religious Organization and Property Management Organization) ' Audited Financial Statements and Annual Returns		10
Storytelling Report		1	
<i>Private Documents</i>	Contractual Funding Agreements	2	
	Annual Reports (2007-2013)	6	
	Budget Reporting Template	1	
	Beneficiaries' Consent Form Template	1	
	Counsellor Checklist	1	
	Outcome Rating Scale/Session Rating Scales Cousenlling Templates and Graph Example	3	
	Charity B and its Partner Diagram		1
	Project Progress Report 2012		1
	Presentation Slides		1

Table 4-3: Documents of the case study charities

Table 4-3 shows a list of documents that explicitly reveal details of the case study charities, including both charities' annual reports, contractual funding agreements with government funders, audited financial statements, performance-related documents, such as Charity B's storytelling report and Charity A's outcome rating scale, and session rating scale-related articles, newsletters and webpages. Since the two case study charities are in different fields, additional documents, such as New Zealanders' Participation in Addiction, were reviewed to gain understanding of the fields in which the charities

operate. In addition, many private documents, such as the budget-reporting template and beneficiaries' consent form template provided by interviewees were also reviewed. These documents provide invaluable information to answer the research questions, especially the case study charities' measurement and disclosure of their performance information such as outputs and outcomes. Table 4-4 below further identifies additional documents that were collected from external stakeholders to contextualize the case study charities.

Documents		Government Funders	Philanthropic Funders	Regulators
<i>Public Documents</i>	Value for Money Review	1		
	An Outcome Measure Brochure	1		
	Outcome Framework Discussion Document	1		
	Health and Lifestyles Survey	2		
	Funding Agreement Practice Guidelines	1		
	Code of Funding Practice; Results Based Accountability related documents	various		
	Eligibility Questionnaire		1	
	Donation/Funding Application Forms and Guidance Notes		3	
	Donation/Funding Report Back Form (Audit Summary Report)		3	
	Newsletters		2	
	Annual Return Template			1
	Statement of Service Performance Templates			2
Annual Reports		1	1	
Webpages	various	various	various	
<i>Private Documents</i>	Monitoring and Evaluation Plan	1		
	Donation/Funding Application Forms		3	
	Final Impact Report		1	
	Preliminary Assessment forms		1	
	Donation/Funding Report Back Form		2	
	Strategic Plan		1	
	Presentations		1	

Table 4-4: Documents collected from the external stakeholders

Documents listed in Table 4-4 provide insights into what information stakeholders expect the case study charities, and other New Zealand charities, to disclose. For example, the Annual Return template and the statement of service performance templates available on the regulators' websites shed light on the expected information that is required by

regulators, and these templates are their enforced reporting mechanisms. This in turn facilitated my understandings of the research questions outlined in Section 4.2. By examining documents collected from external stakeholders, such as government funders and philanthropic funders, another dimension was added to the research topic and evidence from interviews was corroborated and augmented. In order to examine these documents, I coded the relevant data by themes as discussed in Section 4.6 and analysed them together with the interview data. For example, the interviewed philanthropic funders provided some funding applications and report back forms. I analysed these documents and extracted useful data when they supported and/or contradicted the interviewees' arguments, until saturation was reached, i.e., nothing new was learnt from these documents. The documents also triangulated with the interview data, as discussed in the next section.

4.5.3 Triangulating from Multiple Sources of Evidence

As outlined in the earlier sections, I used multiple sources of evidence in the case studies to address the research topic and to draw convincing and reliable findings. The multiple sources of evidence consists of interviews of 46 individual participants, reviews of the contextual background of the case study charities, documents either in the public domain or shared by interviewees, and other documents such as media releases, allowing triangulating on my set of research aim. Moreover, I used two data collection methods: semi-structured interviews and document analysis, to enhance the credibility of the study (Collis & Hussey, 2009; S. J. Taylor & Bogdan, 1998).

4.6 Analysing Case Study Evidence

Yin (2009, p. 127) suggests that analysing case study evidence is the most difficult aspect of doing case studies, because it depends on a researcher's "own style of rigorous empirical thinking, along with the sufficient presentation of evidence and careful consideration of alternative interpretations". Without fixed formulas or recipes, data analysis is a process of "inductive reasoning, thinking and theorizing" (S. J. Taylor & Bogdan, 1998, p. 140) designed to understand and gain insights into the collected data and to address research questions. Eisenhardt (1989) suggests two steps in analysing case study evidence: (1) within-case analysis that gains familiarity with data; (2) searching for cross-case pattern that looks beyond initial impressions and sees evidence through multiple lenses.

To achieve high quality data analysis, and to cover my research questions exhaustively, I analysed all the evidence collected for the two case study charities and their key stakeholders. This process of data analysis aimed to account for all evidence and “leave no loose ends” (Yin, 2009, p. 160). Given my previous work experience in the New Zealand charity sector and my continuous review of literature in the research area, my awareness of current thinking about the case study topic facilitated a high quality analysis (Yin, 2009). Due to the extensive amount of data collected, the data analysis process took about two and half years to reach reliable and valid findings. The analysis process started soon after the first interview in April 2012, and continued during the data collection process, which ended in June 2014, and for six months after that. The process I used to analyse the case study evidence includes three components: data reduction, data coding and data interpretation, which are discussed in the following sections.

4.6.1 *Data Reduction*

Given that a large amount of data was collected from both semi-structured interviews and various documents, the first step of data analysis was to reduce these data into manageable information. Data reduction is “a process of selecting, focusing, simplifying, abstracting and transforming data” (Ghauri & Gronhaug, 2005, p. 206). During this process, I used thematic analysis to search for common patterns or recurring words or meanings within individual case and cross cases (Eisenhardt, 1989; Patton, 2002). This involves systematically identifying, analysing and interpreting any commonly expressed themes or perceptions by the participants (Bryman & Bell, 2007). The themes are constructed by the researcher before, during and after the data collection (Welman, Kruger, & Mitchell, 2005).

4.6.1.1 *Within-case Analysis*

When analysing data within each case, I read transcripts and relevant documents for each charity and allowed unique patterns of each case to emerge (Eisenhardt, 1989). I immersed in the data, and became intimate with each case by reading, re-reading and reading through the collected data once more repeatedly (Marshall & Rossman, 2011). I used two case dynamics matrices to analyse the case study evidence. Specifically, two dimensions: one relying on theoretical framework and the other based on research questions were combined with themes generated within each case to analyse data.

The institutional perspective provides a theoretical framework to analyse data within each case. By analysing NIS concepts including isomorphism, decoupling and institutional

work, the matrix demonstrated in Table 4-5 allows a consideration of *why* the two case study charities measure and disclose their information, and employ particular measurement and reporting mechanisms. This analysis was drawn from different stakeholders (internal and external) and specific categories within each stakeholder group, that were identified in Table 4-2. The other external stakeholders include volunteers, beneficiaries and an academic for Charity A, and third party evaluators for Charity B. The voices and perceptions of regulators were based on documentary analysis instead of interviews. Accordingly, the first level of data reduction involved identifying reasons and grouping patterns in line with the theoretical framework. For example, the reasons for decoupling could be due to the multiplicity of stakeholders and their perceptions, highlighting a gap between different voices from internal and external stakeholders.

Stakeholders	Categories	Isomorphism			Decoupling	Institutional Work		
		Coercive	Normative	Mimetic	Identify reasons for decoupling	Creating institution	Maintaining institution	Disrupting institution
Internal	Managers & board members							
	Staff members							
External	Government Funders							
	Philanthropic funders							
	Regulators							
	Others							

Table 4-5: Theoretical framework matrix

I also used another analytical framework that focuses on the aspects of the research questions, i.e., what and how do the case study charities recognize, measure and disclose their financial and non-financial performance information, and how should charities recognize, measure and disclose performance information in the eyes of the key stakeholders, as shown in Table 4-6.

Stakeholders	Categories	<i>Recognition</i>		<i>Measurement</i>		<i>Disclosure</i>	
		Charitable Missions	Contractual Obligations	Financial Performance	Non-financial Performance	To whom	By what means
Internal	Managers & board members						
	Staff members						
External	Government Funders						
	Philanthropic funders						
	Regulators						
	Others						

Table 4-6: Research questions matrix

I used the aspects of *recognition*, *measurement* and *disclosure* to group related data. The reason for considering the theme of recognition is that both charities first recognize performance information prior to measuring and disclosing it. As such, and similar to the theoretical framework matrix, themes were generated to further reduce data. For example, charitable missions and contractual obligations were two emergent themes generated within the recognition aspect, indicating that the case study charities recognize their outputs and outcomes according to either charitable missions or contractual obligations imposed by the funders.

Hence, tabular displays of information about each charity were produced by using the two matrices to analyse multiple realities revealed by different stakeholders. This allows preliminary theory generation and assists cross-case analysis (Eisenhardt, 1989). The two matrices fit together when answering the research questions identified in Section 4.2. For example, to answer the second research questions, the measured and disclosed information and measurement and reporting mechanisms were extracted from the research questions matrix. To examine further, why the charities measure and disclose such information and why do they use particular mechanisms to measure and disclose it, I relied on the theoretical framework matrix.

4.6.1.2 *Cross-case Analysis*

In order to draw out argument and interpretation, I searched for cross-case patterns by looking carefully and systematically for subtle similarities and differences between the

two cases (Eisenhardt, 1989; Miles & Huberman, 1994; Yin, 2009). Similar with the within-case analysis, both matrices pertaining to research questions and theoretical framework were used to analyse data across the two charities, after the data within each case became familiar. The emphasis here was to compare and contrast different mechanisms of measurement and reporting, and the reasons the two case study charities use these mechanisms. Moreover, the contextual backgrounds of the two cases were largely different, and this difference offers contrasting situations, in accord with the purposeful sampling approach discussed in Section 4.4.3. This provides another dimension to draw cross-case comparison. For example, the church-based charity may adhere to its mission to disclose performance information to its stakeholders due to its religious belief, which is probably not the case in the non-religious charity. By analysing data within and across cases, data was reduced and emerging themes were developed for the next step of data analysis – data coding.

4.6.2 *Data Coding*

Data coding is the process of “developing and refining interpretations of the data” by using the codes (S. J. Taylor & Bogdan, 1998, p. 150). To further reduce the data, I used a computer assisted qualitative data analysis software NVivo (Bazeley, 2007). It has the ability to distinguish the characteristic significance of each code: called ‘nodes’ in NVivo. The initial coding was in line with the matrices (referred to in Table 4-5 and Table 4-6) discussed in the previous section.

After importing data from all relevant sources such as transcripts and various documents into NVivo, I prepared a list of nodes according to both the theoretical framework and research question concepts. The nodes included isomorphism, decoupling, institutional work, recognition, measurement and disclosure. I then started to create some sub-categories: called “child nodes” in NVivo, such as coercive isomorphism, normative isomorphism and mimetic isomorphism. After that, I read repeatedly the coded data under different nodes and pooled relevant data into the nodes and child nodes. The coding stripes were made visible in the margins of the data to allow an overview of which codes were used where.

In addition, to manage data, I interrogated the data at an individual case level, and compared and contrasted cross-case nodes. The dimensions, such as the research questions and the theoretical frameworks, were used as a baseline coding, while the distinguishing contextual background such as funding sources, stakeholder groups and

data sources were queried to probe deeper meaning. Table 4-7 demonstrates an example of Charity A's nodes that were classified into different attributes which represent a particular characteristic of the data, for example, roles, stakeholder groups and sub-groups.

Classification of Stakeholders	Roles	Stakeholder Groups	Stakeholder Sub-groups
Nodes\\Interviewee\\1	Manager	Internal	Decision Maker
Nodes\\Interviewee\\2	Manager	Internal	Decision Maker
Nodes\\Interviewee\\3	Volunteer	External	Implementer
Nodes\\Interviewee\\4	Staff member	Internal	Implementer
Nodes\\Interviewee\\5	Manager	Internal	Decision Maker
Nodes\\Interviewee\\6	Manager	Internal	Decision Maker
Nodes\\Interviewee\\7	Manager	Internal	Decision Maker
Nodes\\Interviewee\\8	Beneficiary	External	Downward Stakeholder
Nodes\\Interviewee\\9	Manager	Internal	Decision Maker
Nodes\\Interviewee\\10	Staff member	Internal	Implementer
Nodes\\Interviewee\\11	Volunteer	External	Upward Stakeholder
Nodes\\Interviewee\\12	Manager	Internal	Decision Maker
Nodes\\Interviewee\\13	Volunteer	External	Upward Stakeholder
Nodes\\Interviewee\\14	Board member	Internal	Decision Maker
Nodes\\Interviewee\\15	Staff member	Internal	Implementer
Nodes\\Interviewee\\16	Manager	Internal	Decision Maker
Nodes\\Interviewee\\17	Staff member	Internal	Implementer
Nodes\\Interviewee\\18	Beneficiary	External	Downward Stakeholder

Table 4-7: Charity A's nodes from NVivo

I used NVivo to engage in focused coding to restructure and rebuild the data with the intention of revealing relationships (Bailey, 2007). The multiple realities of the case study charities' performance measurement and reporting practices were closely examined and coded into different nodes. In addition, all coding was conducted based on the original language used in the interviews, including the three interviews carried out in Chinese, to ensure authenticity. The next step is to build a meaningful interpretation of the research problem under the study.

4.6.3 *Data Interpretation*

The last phase of the data analysis process is data interpretation, where the research moves from description to interpretation, and this involves making sense of the collected data through conceptual and theoretical lenses (Ghauri & Gronhaug, 2005; S. J. Taylor & Bogdan, 1998). Interpretation means “attaching significance to what was found, making sense of findings, offering explanations, drawing conclusions, extrapolating lessons, making inferences, considering meanings, and otherwise imposing order on an unruly but surely patterned world” (Patton, 2002, p. 480).

During the process of data interpretation, I started to draw from meanings and coherence to the themes and categories developed in the data analysis phase, and evaluated the data for their usefulness. The theoretical framework (NIS) played an important role in interpreting data and illuminating the research questions. The concepts of isomorphism, decoupling and institutional work were used in interpreting why the case study charities measure and disclose their financial and non-financial information. The interpretation of data was “forced to go beyond initial impressions” and evidence was viewed through multiple lenses (Eisenhardt, 1989, p. 541). As such, additional questions, such as why the charities use particular measurement and reporting mechanisms; why the charities disclose information to different stakeholder groups, were also investigated, in order to offer integrative interpretations.

After interpreting the data, the findings and discussions were presented in three parts (Chapters 6, 7 and 8). Chapter 6 discusses the information needs of key stakeholders including regulators, government and philanthropic funders, with respect to charities’ performance measurement and reporting in New Zealand. This addresses the second research question and the NIS concepts of isomorphism and institutional work are used to interpret these findings. Chapters 7 and 8 focus on the first research question that investigates the case study charities’ performance measurement and reporting practices. Performance measurement and performance reporting respectively are discussed in two chapters by using the theoretical lens of isomorphism, decoupling and institutional work. These two chapters build on the findings presented in Chapter 6 and by comparing findings from the case study charities with the key stakeholders’ information needs, the extent to which the charities’ performance measurement and reporting practices address the information needs of key stakeholders can be identified.

4.7 Ethical Implication

This study received ethical approval from the Auckland University of Technology Ethics Committee (AUTEK) on 30th September 2011, to carry out a single case study under a Master of Philosophy programme (see Appendix 10). After the study was upgraded to a Doctor of Philosophy study, another ethical approval was obtained on 6th November 2012 to involve multiple case studies (see Appendix 11). The reference number of the ethical applications remains the same i.e. 11/223. In order to protect the privacy and confidentiality of the research participants, none of the responses from any of the charity stakeholders was identified. As demonstrated in Table 4-7, confidential responses were assured, as all interviewees were numbered with no reference to individual names.

4.8 Chapter Summary

This chapter has discussed the research methodology and methods applied to the study that examines the performance measurement and reporting practices in New Zealand charities. A constructivist paradigm was followed as a methodological framework, and a case study approach was utilized to provide an in-depth understanding of the research topic. Both semi-structured interviews and document analysis were used to collect the case study evidence, and a process of data reduction, data coding and data interpretation was introduced to analyse individual cases and across-cases. The next chapter outlines the contextual background of the two case study charities.

Chapter 5: New Zealand Context

5.1 Introduction

The previous chapter discussed the research methodology and methods employed in this study, and the selection of cases was explained. This chapter contextualizes the New Zealand operating environment for charities, and provides background to the two case study charities based on extensive relevant documents and literature.

Section 5.2 highlights the significance of the NFP sector and charities in New Zealand. An overview of the regulatory environment of charities is given in Section 5.3 in order to identify the registration process, tax benefits and reporting requirements. In Section 5.4, the funding environment for charities is also recognized by introducing three income sources for charities, i.e., government funding, philanthropic funding and commercial income. Section 5.5 provides contextual background to the two case study charities and outlines their mission and charitable purpose, salient stakeholders²⁰, services and activities, and funding and resources. Concluding comments are made in Section 5.6.

5.2 The NFP Sector and Charities in New Zealand

The NFP sector plays a significant role in New Zealand. Not only does it assist the government to further social objectives, but it also makes a substantial contribution to the economy. Thus, the role of the NFP sector is reflected in its social and economic significance.

5.2.1 *Social Significance*

As indicated in Section 2.2.1, governments increasingly delegate social service delivery to the NFP sector and reduce public sector involvement in this area through government contracting. New Zealand is no exception (Tennant, Castle, O'Brien, Salamon, & Sanders, 2006). In New Zealand, the NFP sector at large collaborates with the government to provide community benefits to the members of society in need, and many community-based NFPs are contracted to provide culturally appropriate services, thus obviating direct state provision (Cullen & Dunne, 2006). For example, many NFPs were funded to serve

²⁰ As noted in Chapter 2, salient stakeholders include the key stakeholders (regulators, government funders and philanthropic funders), and other stakeholders such as beneficiaries, volunteers and internal stakeholders, who have relatively lower saliency.

the needs of immigrant ethnic groups in the late 20th century, as the NFPs are more aware of and responsive to their needs (Tennant et al., 2006).

The social significance of the NFP sector is underlined by its diverse range of activities in almost every sphere of society. Statistics New Zealand (2006) classified NFPs into 12 major activity groups that are illustrated in Table 5-1 below.²¹ The activity group, its subgroup, and some New Zealand examples are presented in Appendix 1. As identified in Table 5-1 below, there are more than 97,000 NFPs and 105,340 employees in the NFP sector. The number of NFPs are widely spread over twelve activity groups, while the employment in the sector was more concentrated in four activity groups: social services, education and research, culture, sport and recreation, and health. More particularly, NFPs in the health activity group have the highest average number of paid staff, whilst each NFP employed approximately seven paid staff in this sector.

No.	Activity Group	NFPs		Employment	
		Number	Percent	Number	Percent
1	Culture, sports and recreation	43220	44.60%	16820	16.00%
2	Education and research	7400	7.60%	20140	19.10%
3	Health	2210	2.30%	15090	14.30%
4	Social services	11280	11.60%	31480	29.90%
5	Environment	1310	1.40%	1020	1.00%
6	Development and housing	7580	7.80%	3730	3.50%
7	Law, advocacy and politics	2500	2.60%	2490	2.40%
8	Grant making, fundraising and voluntarism promotion	610	0.60%	570	0.50%
9	International	300	0.30%	560	0.50%
10	Religion	9890	10.20%	9390	8.90%
11	Business and professional associations, unions	3130	3.20%	3400	3.20%
12	Not elsewhere classified	7560	7.80%	640	0.60%
Total		97,000	100.00%	105,340	100.00%

Table 5-1: Activity groups of New Zealand NFPs and employment (Statistics New Zealand, 2006)

The contributions of volunteers have a significant social value in the NFP sector, in addition to those of the paid staff. There were over one million (1,011,600) volunteers,

²¹ The NFPs classification is according to the New Zealand Standard Classification of Non-Profit Organizations (NZSCNPO) and is based on the International Classification of Non-Profit Organizations (ICNPO) to ensure international comparability. The 2006 NFP statistics were the first step towards a satellite account for NFPs according to international frameworks developed by Johns Hopkins University and the United Nations Statistics Division for producing NFP satellite accounts (Salamon, Sokolowski, & Associates, 2004). These statistics are the only data publicly available in New Zealand.

who provided more than 270 million hours of unpaid labour to NFPs, representing 31 percent of the New Zealand population in 2004 (Statistics New Zealand, 2004). By donating their time and effort, volunteers in New Zealand demonstrate their passion about the difference they can make to society (Carolyn Cordery et al., 2013). Such substantial volunteering contributions not only connect NFPs with local communities by improving the relevance of NFPs to their stakeholders, but also enhance social inclusion and solidarity in New Zealand (Carolyn Cordery et al., 2013; Narraway & Cordery, 2009).

5.2.2 Economic Significance

In addition to its social significance, the NFP sector also contributes largely to the New Zealand economy. Statistics New Zealand (2004) highlights the economic significance of the NFP sector by acknowledging its 2.6 percent contribution to New Zealand's gross domestic product (GDP): equivalent to NZD 3.64 billion in 2004. In addition, the sector also relies heavily on unpaid volunteers (approximately NZD 3.31 billion). Placing an economic value on these volunteers thereby increases the total contribution of the sector to 4.9 percent of total GDP: equivalent to NZD 6.95 billion, which is even greater than some individual business industries such as construction, transport and storage, and communication services (Statistics New Zealand, 2004). Sanders, O'Brien, Tennant, Sokolowski and Salamon (2008) indicate that the NFP sector workforce as a percentage of the economically active population in New Zealand (9.6 percent) was higher than the average among 41 countries (5.6 percent), and higher than in many western countries such as the US (8.9 percent) and Australia (7.6 percent).

In line with the significant role of the NFP sector outlined above, charities in New Zealand also make significant contributions to the society and economy. There were more than 27,000 registered charities in New Zealand that retained 180,000 full time paid staff and 400,000 volunteers, received NZD16.8 billion gross income per annum, and maintained NZD 48.9 billion of total assets in 2014 (Charities Services, 2015n). The next section outlines the regulatory environment of charities in New Zealand.

5.3 The Regulatory Environment of Charities

The regulatory environment of charities comprises different levels of regulation, tax benefits entitlements, and various reporting requirements. In New Zealand, the Department of Internal Affairs-Charities Services (DIA-CS) regulates charities through registration, ongoing monitoring and reporting, as well as investigation, and functions to

promote public trust and confidence in the charity sector and to promote the effective use of charitable resources (Charities Services, 2015n; Poirier, 2013). Various attempts have been made to promote public trust and confidence, of which recent changes to the reporting standards (outlined in Section 5.3.3) are an example. In addition, the power of the regulators in the regulatory environment of charities is also reflected in their registration process and tax benefits, both of which are discussed in Sections 5.3.1 and 5.3.2 respectively.

5.3.1 **Registration**

The *Charities Act 2005* in New Zealand first established the Charities Commission. This commission was disestablished on 1st July 2012 and its core function and decision-making powers were transferred to Charities Services, a part of the Department of Internal Affairs (Charities Services, 2015d). An independent three-person Charities Registration Board now makes decisions about registering or deregistering charities (Charities Services, 2015g). The DIA-CS (2015n, p. 10) approves a charity application when it:

- has a legal name that is not misleading or offensive; and
- has exclusively charitable purposes that fall within one of the four purposes set out in section 5(1) of the *Charities Act 2005* and which provide a public benefit; and
- is not for the private benefit or profit of an individual; and
- restricts distributions on winding up, so they go to charitable purposes only; and
- is a trust, society or institution (i.e. one person acting in their personal capacity cannot be a Registered Charity)

The charitable purpose and legal binding rules of charities are further discussed in the following sections.

5.3.1.1 **Charitable Purpose**

In the landmark *Pemsel* case²², Lord Macnaghten classified charitable purposes into four 'heads', i.e., categories, which have been restated by section 5 (1) of the New Zealand *Charities Act 2005* as follows: charitable purpose includes every charitable purpose, whether it relates to

1. the relief of poverty;

²² *Income Tax Special Purposes Commissioners v. Pemsel*, [1891] A.C. 531 (H.L.)

2. the advancement of education;
3. the advancement of religion; or
4. any other purposes beneficial to the community (Charities Services, 2015d)

In New Zealand, charities must meet one of the four charitable purposes and provide public benefit²³ in order to be considered charitable (Charities Services, 2015b). The first three categories of charitable purpose incorporate a number of traditional charities that are presumed to have public benefit, but this is not the case for the organizations under the fourth head (Dunn & Riley, 2004). To be charitable under the fourth head, organizations must: (1) have a charitable purpose that is very similar to the “spirit and intendment” of the *Preamble to the Statute of Charitable Uses of 1601*²⁴ (Kitching, 2006, p. 2); and (2) be beneficial to the community (Charities Services, 2015m).

While the DIA-CS approves a charity registration when an organization has exclusively charitable purposes, it is also acceptable when the organization has non-charitable ancillary purposes such as political activities that are undertaken to further its main charitable purposes (Charities Services, 2015l). In the light of the recent Supreme Court’s decision on the Greenpeace New Zealand case, political activity may itself be accepted as a charitable purpose rather than just being ancillary to an organization’s main purpose. Nonetheless, the Court also found that it may be uncommon for political purposes to be charitable purposes (Charities Services, 2015c). Accordingly, an organization can re-submit an application to register as a charity even though its registration has previously been declined or it has been deregistered, given that political activities were not ancillary to a main charitable purpose, after the court decision on the Greenpeace case (Charities Services, 2015c).

²³ The term ‘public benefit’ is specified in section 5 (2) (a) of the *Charities Act 2005*, i.e., the purpose of a trust, society, or institution is a charitable purpose under this Act if the purpose would satisfy the public benefit requirement apart from the fact that the beneficiaries of the trust, or the members of the society or institution, are related by blood. The ‘public benefit test’ contains two aspects: (1) there must be an identifiable benefit, assessed in the light of modern conditions, and (2) the benefit must be to the general public or to a sufficient section of the public (Charities Services, 2015l).

²⁴ The preamble to the statute contained a number of purposes considered charitable at that time. These purposes include: relief of aged, impotent, and poor people; maintenance of sick and maimed soldiers and mariners; schools of learning; free schools and scholars of universities; repair of bridges, ports, havens, causeways, churches, sea banks and highways; education and preferment of orphans; relief, stock or maintenance of houses of correction; marriages of poor maids, supportation, aid and help of young tradesmen, handicraftsmen, and persons decayed; relief or redemption of prisoners or captives; and aid or ease of any poor inhabitants concerning payments of fifteens, setting out of soldiers and other taxes.

5.3.1.2 *Legal Binding Rules*

As indicated earlier, an NFP that has one of the four charitable purposes and provides public benefit may qualify for charitable status in New Zealand. In addition to that, a copy of the organizational legal rules is required to be sent to the DIA-CS when applying for registration as a registered charity. . The rules must clearly indicate the organizational name and whether it is incorporated. If the organization is incorporated, it must be under either the *Charitable Trusts Act 1957*, the *Incorporated Societies Act 1908* or the *Companies Act 1993*, and the rules that send to the DIA-CS must match with the Companies Office. If the organization is not incorporated, the rules must be signed and dated by the charities' officers. Depending on their legal binding rules, charities are subject to different levels of regulation and reporting requirements, and will have differing entitlements to any tax exemptions (Poirier, 2013).

According to the DIA-CS (2015n), the majority of charities are **charitable trusts** under the *Charities Act 2005*. The charitable trust has a significant impact on the regulatory environment for charities in that contributions are made to one of four charitable purposes identified in Section 5.3.1.1 instead of benefiting named or identifiable beneficiaries (Companies Office, 2015b). The charitable trusts are incorporated under the *Charitable Trusts Act 1957* in New Zealand to promote their charitable purposes²⁵. In order to identify the extent to which registered charities in New Zealand are charitable trusts, I firstly searched for a key word 'trust' in the Charities Register²⁶. I found 14,951 registered charities were charitable trusts. Considering some charitable trusts may not contain the word 'trust' in their organizational names, I used the advanced search function of the DIA-CS in which 'trustees of a trust' was selected as an organizational type. As a result, 18,799 registered charities were identified as charitable trusts, i.e. equivalent to 69.62% of the 27,005 total charities in New Zealand as at 18th August 2015. The charitable trusts are required to maintain current rules documents on the societies and trusts online register, which is managed by the New Zealand Companies Office (Companies Office, 2015a). Nonetheless, section 12 of the *Charitable Trusts Act 1957* requires the charitable trusts to

²⁵ This is different to the private trusts that are created to administer some assets on behalf of beneficiaries, but the role of trustees is important for both types of trust as the trustees, not the trusts, are held responsible for misappropriation or mismanagement of assets (Poirier, 2013).

²⁶ The Charities Register is a database of charities registered in New Zealand under the *Charities Act 2005*. It summarises each charity's purposes, activities and sector, and includes their Annual Return as discussed in Section 5.3.3.1.

maintain evidence of incorporation only on the register, without requirement for mandatory annual financial statements.

There are two types of societies: incorporated and unincorporated. **Incorporated societies** must file an annual financial statement with the Registrar of Incorporated Societies under section 23(1) of the *Incorporated Societies Act 1908*. In order to identify the extent to which registered charities are incorporated societies, I searched the key word ‘incorporated’. I found 8,196 charities: equivalent to 30.35% of total charities, incorporated societies as at 18th August 2015. Nonetheless, registered charities that include the key word ‘incorporated’ in their organizational names do not necessarily mean they are incorporated societies. As such, the percentage of registered charities that are incorporated societies provides only a broad guide rather than detailed specifications.

Unincorporated societies are a body of persons (individuals whose common interests have brought them together for a temporary purpose without any formal organization) or a collective entity that are formed for a non-commercial purpose, and their members have the ability to come and go at will (Dadelszen, 2013). While unincorporated societies have flexible structures with few rules or restrictions, they are not separate legal entities, so they have no legal standing for external funding (The Department of Internal Affairs, 2006). Some of the key differences between incorporated societies and charitable trusts are highlighted in Table 5-2.

	Incorporated societies	Charitable trusts
Suited to...	NFPs where members have a common interest (eg sport, hobby and community interest)	NFPs with a charitable purpose (e.g. education, religion, relief of poverty and other purposes that benefit the community)
Charitable purpose	Can have a charitable purpose	Must have a charitable purpose
Size	Minimum of 15 members	Minimum of two trustees
Accountability	Committee accountable to the members	Trustees are accountable to the beneficiaries and must comply with the trust deed and the <i>Trustee Act 1956</i>
Audit	No – unless required by the rules	No – unless required by the trust deed
Profits	Must be used to run the society to achieve its purpose. Profits cannot be distributed to members	Must be used to run the charitable trust to achieve its purpose.
Maintaining registration after incorporation	Send this information to the Registrar: annual financial statements ; rule changes (including names); change of contact details	Send this information to the Registrar: rule changes (including names); change of contact details

Table 5-2: Differences between incorporated societies and charitable trusts – adapted from the Companies Office Societies and Trust Online (2015)

Table 5-2 indicates that there are higher requirements for charitable trusts with respect to charitable purpose and accountability, while incorporated societies must provide annual financial statements to the incorporated societies’ online register.

The registered charities could also be limited liability companies. The registered name of a company must end with the word “limited” or the words “Tapui (Limited)” under section 21 of the *Companies Act 1993*. When searching both words ‘Limited’ and ‘Tapui’ from the Charities Register, I identified 1,161 charities were limited company as at 18th August 2015, i.e., 4.3% of 27,005 total registered charities. Thus, only a small number of companies are registered charities.

While the majority of registered charities in New Zealand are charitable trusts and incorporated societies, the *Incorporated Societies Act 1908* and the *Charitable Trust Act 1957* were enacted over a century or half a century ago. During those times, there were only three Charitable Trusts Amendment Acts (1993, 2007 and 2010) and six Incorporated Societies Amendment Acts (1920, 1922, 1953, 1993, 2005 and 2010). This indicates that the legislation for the majority of charities may not be up-to-date. The Law

Commission²⁷ performed a review of the *Incorporated Societies Act 1908* between 2010 and 2013, and identified a number of areas that need improvement. For example, the 1908 Act was identified as lacking guidance about the duties of officers of incorporated societies (The Law Commission, 2013). As a result, recommendations are made for replacing the current 1908 Act with a new statute to serve incorporated societies in New Zealand better. In response to the Law Commission's report, the government developed and released a draft bill for public comment and consultation²⁸. The next section discusses the tax benefits of charities in New Zealand.

5.3.2 *Tax Benefits*

In New Zealand, the DIA-CS determines whether an organization qualifies for registration as a charity, while the Inland Revenue Department of New Zealand (IRD) administers tax benefits to which charities are entitled.

5.3.2.1 *Tax Exemptions*

One benefit of being registered is that charities are eligible for income tax exemptions. When a charity is registered with the DIA-CS, a copy of the IR256 Tax information for charities registered under the *Charities Act 2005* is sent from the IRD to confirm its tax benefit. As such, charities are not charged any tax on their income, which includes subscriptions, grants, subsidies, donations or koha, fees, raffle money, trading profits and proceeds from selling assets (Inland Revenue Department of New Zealand, 2015). Nonetheless, some NFPs can also have income tax exemptions even when they are not registered as charities²⁹, according to the New Zealand *Income Tax Act 2007* CW38 to CW40 and CW44 to CW55. The annual financial statements of these NFPs are not publicly available unless they are incorporated societies. Moreover, registered charities are also entitled to an exemption from fringe benefit tax (FBT) on non-cash benefits paid to their employees. In addition to the tax exemptions that are provided to charities, their donors are also entitled to deduct charitable contributions from their income tax returns (Inland Revenue Department of New Zealand, 2015), as detailed in the next section.

²⁷ The Law Commission is an independent Crown Entity to undertake the systematic review, reform and development of the law of New Zealand.

²⁸ The Ministry of Business, Innovation and Employment currently requests for submissions on the Exposure Draft of the Incorporated Societies Bill, the deadline of making comments is 30th June 2016.

²⁹ The NFPs include public and local authorities, local and regional promotion bodies, funeral trusts, bodies promoting amateur games and sports, TAB (state-run gambling organizations) and racing clubs, bodies promoting scientific or industrial research, veterinary services bodies, community trusts, Maori authority distributions, and tertiary education institutions.

5.3.2.2 *Donee Status*

Another benefit of charities is their ‘donee status’, which entitles an individual or an organization to a rebate of one-third, or 33 percent, of the amount donated³⁰ (Inland Revenue Department of New Zealand, 2015). A registered charity that have donations as a source of income is automatically entitled to donee status. However, not all NFPs with donee status are charities. Any organization that does not operate for private pecuniary profit and sets up a separate fund maintained exclusively for providing money for charitable, benevolent, philanthropic or cultural purposes within New Zealand can apply for, and receive, donee status from the IRD³¹. Therefore, these approved organizations are also considered as donee organizations for tax purposes.

Overall, registered charities are granted many tax benefits by the IRD, which include income tax exemption, a FBT exemption on non-cash benefits paid to employees, and donee status. This indicates that the government recognizes the contributions charities make to the New Zealand society and economy, as noted in Section 5.2, and support charities to advance their charitable purposes. While charities are exempt from paying income tax, they must meet certain reporting requirements to remain their charitable status. The reporting requirements for charities are discussed in the next section.

5.3.3 *Reporting Requirements*

All registered charities have reporting obligations. An Annual Return with detailed financial and other activities for the year must be filed. The duty to prepare and file Annual Returns is a mandatory requirement for registered charities under section 41 of the *Charities Act 2005*. The Annual Return asks for financial information about a charity, including financial statements. The recent changes to the *Financial Reporting Act 2013* mandate the External Reporting Board (XRB) to set new reporting requirements for registered charities and other NFPs that have reporting obligations in New Zealand. The new reporting requirements for registered charities came into force for periods beginning on or after 1st April 2015. Registered charities are now required to prepare both financial and performance information in accordance with the new standards.

³⁰ To qualify for this tax credit, the donation must be made in money, as gifts of goods or property do not qualify; the gift cannot be made under the will of a deceased person and each gift must be \$5 or more.

³¹ Benevolent and philanthropic purposes mean doing good for other people. Cultural purposes include dramatic, theatrical, operatic, ballet, choral or musical purposes.

5.3.3.1 *Annual Returns*

The registered charities must both operate to advance charitable purposes and submit an Annual Return to the Charities Register within six months of their balance dates (Charities Services, 2015n). The Annual Return contains a copy of financial statements, the appropriate fee, and a completed annual return form that includes their sector and area of operation, charitable services and activities, information about beneficiaries and internal stakeholders as well as a summarised statement of their financial performance and position (Charities Services, 2014a). In order to promote public trust and confidence, charities' Annual Returns are publicly available via the Charities Register (Charities Services, 2015n). There were more than 1.3 million visits to the Charities Register search page in 2014, indicating its importance to stakeholders who wish to search general and financial information about charities (Charities Services, 2015f). Since the Charities Register came into effect on 1st February 2007, 6,388 charities have been deregistered by the DIA-CS out of a total registered 33,486 charities. One reason for deregistering almost half of the charities was that their Annual Returns had not been filed for more than two years (Charities Services, 2015e).

5.3.3.2 *New Reporting Standards*

New reporting standards were developed and issued by the New Zealand Accounting Standards Board (NZASB)³² of the XRB (Charities Services, 2014c). As demonstrated in Figure 5-1, a tiered framework was introduced through the new reporting standards that classifies charities into four tiers based on the annual expenses (Tiers 1, 2 and 3) or operating payments (Tier 4) for their previous two financial years, and whether they have public accountability³³ (External Reporting Board, 2013, 2014b).

³² The NZASB is a Committee of the XRB Board that has delegated authority from the XRB Board to develop or adopt and issue accounting standards for general purpose financial reporting in New Zealand.

³³ According to the explanatory guide EG A1 (External Reporting Board, 2014a), the definition of public accountability for charities is the same as that for the for-profit and public sectors. The definition has two legs: (1) an entity has public accountability if it meets the International Accounting Standards Board's definition of public accountability.

This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks; (2) an entity is a FMC reporting entity.

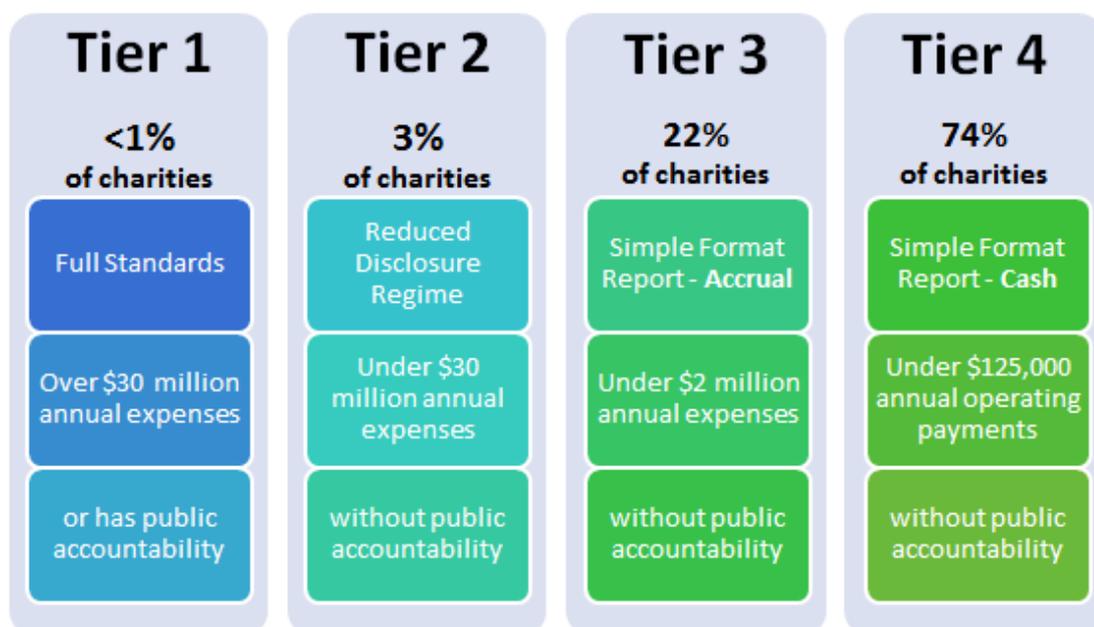


Figure 5-1: Tiers of charities and their reporting requirements

Charities with public accountability are required to report under Tier 1. This contains less than one percent of charities. They must meet two criteria: (1) they receive and hold assets for other people; (2) criterion 1 is the main activity of the charity. The term not-for-profit public benefit entities (NFP PBE) is used in the reporting standards for all registered charities, as they provide a public benefit (Charities Services, 2014d).

The charities under Tier 1 are required to apply full accounting standards, while the charities under Tier 3 and Tier 4 apply Simple Format Reporting (SFR) standards³⁴. The full PBE standards are based on the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board³⁵. The reduced disclosure regime (RDR) PBE standards for Tier 2 charities have the same recognition and measurement requirements as PBE full standards, but with reduced disclosure requirements³⁶. Approximately 96 percent of charities are smaller charities that

³⁴ All charities are initially in Tier 1 as a default, but they may report according to the requirements of the lower tier if they meet the criteria to be in another tier and elect to be in that other tier (External Reporting Board, 2014a).

³⁵ However, the set of PBE Standards also includes certain standards based on New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and some domestic FRSs. These standards have been included in the PBE Standards to cover gaps in accounting requirements that are not covered by IPSAS now. The IPSASB has developed a conceptual framework for general purpose reporting by NFP entities. The PBE Framework is included as an interim framework, pending the finalisation of the IPSASB Framework (External Reporting Board, 2014a). This framework is yet to be released in New Zealand.

³⁶ The reduced disclosure requirements are substantially aligned with the disclosure concessions in the NZ IFRS RDR.

fall under Tiers 3 and 4, and which have simplified requirements (which are supported by the explanatory guides³⁷ developed and issued by the XRB) (Charities Services, 2014c). For Tier 3 charities, the financial information is presented in traditional financial statements, such as the statement of financial performance, statement of financial position and statement of cash flow, as they are under accrual-based accounting. However, Tier 4 charities are under cash-based accounting that is relatively uncomplicated, and their financial information is included in the statement of receipts and payments, and statement of resources and commitments. The SFR is also known as the performance report, and is required every financial year to address a list of questions, as indicated in Table 5-3.

Questions	Reporting Components	
<i>Who are we?</i>	Entity Information	name, legal status, organizational structure, target groups, funding sources (non-financial information)
<i>Why do we exist?</i>		Mission and Outcomes (non-financial information)
<i>What did we do?</i>	Statement of Service Performance	Outputs and Outcomes (non-financial information)
<i>When did we do it?</i>		Actual (this/last year) vs Budget (this year) Outputs (non-financial information)
<i>How was it funded?</i> <i>What did it cost?</i>	Statement of Financial Performance; Statement of Cash Flows (Tier 3 charities)	Financial Information
	Statement of Receipts and Payments (Tier 4 charities)	
<i>What do we need to continue? What the entity owns? What the entity owes?</i>	Statement of Financial Position (Tier 3 charities)	Financial Information
	Statement of Resources and Commitments (Tier 4 charities)	
<i>How did we account for our activities?</i>	Statement of Accounting Policies (Tier 3 charities)	Financial Information
	Notes to the Performance Report	Additional information that is important to users' understanding of the Performance Report

Table 5-3: Summary of questions and reporting components in the performance report – adapted from External Reporting Board (2014d, 2014e)

³⁷ For example, charities under Tier 3 use the standard public benefit entity simple format reporting – accrual (not-for-profit) (PBE SFR-A (NFP)) that was issued by the XRB pursuant to section 24(1) (a) of the *Financial Reporting Act 1993* in New Zealand (External Reporting Board, 2014d). An explanatory guide A5(EG A5) provides a template and associated guidance notes for optional application by Tier 3 charities that are preparing a performance report in accordance with PBE SFR-A (NFP) (External Reporting Board, 2014d). Charities under Tier 4 use the standard public benefit entity simple format reporting – cash (not-for-profit) (PBE SFR-C (NFP)) that was issued by the XRB pursuant to section 12 (a) of the *Financial Reporting Act 1993* in New Zealand (External Reporting Board, 2014e). An explanatory guide A6 (EG A6) provides a template and associated guidance notes for optional application by Tier 4 charities that are preparing a Performance Report in accordance with PBE SFR-C (NFP) (External Reporting Board, 2014e).

The questions in Table 5-3 capture charities under Tiers 3 and 4 in terms of both financial and performance information. They are presented in a list of reporting components. For example, the question ‘*why do we exist?*’ highlights the mission and outcomes that a charity seeks to achieve, while the question ‘*what did we do?*’ assesses the outputs a charity produced in providing services. The mission of a charity is presented in its entity information, whereas the outputs and outcomes are contained in a Statement of Service Performance (SSP). The performance report is crucial in understanding the performance of charities, and helps to “build an entity’s reputation, make a case for support and be a vital means of reaching new donors, partners and volunteers” (External Reporting Board, 2014c, p. 23).

The SSP provides an opportunity for charities to tell their stories, as it contains mainly performance information such as outcomes. Whilst SSP is a compulsory reporting requirement for charities under Tiers 3 and 4, reporting outcomes is optional for Tier 4 charities. This is because Tier 4 charities are smaller with annual operating expenditure under \$125,000, so are less likely to have available resources to investigate outcome reporting. Instead, the SSP section of the explanatory guidance (EG A6) suggests Tier 4 charities provide significant information on actual outputs, which are compared with budgeted outputs and last year’s actual outputs to demonstrate their performance. The NZASB is currently developing standards on Service Performance Reporting for Tiers 1 and 2 charities, and is intending to issue a proposed standard for comment by early 2016. The next section discusses new statutory audit and review requirements, which also came into force for periods beginning on or after 1st April 2015.

5.3.3.3 New Statutory Audit and Review Requirements

The registered charities that have over NZD 500,000 operating expenditure are required to have an assurance engagement under section 42C and 42D of the amendments to the *Charities Act 2005* in New Zealand. For periods beginning on or after 1st April 2015, medium and large³⁸ registered charities must comply with the new statutory audit and review requirements developed by the New Zealand Auditing and Assurance Standards Board (NZAuASB)³⁹ (Charities Services, 2015k).

³⁸ If the OPEX is less than NZD 1 million but over or equal to NZD 500,000, it is a medium sized charity, and if the OPEX is over or equal to NZD 1 million, the charity is a large sized charity.

³⁹ The NZAuASB is also a Committee of the XRB Board, and has delegated authority from the XRB Board to develop or adopt and issue auditing and assurance standards (including professional and ethical standards for auditors).

Operating Expenditure (NZD)	Financial Statements	Reporting Tiers
≥ 1,000,000	Audit required ⁴⁰	Tier 1, 2, 3
≥ 500,000 and < 1,000,000	Audit or review required	Tier 3
< 500,000	Not required to have an audit or review	Tier 3, 4

Table 5-4: Tiers of charities and their assurance requirements

Although both new reporting standards and new statutory audit and review requirements are recent changes to New Zealand charity statutes, different methods categorize the charities. For example, as shown in Table 5-4 above, Tier 3 charities are included within all three categories of the audit and review requirements. This means that Tier 3 charities could be charities that must be audited, charities that are subject to either audit or review, or those not required to have an audit or review at all. Such a discrepancy between new reporting standards and new statutory audit and review requirements, both of which came into effect for periods beginning on or after 1st April 2015, could bring confusion to charities under Tier 3.

Overall, many changes have been made to the reporting requirements for New Zealand charities, the latest being both new reporting standards and new statutory audit and review requirements that came into effect for periods beginning on or after 1st April 2015. The changes force many New Zealand charities to disclose their performance information, such as outputs and outcomes. This could be very challenging for many charities, especially the Tier 4 charities that must now disclose their performance information at a cost to their institutions. The next section discusses the funding environment of charities in New Zealand.

5.4 The Funding Environment of Charities

Charities are expected to act in accordance with their regulatory environment, but are also influenced greatly by their funding environment. In New Zealand, the funding streams of NFPs, including charities, are in line with those of charities in other western countries

⁴⁰ A qualified auditor must fulfil the following criteria: a Chartered Accountant or Certified Practising Accountant; holds a Certificate of Public Practice; is recognized by the professional accounting body as a qualified auditor; complies with any general or specific conditions attached to their recognition; and has his or her details included in a public register of qualified auditors (Charities Services, 2015k).

discussed in Section 2.2, and include three major sources: government, private philanthropy and fees for services (Sanders et al., 2008). As demonstrated in Figure 5-2 below, the funding streams for New Zealand, Australia, the US and the UK NFPs are generally similar, but the proportion of each funding stream varies (Sanders et al., 2008).

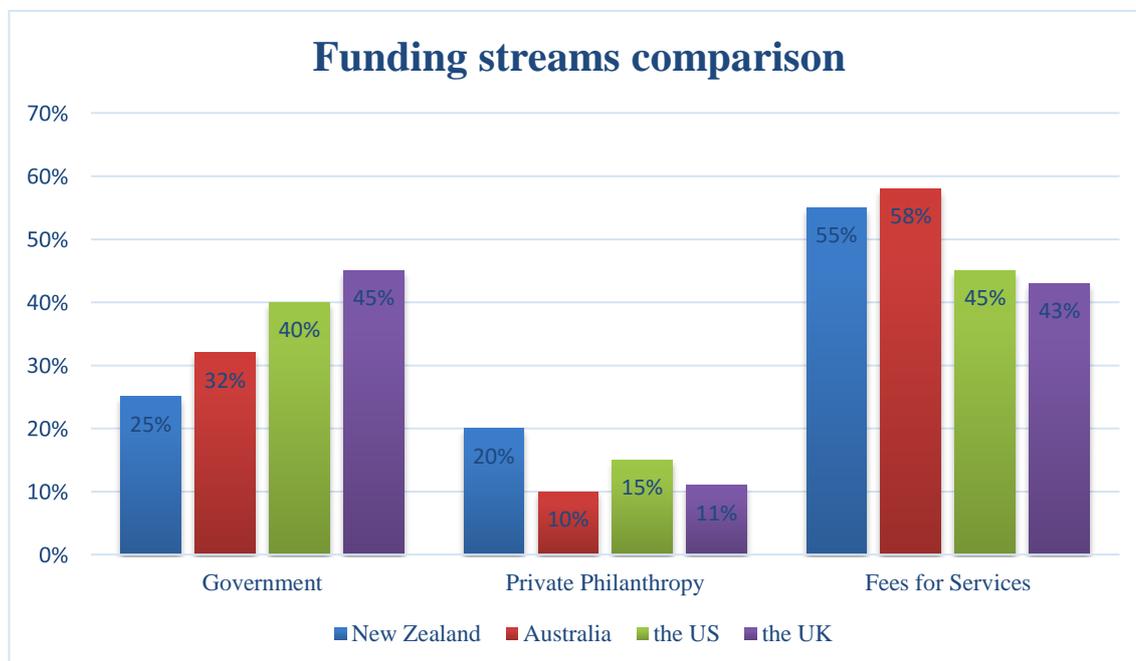


Figure 5-2: Funding streams comparison among four countries (Sanders et al., 2008)

Compared with NFPs in Australia, the US and the UK, New Zealand NFPs received the most philanthropic funding but the least government funding. Based on this survey, New Zealand NFPs mostly depend on funding streams other than government funding, a finding that differs from that of Tucker and Parker (2013), who suggest that NFPs, including charities, are predominantly reliant on government funding. This is because government funding is provided mainly in the activity groups of health, education and social services, and almost half of the charities are registered under these groups⁴¹ (Charities Services, 2014b; Sanders et al., 2008).

Contracting public services to NFPs and for-profit organizations is a result of the public sector management reforms in many western countries, and New Zealand is no exception (Office of the Auditor-General, 2006). New Zealand NFPs were largely reliant on grant funding prior to the 1980s, but the government has taken a more central role in the

⁴¹ As at 26th Oct 2014, there were 11,955 registered charities in the activity groups of social services (2,569), health (2,350) and education (7,036), which was equivalent to 44 percent of the total registered charities (27,000).

provision of social services by introducing contracting during recent decades (Wilson, Hendricks, & Smithies, 2001). A study of NFP sector community and voluntary organizations in Christchurch, New Zealand, identified the shift from grant-based to contractual funding arrangements, resulting in a small number of organizations more professionalized and dependent on contracting, whereas a larger proportion remained highly dependent on volunteers and donations (Conradson, 2002). In analysing the historical choices made by New Zealand governments and charities relating to social services funding and delivery, Cordery (2012) reconciled two notions of ‘supplementary’ and ‘complementary’ relationships (see Section 2.2.1). She found that government-charity relations in New Zealand appeared to be mutable, allowing supplementary and complementary services to operate contemporaneously (Carolyn Cordery, 2012).

Figure 5-2 indicates that the funding stream for private philanthropy in New Zealand is significantly higher than in the other countries. A “small nation with big hearts” is used to describe New Zealanders, who donated around \$2.67 billion to charities in 2011 (Slack & Molano, 2012, p. ii). The foundation grants, which are mainly provided by grant-making NFPs such as community trusts, energy trusts and gaming machine trusts⁴², are more prominent in philanthropic funding compared to individual and corporate contributions (Sanders et al., 2008). Moreover, Tennant et al. (2006) included support from local government, which are council-controlled organizations, as part of the private contribution. The “Community Organization Grants Schemes” and the “Community Initiative Fund” are examples of New Zealand local government support (Tennant et al., 2006, p. 13). In addition, payroll giving is a voluntary scheme where employees can make donations from their pay to support organizations with donee status. Until 2014, \$17.7 million had been donated since payroll giving was first established in 2010 (Inland Revenue Department of New Zealand, 2014).

In addition to government and philanthropic funding, the income sources of New Zealand NFPs are also derived from fees for services, in terms of selling services and products as well as other commercial activities (Sanders et al., 2008). In line with the commercialization outlined in Section 2.2.3, New Zealand evidence shows that charities

⁴² Community and energy trusts are statutory bodies established to manage assets from the privatised community savings banks or utilities, and gaming machine trusts raise funds through gaming machines for distribution to charities and other specified NFPs in New Zealand (Sanders et al., 2008).

are increasingly involved in raising funds from commercial activities and philanthropic sources when government funding reduces (Carolyn Cordery, 2012).

This section has explained the funding environment of New Zealand charities, which is largely in line with the international literature discussed in Section 2.2. However, philanthropic funding in New Zealand is largely received from grant-making NFPs and individual donations. This may be because regulators encourage private philanthropy in New Zealand by providing tax benefits to philanthropic funders, including individual donors (see Section 5.3.2). The next section provides contextual background to the two case study charities.

5.5 Background to the Case Study Charities

This section introduces background to the case study charities, and describes mission and charitable purpose, salient stakeholders, services and activities, as well as funding and resources.

5.5.1 Case One: Charity A

5.5.1.1 Mission and Charitable purpose

Established in 1988, Charity A was the first organization in New Zealand to address a specific addiction problem, and the largest single treatment provider in Australasia. The mission of Charity A is to build healthy communities together, free from addiction harm. More than sixty paid staff are delegated into six divisions. Four divisions focus on mainstream New Zealanders in different regions, while the other two divisions engage with ethnic groups, including Pacific and Asian communities. In 2001, Charity A was registered as a charitable trust, and then registered as a charity in 2008. Its charitable purpose meets the fourth category ‘any other matter beneficial to the community’ under section 5 (1) of *Charities Act 2005*, and Charity A provides public benefit by delivering services and activities to reduce addiction problems throughout New Zealand.

In order to accomplish its mission and charitable purpose, Charity A has developed three objectives: changing lives, changing the communities and changing the environment. The changing lives objective aims to reduce addiction problems to individual beneficiaries by providing counselling services. The objective of changing the communities is to prevent addiction problems at a community level by delivering public health activities. The objective of changing the environment aims to minimize addiction problems by initiating

policy development activities that address a variety of government policies, standards and legislative changes.

5.5.1.2 *Salient Stakeholders, Services and Activities*

The salient stakeholders of Charity A include government and philanthropic funders, regulators, beneficiaries, volunteers, addiction practice venues and related organizations that receive Charity A's training, and co-host international addiction conferences, Charity A's board members, and paid staff. Three types of services and activities are delivered to accomplish Charity A's mission and objectives: counselling services, public health activities, and policy development activities.

Counselling services include brief intervention, full intervention, follow-up and facilitation, and qualified counsellors provide them to beneficiaries and their families. Brief intervention is a preliminary assessment to identify addiction problems, while full intervention is a face-to-face counselling session. Follow-up provides an opportunity to assess service outcomes after beneficiaries have been discharged, and facilitation supports beneficiaries who have other co-existing issues. In the past twenty years, Charity A has provided counselling services to more than 25,000 beneficiaries (Charity A's website, 2015). Qualified public health social workers provide public health activities through community education and health promotion activities. In a preventative approach, Charity A delivers health promotion projects and establishes connections with various organizations to raise awareness of addiction harm. Policy development activities are delivered by the existing paid staff and volunteers to promote any addiction harm minimization policies, standards and legislations. For example, beneficiaries and individuals in communities are encouraged to make submissions to their local councils with the aim of supporting addiction-harm minimization policies.

The total paid staff and volunteers of Charity A from 2009 to 2013 is illustrated in Table 5-5.

	2009	2010	2011	2012	2013
Total no. of paid staff	65	60	61	62	66
No. of full time paid staff	44	49	52	50	52
No. of part time paid staff	21	11	9	12	14
No. of volunteers	0	4	6	6	6

Table 5-5: Charity A - total paid staff and volunteers (the Charities Register, 2009-2013)

Table 5-5 shows that the number of paid staff and volunteers from 2009 to 2013 has not changed much except that Charity A started to recruit volunteers from 2010. This may be because Charity A is largely reliant on one government funder's support and the funder has specific requirements for staff allocations. The funding and resources of Charity A is further explained in the next section.

5.5.1.3 *Funding and Resources*

Charity A receives approximately five million New Zealand dollars in funding per annum. The majority of this funding is from a three-year contract with one government funder, and the remaining funds are from other government funders' grants, philanthropic funding and commercial income, such as rental and interest income. As identified in the annual reports of Charity A from 2008 to 2014, its total income and funding streams are outlined in Table 5-6.

	2008 (\$000's)	2009 (\$000's)	2010 (\$000's)	2011 (\$000's)	2012 (\$000's)	2013 (\$000's)	2014 (\$000's)
Government Funding	4,911	4,756	4,631	4,571	4,643	4,715	4,715
	92%	90%	92%	89%	88%	89%	90%
Philanthropic Funding	204	258	222	452	525	442	392
	4%	5%	4%	9%	10%	8%	7%
Commerical Income	221	265	185	136	150	139	161
	4%	5%	4%	3%	3%	3%	3%
Total Income	\$5,336,000	\$5,279,000	\$5,038,000	\$5,159,000	\$5,318,000	\$5,296,000	\$5,268,000

Table 5-6: Charity A - total income and funding streams (Annual Reports, 2008 – 2014)

Table 5-6 illustrates that the income of Charity A sourced from the government contract decreased gradually from 2008 to 2011, with a slight increase from 2012 onwards. Consequent to that, the philanthropic funding increased dramatically from 2008 to 2012,

but dropped in 2013 and 2014. The philanthropic funding is derived from fundraising activities. This was mainly conducted by its Asian division in order to provide counselling services to additional beneficiaries. The rental and interest income represents only a small portion of the total income, but they illustrate the efforts Charity A devotes to generating commercial income.

Since most of its income is from government funding, Charity A is dependent on on-going support from one government funder and must fulfil the funders' contractual requirements to receive a renewal of contract. Generally, government funding is received in advance and the contract is renewed for another three-year prior to its due date. As identified in Table 5-7, government funding and required full time equivalent (FTE) staff allocations for each service and activity are specified in the funding contract. During the period 2011 to 2013, the majority of funding and human resources was allocated to counselling services and public health activities, whereas policy development activities received only approximately five percent of the total income and covered less than three FTE paid staff. There are minor differences between the total income in Table 5-7 and government funding indicated in Table 5-6. This is because Charity A received some grants from other government funders for providing training to staff in addition practice venues.

	Income (GST excl.)						FTEs
	2011		2012		2013		2011 -2013
Counselling Services	\$2,533,076	55.41%	\$2,392,460	53.75%	\$2,440,304	53.99%	24.2
Public Health Activities	\$1,784,805	39.04%	\$1,802,653	40.50%	\$1,820,680	40.28%	18.65
Policy Development Activities	\$253,605	5.55%	\$256,141	5.75%	\$258,702	5.72%	2.65
Total income & FTEs	\$4,571,486		\$4,451,255		\$4,519,686		45.5

Table 5-7: Charity A-government funding and required FTE staff allocations (Charity A's contractual funding agreement, 2011-2013)

A recent three-year contract with the government funder ended on 30th June 2014, and Charity A expected to have a routine renewal for a further three years. However, the government funder decided to cut 77 percent of the funding and re-allocate it to another charity, while the remaining funds were distributed to the Asian division of Charity A.

The consequence of this funding cut was that 52 staff would lose their jobs and most of their offices would have to be closed. Charity A took legal action towards the government funder to challenge this unexpected funding loss. After more than a year of judicial review, the High Court overturned the decision of the government funder on 23rd July 2015 and Charity A’s contract will be continued until 2016.

5.5.2 *Case Two: Charity B*

5.5.2.1 *Mission and Charitable purpose*

The stated mission of Charity B is to turn lives around. In 2009, Charity B is registered as both a charitable trust and a charity and meets the fourth category of the charitable purpose ‘any other matter beneficial to the community’ under section 5 (1) of the Charities Act 2005. It also provides public benefit by providing social services and community development activities to its beneficiaries and communities. As one of the oldest church-based organizations in Auckland, Charity B has a long history (dating back as early as the 1850s) of responding to social issues, such as poverty, unemployment, poor housing, educational and healthcare deprivation. To address these issues, Charity B set up soup kitchens to feed the unemployed people in 1851, opened the first residential care home for older people in 1942 and changed orphanages to foster homes in 1976 to care for children. In 2008, Charity B separated into three charities, as shown in Figure 5-3.

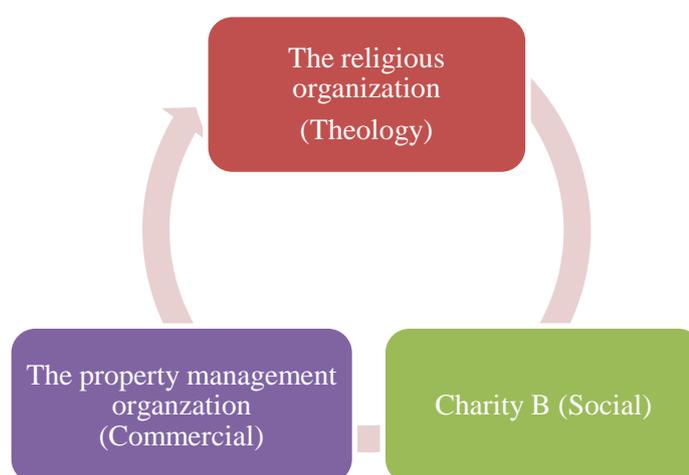


Figure 5-3: Charity B and its partners

The religious organization provides religious services and focuses on the areas of theological and pastoral work. Charity B continues and is solely responsible for providing social services and community development activities. One additional charity was

established to steward properties of the religious organization: the property management organization. This structure aims to enable each organization to concentrate on its core area of responsibilities and to generate additional income that sustains Charity B in carrying out its mission.

5.5.2.2 *Salient Stakeholders, Services and Activities*

Charity B provides various social services and community development activities, including homecare services, family services, early childhood education, homeless services and community development activities. The homecare services provide assistance to older people and those with disabilities. The services include housekeeping, personal care and helping beneficiaries to be reconnected with society and to integrate with the community. The family services support families with difficulties, especially young parents who have issues of poverty, violence and isolation. The family services include parenting courses, family counselling and foster care. In addition, the early childhood education provides services to preschool children and their families. Charity B has built two pre-schools that are free of charge in west Auckland. The homeless services are provided to homeless people who are sleeping rough on the streets, in empty buildings, doorways and car parks. Traditionally, Charity B used a soup kitchen approach of ‘handouts’ to distribute food and clothing to its beneficiaries. In 2010, Charity B closed its traditional soup kitchens and opened a community café in Auckland. In addition to providing social services in designated areas, Charity B initiated some community development activities to support local communities. For example, a project was developed for neighbourhood engagement in 2009. By supporting residents to build relationships in their neighbourhoods, Charity B aims to form better connections and engagements within communities.

Accordingly, Charity B supports a wide range of beneficiaries and related parties that include older people and those living with disabilities, families, children, homeless people and local communities. Apart from beneficiaries and communities, other salient stakeholders of Charity B include its board members and managers, paid staff, volunteers, government funders, philanthropic funders, regulators, religious organization and property management organization. The total paid staff and volunteers of Charity B from 2010 to 2013 are illustrated in Table 5-8.

	2010	2011	2012	2013
Total no. of paid staff	339	360	433	543
No. of full time paid staff	101	110	55	90
No. of part time paid staff	238	250	378	453
No. of volunteers	10	15	4	11

Table 5-8: Charity B - total paid staff and volunteers (the Charities Register, 2010-2013)

Table 5-8 shows that while there was a significant increase in the total number of paid staff from 2010 to 2013, full time paid staff have reduced throughout the years whereas part time paid staff number continue to increase. The number of volunteers is low compared with the number of paid staff, indicating that Charity B does not rely on volunteer support.

5.5.2.3 *Funding and Resources*

Table 5-9 outlines the total income of Charity B received from a combination of government funding, philanthropic funding and commercial income.

	2010 (\$000's)	2011 (\$000's)	2012 (\$000's)	2013 (\$000's)
Government funding	7,937	8,914	10,789	9,315
	84%	81%	83%	80%
Philanthropic funding	739	1,280	1,335	1,418
	8%	11%	10%	12%
Commercial income	761	776	801	909
	8%	7%	6%	8%
Total income	\$9,437,000	\$10,970,000	\$12,925,000	\$11,642,000

Table 5-9: Charity B-total income and funding streams (the Charities Register, 2010-2013)

Table 5-9 illustrates that the total income of Charity B increased from 2010 to 2012 with a slight drop in 2013. This largely due to a government funding decrease in 2013 while both philanthropic funding and commercial income continued to rise.

Charity B is reliant on government funding, as more than 80 percent of its total income is received from two forms of government funding for homecare services. The majority of the government funding is derived from a five-year contract to support beneficiaries who

are over 65 years old and identified as having disabilities related to aging. Charity B has included this funding as a contingent liability in the notes of its audited financial statements. Should this not be renewed significant costs would be incurred in reducing staff and associated overhead, indicating the uncertainty and vulnerability of Charity B. Such recognition of government funding will be further analysed in Section 7.2 Financial Measurement. Another smaller government-funding stream is for beneficiaries who are under 65 years old. Previously these beneficiaries were supported in residential care. The government funders require Charity B to follow a New Zealand health for older people strategy, which promotes beneficiaries living independently in their own homes rather than in residential care homes. Hence, beneficiaries of homecare services are maintained in their own homes and encouraged to live independently.

Philanthropic funding of Charity B includes mainly philanthropic funders' grants and donations. Donations are received due to Charity B's fundraising events or its religious beliefs as a church-based charity. For example, an annual fundraising event for homeless people is organized by Charity B in which over \$100,000 in donations is received each year.

Commercial income is provided from the religious organization and property management organization in relation to property investment activities, which accounts for approximately eight percent of Charity B's total income. The commercial income is generated to carry out the mission of Charity B, especially in the area of services and activities that do not have sustainable funding, such as homeless services.

5.6 Chapter Summary

This chapter has outlined the New Zealand context in regard to the operating environment of charities and the two case study charities examined in this study. The significance of the NFP sector in New Zealand was firstly highlighted, followed by an outline of the regulatory and funding environment of charities. Both new reporting standards and new statutory audit and review requirements, which came into effect for periods beginning on or after 1st April 2015, were discussed. A background to the two case study charities was presented to contextualise the findings presented in Chapters 6, 7 and 8. Chapter 6 discusses the information needs of regulators and funders, and Chapters 7 and 8 present the performance measurement and reporting practices of the case study charities and the extent to which these practices address the information needs of key stakeholders.

Chapter 6: Information Needs of Key Stakeholders

6.1 Introduction

Chapter 2 identified that regulators and funders (including both government and philanthropic funders) are key stakeholders who have a high degree of salience for charities. These stakeholders' information needs were made up of background, financial and performance information. This chapter focuses on the information needs of both regulators and funders in New Zealand, to gain further understanding of their expectations of charity accountability. The empirical findings with respect to the information needs of these stakeholders are presented and discussed from the perspectives of the stakeholders themselves.

New Institutional Sociology concepts of isomorphism and institutional work are used to interpret these findings with the aim of addressing the second research question for this study, i.e., 'how do the performance measurement and reporting practices of New Zealand charities address the information needs of key stakeholders?' As noted in Chapter 1, this question is answered by comparing the findings for the first research question with the perspectives of charities' key stakeholders. In order to gain understandings of the stakeholders' information needs, this chapter focuses on four questions for each type of information (background, financial and performance information): (1) what information is expected and required by the key stakeholders? (2) Why do they have such expectations and requirements? (3) How do they ensure the provision of the expected and required information? (4) Are there any problems perceived by the key stakeholders with these expectations and requirements? The types of information (background, financial and performance information) are discussed respectively in Sections 6.2, 6.3 and 6.4⁴³. While this chapter emphasizes the information needs of regulators and funders, Section 6.5 also reveals the unheard voices from beneficiaries as another group of salient stakeholders. Concluding comments are made in Section 6.6.

⁴³ In order to provide a clear picture of the information needs of key stakeholders for each type of information, a number of figures, including relevant grant application and report-back forms are incorporated into this chapter.

6.2 Background Information

Section 2.3.1 identified background information as an important type of information that is generally demanded by stakeholders wishing to understand a charity's structure and activities. In this section, background information is further elaborated in order to assess the expectations and requirements of New Zealand charities' key stakeholders for background information.

6.2.1 Key Stakeholders' Information Needs

This section discusses the information needs of regulators and funders for background information. In particular, their expected and required background information is explained.

6.2.1.1 Regulators

The Department of Internal Affairs-Charities Services (DIA-CS), as a key regulator in the New Zealand charity sector, requires background information such as basic details of a charity in the form of an Annual Return, illustrated in Figure 6-1.

Charity's details

1	Tell us your charity's current legal or most formal name. If it hasn't changed it will be the name on the Charities Register.
2	Your registration number is on your charity's summary page on the Charities Register at www.charities.govt.nz

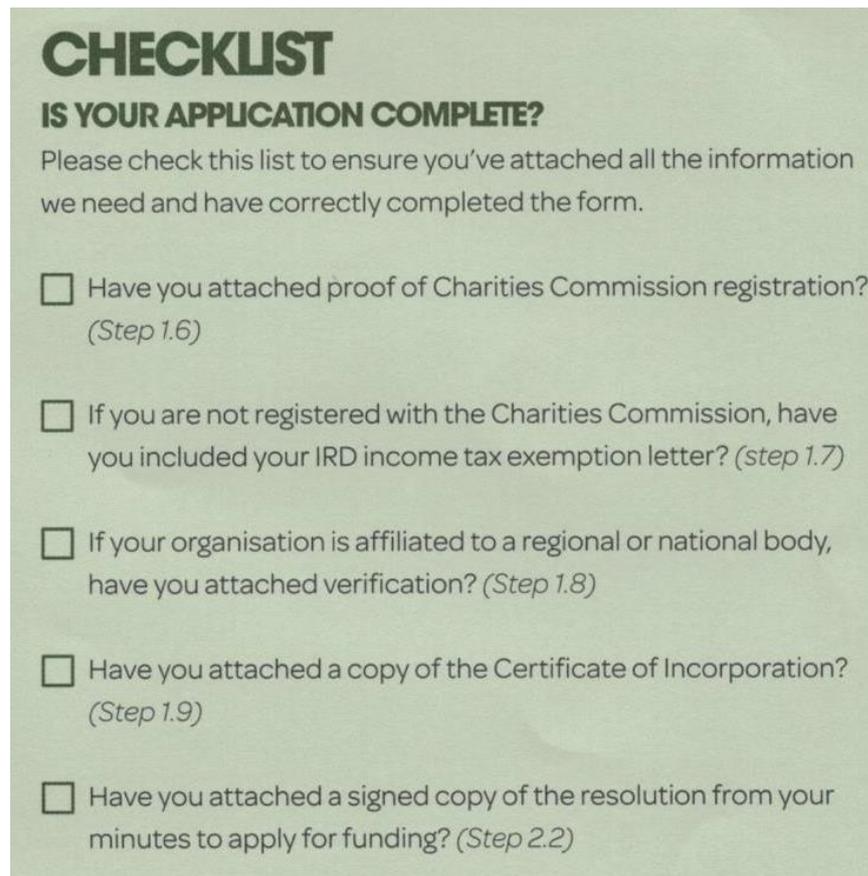
Figure 6-1: Annual Return template - background information (Charities Services, 2015h, p. 4)

Section 5.3.3 noted that all registered charities must comply with the reporting requirements of the DIA-CS, and the provision of background information is mandatory for their charitable status to be maintained. The Annual Return is used as a reporting enforcement mechanism by the regulator, and this is further discussed in Section 6.2.3.

6.2.1.2 Funders

Philanthropic funders also require background information prior to a formal engagement with a charity. An interviewed philanthropic funder noted that charities must provide background information, such as how they are constituted, when they apply for grants:

They need to tell us who they are, what type of organizations they are, their addresses, the people who are applying for grants. They have to give us their Charities Commission [DIA-CS] number, we need to know if they are GST registered, if they have an IRD tax exemption, whether they are affiliated to a national or regional body or corporation, and what purposes are the grants to be used for. The other things that they need to give us are in terms of a check list. [For example], a proof of the Charities Commission [DIA-CS] registration, a proof of being affiliated, a copy of the Certificate of Incorporation and a signed copy of a resolution from the Board of Trustees. (Grant and Marketing Manager, Philanthropic Funder 4)



CHECKLIST
IS YOUR APPLICATION COMPLETE?

Please check this list to ensure you've attached all the information we need and have correctly completed the form.

- Have you attached proof of Charities Commission registration? (Step 1.6)
- If you are not registered with the Charities Commission, have you included your IRD income tax exemption letter? (step 1.7)
- If your organisation is affiliated to a regional or national body, have you attached verification? (Step 1.8)
- Have you attached a copy of the Certificate of Incorporation? (Step 1.9)
- Have you attached a signed copy of the resolution from your minutes to apply for funding? (Step 2.2)

Figure 6-2: A checklist of grant application form provided by Philanthropic Funder 4⁴⁴

The check list mentioned by the Philanthropic Funder 4 is demonstrated in Figure 6-2. Both Figure 6-2 and the interview data above show that a significant amount of background information is required by the philanthropic funder in order to assess a charity's grant application. During this assessment process, both the background information of the charity and verification of the information (such as a proof of registration with the DIA-CS) are required, indicating that the philanthropic funder has strong information needs for background information. This is supported by another

⁴⁴ See Appendix 8 for a list of interviewed funders and their related details

interviewed philanthropic funder who mentioned that reputation and reference checks are used to verify the background information provided by charities in a specific field:

We have a small team including a specialist from the youth sector to review applications. We put a lot of weight on background checks. We do reference checking and different due diligence on the organisations because we have got strong connections in the youth sector nationally. (Foundation Manager, Philanthropic Funder 7)

Significant efforts are identified in the process of reviewing documents and verifying the background of charities. This indicates a form of institutional work (see Table 3-2), i.e. embedding and routinizing (Lawrence & Suddaby, 2006), conducted by the philanthropic funders, which leads to the spread of acceptable practices and norms in the charity sector. This finding adds to Connolly and Hyndman's (2013a) study in which the information needs of individual small donors to the UK charities were examined, but where their focus was on the disclosure of performance information rather than on background information to fulfil stakeholders' needs. By considering the information needs of philanthropic funders, i.e., grant-making NFPs, rather than merely individual small donors in a New Zealand context, this study illuminates the role of background information in fulfilling the information needs of multiple stakeholders. In addition, Connolly and Hyndman (2013a) identified that individual donors⁴⁵ have limited powers of interrogation and, thus, have to rely on external communication channels such as annual reports and annual reviews to meet their information needs. This study identifies that not only is background information required by philanthropic funders, but a verification process is also initiated by the funders to validate the reliability and accuracy of the background information disclosed by charities, thus adding to Connolly and Hyndman's (2013a) study. Moreover, no evidence is found that government funders require their contracted charities to provide any form of background information. This may be because the government funders tend to fund charities including the case study charities that have existing government contracts, rather than reviewing the background information of new charities. Nonetheless, for any new contracts, charities would have to provide extensive information for government funders. These charities also need to be accredited (requiring extensive background checking) before bidding for any contractual work. The reasons this information is expected by key stakeholders are explained in the next section.

⁴⁵ Individual donors are different to large funders who can require applications and form fillings.

6.2.2 *Reasons for the Information Needs*

6.2.2.1 *Regulators*

The reason the DIA-CS requires background information from charities is outlined in the following documentary evidence:

[The] information you provide is held and used by Internal Affairs and the Charities Registration Board to determine your ongoing eligibility for registration and to carry out its functions under the *Charities Act 2005*. The *Charities Act 2005* authorises the supply of information or documents held on the Register to Inland Revenue. *The Statistics Act 1975* allows for the information to be used for statistical purposes by Statistics New Zealand. (Charities Services, 2015h, p. 4)

The above evidence indicates that the reasons the DIA-CS requires background information are three-fold: (1) to ensure the charity is eligible for registration; (2) to publish background information on the Charities Register demonstrating charity accountability and transparency; (3) for tax exemption and statistical purposes. The first two reasons are in line with the objective of the DIA-CS, i.e., to promote public trust and confidence in the New Zealand charity sector; and in accordance with the *Charities Act 2005* (see Section 5.3.3.1). The second reason supports Connolly and Hyndman's (2003) England and Wales-based argument that background information enables stakeholders to understand better a charity's structure and activities. Nonetheless, in a New Zealand context, charities are not required to disclose background information in the form of annual reports in order to fulfil their legal requirements (as outlined in Section 2.3.1), and this is fundamentally different to charities in England and Wales. Instead, New Zealand charities are required to provide their background information when completing their Annual Returns, thus meeting their regulator's information needs.

6.2.2.2 *Funders*

There are two reasons philanthropic funders require charities applying for grants to provide background information. On one hand, philanthropic funders need background information to assess the grant applications of charities, as indicated by the following interviewee:

We have a team of people who receive the grant applications to make sure they are legal, they are safe and they are compliant. For example, we would grant money to charities because they might be an incorporated society or a charitable trust, or if they are a sport's group and they have to have a certain type of tax exemption. We also need to see evidence of good governance, so they need to tell us their Board of Trustees, who they are, how it works, and those Trustees are engaged in the process, in other words they are endorsing

the application that we receive. (Grant and Marketing Manager, Philanthropic Funder 4)

This interview data suggests that the approval of a grant application is closely associated with the provision of sufficient background information. For example, when a charity provides details of its legal binding rules and demonstrates sound board governance, it has more chance of succeeding in its grant application. This is because some background information indicates that a charity fulfils its legal obligation, such as (if an incorporated society) filing an annual financial statement with the Registrar of incorporated societies (see Section 5.3.1.2), and that it has a reliable internal support system via its Board of Trustees. As such, the background information of a charity provides credibility to the charity's structure and activities and outlines a context for understanding its performance and accountability.

Another reason for requiring charities' background information is because the information is used by philanthropic funders wishing to match their priorities or strategy areas in allocating funds. This view is captured in the following interview quotations:

For our foundation which is a NFP approving charitable grants, we have four major areas in which grants are made. First is community wellbeing, the second is education, the third is amateur sport, and the fourth is art, environment and heritage. So only applications which fit into those broad categories are considered by our foundation. (Grants Manager, Philanthropic Funder 1)

We are an umbrella organisation for a number of donors and currently we have about 25 funds under our trust, so we treat these funds differently...there are particular things we are looking for in an application and they have been specified by our donors. [For example], they have given us three priorities within the youth sector which is youth health, youth transitions and educational achievement. So we are looking for the ones that fit best with that particular area of youth. (Grants and Project Manager, Philanthropic Funder 6)

The interview data above suggests that these interviewed philanthropic funders are either grant-making NFPs, such as community trusts in New Zealand as outlined in Section 5.4, or umbrella organizations for small donors. Regardless of the nature or size of philanthropic funders, they generally have their own priorities. For example, a section of the grant application form provided by philanthropic funder 6 highlights which of its priorities are most important when charities apply for grants, as demonstrated in Figure 6-3.

3.1 Which of following priorities does your initiative meet?					
Youth Development		Early Years		Housing	
Māori		Literacy & Numeracy		Budgeting	
Migrant, Refugee, Cross-cultural					

Figure 6-3: Grant application form provided by Philanthropic Funder 6

Hence, the background information provided by charities is used to determine which charities match the priorities of the philanthropic funder. This reason for demanding background information inevitably links to the first, as assessing applications for granting funds is a purpose of philanthropic funders, but the second reason highlights the use of background information in matching priorities.

Overall this section has discussed the reasons the regulator and philanthropic funders require background information from charities. The next section explains the reporting mechanisms by which they enforce the provision of such information.

6.2.3 *Reporting Enforcement Mechanisms*

This section discusses reporting enforcement mechanisms used by regulators and funders to enforce the provision of background information as expected.

6.2.3.1 *Regulators*

Figure 6-1 showed that the Annual Return is a mechanism to ensure that the information needs of the DIA-CS on background information are met. As highlighted in Section 5.3.3.1, Annual Returns must be filed within six months of a charity's balance date. If a charity fails to file its Annual Returns, it faces the consequence of being deregistered as a charity. This enforcement mechanism is discussed together with enforcement mechanisms imposed by funders in the following section.

6.2.3.2 *Funders*

The grant application forms are another mechanism for ensuring that background information is provided by charities to meet the information needs of philanthropic

funders. This is evident in the following grant application form provided by Philanthropic Funder 3.

Application Form

Organisation details

Name of Organisation:		Date:	
Legal Status:		Charities Commission No.:	
Postal Address:			
Street Address:			
Contact Person:		Position:	
Phone:		Fax:	
Email:		Website:	
Project Name:			
Amount Requested:	\$		<i>(excluding GST)</i>

Community Links

Please indicate the organisations and networks with which you have regular contact and the links you have with the community you serve.

Figure 6-4: Grant application form provided by Philanthropic Funder 3⁴⁶

Figure 6-4 identifies a number of pieces of background information, such as organizational details and community links, required by the philanthropic funder to assess the legal and administrative arrangements, as well as the general background of charities. For example, information relating to community links outlines the ability of a charity to collaborate with other actors in the field, such as other charities or partners. Charities must complete the grant application form and provide the required background information to avoid losing the grant opportunities.

Hence, both grant application forms and Annual Returns are mechanisms imposed by the DIA-CS and philanthropic funders to ensure the background information will be provided by charities. Accordingly, charities must provide the background information to avoid sanctions: being deregistered and losing grant opportunities. This highlights coercive pressures from the regulator and philanthropic funders (DiMaggio & Powell, 1983) and extends Connolly and Hyndman’s (2003, 2004) studies with respect to the background

⁴⁶ Philanthropic Funder 3 changed its funding application process, documents such as full grant application forms will only be provided to charities when their eligibility and preliminary applications are approved.

information disclosed by their studied charities in annual reports. The disclosure of background information was to fulfil the legal requirements, i.e., 2000 SORP at that time, which evolved to the current 2015 SORP. The background information disclosed by the charities may meet the information needs of the Charity Commission for England and Wales as a key regulator, but the trustees' annual report as a statutory document was the only mechanism identified by the researchers for enforcing background information. This study adds to Connolly and Hyndman (2003, 2004) by considering both funders and regulators' information needs and their rationale for requiring background information, as well as identifying mechanisms that ensure the provision of such information. The next section identifies problems perceived by regulators and philanthropic funders with their expectations and requirements for background information.

6.2.4 *Problems Perceived by Funders*

The following interviewee identified that the philanthropic funder required a maximum word count, and that this explicitly restricted charities in providing their background information:

It is only 150 words on each area, not a lot longer because we do not want them to have to write it, and we do not want to have to read lots of things that would waste time. For both parties, that is the theory we are working towards. (Projects and Strategy Manager, Philanthropic Funder 3)

This suggests that the philanthropic funder does not wish to receive lengthy background information from charities. Charities might have provided a significant amount of background information previously in the hope that their grant application would be approved, but this wordiness is time-consuming for the philanthropic funder. Although detailed background information may assist the philanthropic funder to understand a charity's ability to carry out services, resource constraints, including a lack of reviewing time, could be an issue in requiring background information. Another interviewed philanthropic funder suggested that there were a growing number of funding applications and fewer available grants in the New Zealand charity sector:

Last year we gave 55 million to the community, this year may be 42 million and next year looks like it might be even less...we are dealing with 7,000 applications each year. Three years ago we got about 250 applications a month, and now we get 600 to 700 a month, but we have not got a big team and we have not got time [to review longer applications]. (Grant and Marketing Manager, Philanthropic Funder 4)

The interview data highlights the competitive funding environment in the New Zealand charity sector and a significant increase in grant applications in recent years. It is unknown whether the increasing applications are due to an increased number of charities, to an increased need for services, or to a reduction in funding from other sources, but such a competitive environment could lead charities to compete with one another, and to provide more information, to meet their funders' information needs better.

6.2.5 Section Summary

Overall, this section has discussed background information expected and required by regulators and funders, the reasons for such expectations and requirements, the reporting enforcement mechanisms, and problems perceived by funders. In particular, the DIA-CS used the mechanism of the Annual Return to enforce the provision of the background information, in order to assist its objective of promoting public trust and confidence in the New Zealand charity sector. The philanthropic funders employed both grant application and report-back forms to ensure the background information was provided for assessing a charity's structure and activities, and matching it to the funders' priorities. However, one interviewed philanthropic funder complained that charities provided lengthy background information in the hope of succeeding in their funding applications. He identified the problem of resource constraints, including a lack of reviewing time to process the information. The next section discusses these key stakeholders' information needs for financial information.

6.3 Financial Information

Section 2.3.2 noted that financial information is generally required by stakeholders of charities to assess how funds are acquired and spent. This section uses interview and documentary evidence from funders and regulators in New Zealand to discuss the stakeholders' information needs with respect to financial information, and to identify possible reasons for requiring the financial information, mechanisms for enforcing the provision of the information, and any problems perceived by the stakeholders.

6.3.1 Key Stakeholders' Information Needs

Similar to the previous section, the financial information expected and required by regulators and funders is discussed here.

6.3.1.1 *Regulators*

In line with the regulator's information needs on background information discussed in Section 6.2.1, the DIA-CS also requires all registered charities in New Zealand to provide a copy of financial statements and type of accounting method used when filing their Annual Returns. This is outlined in the official website of the DIA-CS:

Financial information needed to complete your Annual Return includes: end of financial year/balance date; a reasonable estimate of the percentage of any funds sourced in New Zealand but spent overseas in your last financial year; a copy of the financial statements for your last financial year (they do not have to be audited); the type of accounting method you use, cash or accrual; and a statement of your financial performance and position set out in the template in the Annual Return. (Charities Services, 2015i)

Figure 6-5 presents the template for the statement of financial performance and position. The template indicates that the regulator in New Zealand has specific information needs for financial information, which could be different from the financial statements provided by charities. The mechanism of the Annual Return, which enforces the provision of this financial information, is further discussed in Section 6.3.3.

funding streams such as New Zealand dividends and bequests. In addition, the equity section in the template statement of financial position highlights three types of equities to meet the regulator's information needs: endowment funds, restricted purpose funds and general accumulated funds⁴⁷. The consideration of endowment funds and restricted purpose funds is in line with the SOFA in England and Wales as noted in Section 2.3.2, implying a certain degree of mimetic isomorphism (DiMaggio & Powell, 1983) in the charity sector. The regulator in New Zealand may have modelled this provision after regulators in other western countries, such as the Charity Commission for England and Wales. The Charity Commission could be perceived as being more legitimate since it was established in the 1800s.

This section has discussed that regulators in New Zealand have specific requirements for the provision of financial information. All registered charities must provide the required financial information when filing their Annual Returns.

6.3.1.2 *Funders*

Philanthropic funders also require financial information. For example, charities that apply for grants are required to provide a copy of the recent annual financial statement as an eligibility criterion, and details of actual expenditure when they report back, as suggested by the following interviewee:

For us to fund them, we need to see their financials are robust. They need to provide a copy of the most recent annual financial accounts, a bank deposit slip...and two competitive quotes from suppliers. (Grant and Marketing Manager, Philanthropic Funder 4)

We ask for information like what you spent the money on and we ask them to attach receipts or proof of expenditure...usually we support things like salaries, so we ask for a copy of a job description and a wage slip. (Grants and Project Manager, Philanthropic Funder 6)

Our main reporting is in the form of accountability where [charities] are providing evidence of the grant going into their bank accounts, copies of invoices that were paid against the supplies they would already quoted for those in the initial application, and a copy of the bank statements showing the payments of those invoices. (Grants Manager, Philanthropic Funder 1)

⁴⁷ Endowment funds are funds gifted for general or non-specific purposes; restricted purpose funds are funds gifted for a restricted or specific purpose e.g. a scholarship; and general accumulated funds are net-operating surpluses built up over past years (Charities Services, 2015a).

This interview data suggests that the philanthropic funders' information needs for financial information are revealed at two stages: prior to engaging with charities, and after the grant period. These two stages are closely connected as, without accepting charities' financial robustness as demonstrated in the grant application, no engagement with the charities would be established, and no funds would be granted. As such, the philanthropic funders' financial information needs are reflected at both stages when the soundness of the charity's financial status and its ability to spend the grant appropriately are assessed. In addition to providing details of expenditure after the period of grants, charities are also required to provide supporting documents, as demonstrated in Figure 6-6 below.

<input type="checkbox"/>	Copy of the wages/salary records
<input type="checkbox"/>	Copy of the IR345/IR348's
<input type="checkbox"/>	Copy of invoice(s) to support the expenditure of the grant
<input type="checkbox"/>	Copy of the bank statement(s) showing the payment of the invoice(s)
<input type="checkbox"/>	If the payments have been made in batch form, a copy of the batch schedules

Figure 6-6: Grant accountability report provided by Philanthropic Funder 1

Figure 6-6 indicates that additional financial information is required at the stage of reporting back. For example, when charities spend grants on salary and wages, they must provide documents such as Employer Deductions (IRD345) and Employer Monthly Schedule (IR348) to outline they fulfil their tax obligations as employers in New Zealand. Moreover, a charity is also expected to provide financial information that is outside of the grant it applies, as highlighted in Figure 6-7.

Application Form

Sources of funding for this project

Please list all funding for this project, including applied and/or confirmed, together with amounts for each.

Source	Amount Applied For	Applied/Confirmed
	\$	
	\$	
	\$	

Please indicate (where relevant) how funding for this project will be sustained when the Foundation funding ceases.

Figure 6-7: Grant application form provided by Philanthropic Funder 3

Since funds granted by philanthropic funders are generally short term, Figure 6-7 highlights that the philanthropic funder is also interested in how a charity sustains its project once the grant ceases. This requires the charity to disclose all sources and amounts of income that are required to meet the funding need. The reason for this requirement is further explained in Section 6.3.2.

Government funders also require financial information to meet their information needs, as outlined by the following interviewee:

We want a budget upfront for how charities are planning on spending the money, and then reporting back at the end of the year on how they actually spent the money. We want a financial report at the end...and we ask for our funding to be named separately, so it says this amount is funded by the Ministry, from there we will see where they have spent the money. (Family and Community Service Manager, Government Funder 3)

The interview data indicates that the government funder requires specific financial information such as a budget prior to the contractual period, and a financial statement when charities report back. Charities also need to identify the government funding as separate income in their financial statements, so the funder can further assess how they spend the contracted funding. Figure 6-8 below further demonstrates an exemplar of a budget reporting template which attaches to Charity A's funding contract with its government funder.

Description	Agreed Budget Forecast Total Contract Term	Actual Expenditure Contract Term To Date	Estimated Budget Expenditure for the six months being reported on	Actual Expenditure for the six months being reported on	Variance for the six months being reported on + or (-)
Personnel (based on FTEs recruited) i.e. <ul style="list-style-type: none"> • Counsellor/Clinician • Health Promoter • Policy Analyst • Support Worker • Others (specify) 					
TOTAL					
Sub-contracts (*) <ul style="list-style-type: none"> • Sub-contract 1: provider name • Sub-contract 2: provider name 					
TOTAL					
<i>Direct costs (including Utilities, vehicle, media, etc)</i>					
TOTAL					
<i>Indirect costs (including Management, supervision, administration etc)</i>					
TOTAL					

(*) sub-contractual arrangements need to be approved by the Ministry

Figure 6-8: Budget reporting template (Charity A's contractual funding agreement, p.79)

Figure 6-8 highlights the function of budget reporting in comparing a charity's estimated and actual expenditure for both the six-month reporting period and the total contract period, i.e., three years in the case of Charity A. The first column of the agreed budget forecast would be determined prior to renewing an existing contract or on initiating a new contract, and is then compared with the actual expenditure to date (the second column) to outline whether the funding is spent in accordance with the initial agreement. The remaining columns analyse the estimated budget expenditure and actual expenditure to identify any variances for the six months being reported. As such, the budget provides an indication of the estimated and actual expenditure prior to and within the reporting period, thus meeting the government funders' information needs. This is different to Connolly and Hyndman's (2003) classification in which the budget information was considered as performance information, without much explanation of such classification. This study considers the budget information to be key financial information as it demonstrates how a charity allocates its funding and whether such allocation is in accordance with the initial agreement with the government funder. The reasons for key stakeholders requiring financial information, including a budget, is explained next.

6.3.2 *Reasons for the Information Needs*

The previous section identified that a charity is required to provide financial information in order to meet its funders and regulators' information needs. The reasons for this are explained in this section.

6.3.2.1 *Regulators*

Documentary evidence collected for this study suggests that the DIA-CS requires a charity to provide its financial information so that it can make the information publicly available on the Charities Register:

Your Annual Return information and financial statements will be publicly available on the Register. The information you provide in this [Annual Return] form gives the public a useful summary of your financial details. (Charities Services, 2015h, p. 2)

Making the charities' financial information publicly available not only demonstrates that charities in New Zealand are accountable and transparent, but also helps funders and volunteers in making donating decisions, and may invite public scrutiny on the effective use of resources. For example, the New Zealand Herald⁴⁸ has used financial information available on the Charities Register to expose possible misuse of donations received by 14 Destiny Church-affiliated charities (Hurley, 2014). Hence, the availability of the financial information to the public aligns with the role of the DIA-CS, i.e., to promote public trust and confidence in the charity sector and to encourage the effective use of charities' resources.

6.3.2.2 *Funders*

The financial information is perceived by both government and philanthropic funders to enable their assessment of the financial accountability of a charity, as noted in the following interview quotations:

The principal criterion comes back to accountability, did they spend the funds on what they said they would do, so the money was not wasted? (Principal Policy Analyst, Government Funder 1)

We need to make sure that they are well run organisations and they are financially astute, so if we put funds in to support them, we need to know that the money is not going to be wasted. (Grant and Marketing Manager, Philanthropic Funder 4)

⁴⁸ The New Zealand Herald is the main newspaper in Auckland

We are very accountable for the money that we gave away and we want to make sure it has been spent appropriately, so we are looking for what have they spent our grant on and for receipts on those items (Grants and Project Manager, Philanthropic Funder 6)

The interview data suggests that financial information facilitates funders’ formal assessment and monitoring of charities’ financial accountability. For example, philanthropic funders require financial information in order to decide whether to approve a charity’s grant application, and to check whether the grant has been spent appropriately. Similar monitoring functions are also identified for the government funders, who demand budget information to assess whether funds are spent appropriately in accordance with the initial agreement outlined in the contractual requirements. As such, the perceived importance of financial information lies in its role in holding charities financially accountable to their funders. In turn, charities are provided the opportunity to use such information to demonstrate their accountability and gain legitimacy in the eyes of their funders.

As discussed in Section 6.3.1.2, Philanthropic Funder 3 requires charities that apply for its grants to not only provide financial information relating to the particular grants, but also to disclose other income sources and amounts contributed toward their projects.

Figure 6-7 indicates that one reason for requiring this information is to understand how charities can sustain their projects and service delivery after the grants cease. The report-back form provided by another philanthropic funder also highlights reason for requiring this information, as indicated in Figure 6-9.

2. PROJECT INPUTS

- a) Please tell us what resources were used to deliver your project/programme – this should include an overview of resources paid for by other funders
 b) Indicate whether you feel that the level of resourcing was appropriate.

Input	a) Resources (please specify)	b) Level of resourcing (please select)		
		Too little	Sufficient	Too much
Funding (other grants, donations, fees)				
Staff (approx. full time equivalent on project)				
Volunteers (approx. full time equivalent on project)				
Other (e.g. donated goods)				

Figure 6-9: Report-back form provided by Philanthropic Funder 6

Figure 6-9 demonstrates that understanding the level of resourcing for a charity’s project is the reason philanthropic funders require such financial information. The need for financial information is further identified in the area of funding, staff, volunteers and other donated goods, to acknowledge whether these inputs are too little, sufficient or too much to continue the charity’s project.

Overall, this section has explained the reasons why regulators and funders have requirements for financial information. The next section discusses the enforcement mechanisms imposed by these stakeholders.

6.3.3 Reporting Enforcement Mechanisms

This section discusses reporting enforcement mechanisms used by regulators and funders to enforce the provision of the expected financial information.

6.3.3.1 Regulators

As explained in Section 6.3.1, charities must complete their Annual Returns, in which financial information is required, to avoid being deregistered. Through enforcing the mechanism of Annual Return, the DIA-CS requires all registered charities in New Zealand to provide financial information according to its information needs.

6.3.3.2 Funders

Both grant application and report-back forms are imposed by philanthropic funders, who require financial information, such as a copy of the financial statement, as illustrated in the following documentary evidence.

Have you attached a full set of your most recent annual financial accounts?

These are not required to be audited.

12. Amount requested? \$ _____

13. What is the total cost of this project?

\$ _____

16. Cost breakdown – Please show summary of cost evidence here:

Items	Quote 1	Quote 2
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____

Figure 6-10: Grant application form provided by Philanthropic Funder 4

It is important for all charities to have their accounts audited, so that we know those accounts are to a certain standard. We really rely on their audited accounts to see where they got money from and how it was spent. If they do not do that, it will become a contractual issue, we would not fund them again in the following year. (Family and Community Service Manager, Government Funder 3)

This interview data suggests that an audited financial statement is a useful mechanism in meeting the government funders' information needs. This is because when financial information is audited by independent auditors, it is seen as a more accurate representation of charities' financial situation. The role of the audited financial statement supports Hwang and Powell's (2009) idea that independent financial audits enhance accountability in the eyes of external stakeholders. Moreover, as illustrated in Figure 6-8, the budget-reporting template is also identified as a reporting mechanism enforced by government funders to ensure the provision of the required financial information, such as budget and actual expenditure.

In addition, a 'money back' penalty is another mechanism used to enforce the provision of required financial information. This is suggested by the following interviewed philanthropic funder:

The emphasis of our [grant accountability] report is on the financial accountability because if that is not correct then of course we might need some of the money back or all of the money back...for example, if [the grant] was for a salary for a person and that person suddenly leaves or becomes ill or for whatever reason is replaced, the grant cannot be used for the replacement. (Grants Manager, Philanthropic Funder 1)

This interview data suggests that charities must return grant monies (though maybe not all) if they fail to meet the information needs of the philanthropic funder. It shows that the funder has the sanctioning power of imposing a 'money back' penalty to enforce financial information provision in accordance with its requirements. As such, the (audited) financial statement and 'money back' penalty hold charities to account and ensure compliance. This suggests that strong coercive pressures (DiMaggio & Powell, 1983) exerted from the funders significantly influence the information provision behaviours (Lawrence et al., 2009) of charities. Both government and philanthropic funders hold absolute power to coerce and punish charities that fail to meet their information needs. Moreover, the funders also use a form of institutional work, i.e. 'policing' (Lawrence & Suddaby, 2006), through reporting enforcement mechanisms, including the (audited) financial statement, budget reporting template, 'money back'

penalty, and grant application and report-back forms, to ensure that the funded charities provide financial information as required.

6.3.4 *Problems Perceived by Funders*

Although some philanthropic funders are rigorous in requiring financial information through reporting enforcement mechanisms such as the use of audits, the following interviewed philanthropic funder suggested that they tend to trust charities to effectively use their grants, thus they do not need a lot of financial information:

They have spent the money, so we would look at [the report-back form] and probably a staff member would read it, they would make a note on the file if there is anything of concern and then just file it away...the only time you would ask for the money back would be if you thought there was fraud or if the project was not completed, but you could not ask for the money back, I do not think anybody would do that. (Chief Executive Officer, Philanthropic Funder 5)

This interviewed philanthropic funder trusts the charity would not misuse its funds. As a cognitive belief (Scott, 2008), trust acts as a symbol that connects the philanthropic funder and charities. However, it is possible that such trust could reduce the expectation to provide appropriate financial information and, thus, charities may not provide sufficient financial information to highlight whether they use the funds appropriately. Another problem perceived by an interviewed philanthropic funder relates to a concern about resource allocation:

We are encouraging applicants to think about the cost of evaluations. At the moment I would say that a lot of charities are not well equipped. They do not have the budget for it and they certainly would prioritise funding to go towards [service] delivery rather than evaluation. That maybe is arguably right but at the end of the day you have to prove what you do works. (Grants and Project Manager, Philanthropic Funder 6)

This interview data highlights that the philanthropic funder expects charities to consider the costs of evaluation, and this is not satisfied at the moment.

6.3.5 *Section Summary*

Overall, this section has discussed financial information expected and required by regulators and funders, the reasons for such expectations and requirements, their reporting enforcement mechanisms and their perceived problems. In particular, both regulators and funders hold absolute power to coerce (DiMaggio & Powell, 1983) and punish charities that fail to provide financial information. The funders also used institutional work

(‘policing’) (Lawrence & Suddaby, 2006) to ensure that charities provide financial information as required through various reporting enforcement mechanisms, including an (audited) financial statement, budget reporting template, ‘money back’ penalty, and grant application and report-back forms. The next section discusses the key stakeholders’ information needs for performance information.

6.4 Performance information

As noted in Chapter 1, both outputs and outcomes are key aspects of performance information that closely relate to charities’ efficiency and effectiveness. To recap, outputs are direct and immediate results of services whereas outcomes are changes or impacts for beneficiaries after they participate in the services. This section focuses on key stakeholders’ information needs related to performance information that includes outputs and outcomes. First, the performance information expected and required by key stakeholders is identified. Then the reasons for such expectations and requirements are summarized, various mechanisms to enforce and encourage the provision of performance information are identified, and problems perceived by funders with these expectations and requirements are discussed.

6.4.1 *Key Stakeholders’ Information Needs*

Section 6.3 explained key stakeholders’ information needs regarding financial information. The following interview and documentary evidence identifies that financial information is perceived by key stakeholders as depicting a partial picture only that cannot demonstrate charities’ outcomes:

Financial accountability is the major concern for charities, but we started to ask questions [regarding performance] on our forms. For example, in the application form we ask what outcomes they see being achieved and in the [report-back] form we ask how the grant enabled organizations to achieve the outcomes disclosed in the original application. (Grants Manager, Philanthropic Funder 1)

At the moment providers just get their money regardless of [their effectiveness]. So how do you recognise good performance? In time I think we will move to performance-based contracting...so there should be a little bit of numbers, but more important is how effective it was and what the impact was?...I want clients to say [the services they received] really helped them and made a difference in their lives. (Family and Community Support Team Manager, Government funder 5)

Performance report is the new name for financial statements (for Tier 3 and Tier 4 charities) as it will include non-financial information once the new

reporting standards come into effect [for periods beginning on or after 1st April 2015]. A performance report is a set of statements which collectively tell a charity's story over the financial year. In the future it is expected that Tier 1 and Tier 2 charities will also have to provide non-financial information. The External Reporting Board are working on adding this to the standards. (Charities Services, 2015j)

The above evidence indicates that financial information is perceived as inadequate in determining the effectiveness of a charity. That is, stakeholders such as funders find it difficult to distinguish between effective and ineffective charities based solely on financial information. The regulators in New Zealand also expect charities to provide non-financial information to tell their stories. As such, financial information plays only a limited role in discharging charity accountability, and its inadequacy in meeting key stakeholders' information needs highlights a strong need for performance information. The remaining section discusses the information needs of regulators and funders in New Zealand with respect to performance information.

6.4.1.1 *Regulators*

The DIA-CS requires some performance information such as information on people who work for a charity in the form of an Annual Return, illustrated in Figure 6-12 below.

Your people

3	If you pay for people to work for your charity, please tell us approximately how many hours of work you pay for in an average week. Count all paid hours including your own if you are a paid employee.
4	If you pay for people to work for your charity, please tell us approximately how many people you pay to work for you in an average week on a full time basis (30 hours or more a week) or on a part time basis (less than 30 hours a week).
5	If people work for your charity as volunteers (without pay), please tell us approximately how many volunteer hours are worked in an average week. Count all volunteer hours including your own if you are a volunteer.
6	Your registration number is on your charity's summary page on the Charities Register.

Figure 6-12: Annual Return template-background information (Charities Services, 2015h, p. 4)

Figure 6-12 shows requirements on the provision of input information such as the number of staff and volunteers in a charity, paid and volunteer hours per week. As discussed in Section 2.3.3, input information is considered as performance information. This study, thus, includes input information designed to represent the regulators' current

requirements for performance information. This is to be compared with their new reporting requirements noted in Section 5.3.3.

Section 5.3.3 identified that there have been some changes to the regulations and legislation for charity reporting in New Zealand during the period of this research. Charities under Tiers 3 and 4 (see Section 5.3.3.2), which represent 96 percent of New Zealand charities, are required to apply the simple format reporting standards for periods beginning on or after 1st April 2015. For example, the following documentary evidence suggests that performance information in terms of outputs and outcomes must be completed in the form of a Statement of Service Performance (SSP):

A Statement of Service Performance which explains what the entity was seeking to achieve (outcomes) and what it did (outputs)...it is a statement that provides information on the outputs delivered by the entity during the financial year, and the outcomes those outputs contribute to. (External Reporting Board, 2014d)

In addition, the New Zealand Accounting Standards Board is currently developing standards on service performance reporting for Tiers 1 and 2 charities, and is intending to issue a proposed standard for comment by early 2016.

As noted in Section 2.5.1.1, the Charity Commission, a key regulator in England and Wales, issued a Statement of Recommended Practice (SORP) which has evolved through five iterations over the past 27 years. Greater provision of performance information is identified in the SORP (Hyndman & McMahan, 2010). In comparison with the 2015 SORP, the essence of the SSP is similar, i.e., it provides a framework that enables charities to tell their stories and explain what they achieve. However, the difference is that the 2015 SORP England and Wales contains more extensive recommendations on performance reporting (see Section 2.5.2.1) than the SSP in New Zealand, indicating that the New Zealand charity regulations, and especially their emphasis on performance information and reporting, are still at an early stage compared to those of England and Wales. The template of an SSP is outlined in Figure 6-13 to illustrate further the performance information required by the New Zealand charity regulators.

Entity Name: Statement of Service Performance "What did we do?", When did we do it?" For the year ended:			
Description of the Entity's Outcomes*:			
	Actual*	Budget	Actual*
Description and Quantification (to the extent practicable) of the Entity's Outputs:*	This Year	This Year	Last Year
Additional Output Measures:			

Figure 6-13: Statement of service performance template for Tier 3 charities (Charities Services, 2015o)

Figure 6-13 indicates that New Zealand charities under Tier 3 must provide performance information in terms of outputs and outcomes, and this is required by the DIA-CS to comply with the new reporting standards issued by the XRB. This highlights that the regulators in New Zealand are starting to require performance information based on a tiered framework. In order to meet their information needs, Tier 3 charities must report actual outputs achieved in a financial year, along with comparisons to the budgeted outputs in the same period, and the actual outputs in the last financial year. Also, additional output measures are required in the template to understand how outputs are measured and reported. Nonetheless, charities under Tiers 1 and 2 are not currently required to provide performance information, and reporting outcomes is optional for Tier 4 charities.

6.4.1.2 Funders

Performance information, such as a mission statement and information about the service project or initiative, is required when a charity applies for a grant application, as illustrated in Figure 6-14.

2.1 Please provide a very brief overview of your organisation and its mission.
3.2 Which area(s) of Auckland will your initiative support?
3.3 Please give a brief overview of your initiative.
3.4 What evidence is there to show that this initiative is needed?
3.5 Will your initiative engage volunteers?
3.6 Do you intend to work with other groups or organisations on this project?

Figure 6-14: Grant application form provided by Philanthropic Funder 6

Figure 6-14 indicates that the Philanthropic Funder 6 requires performance information about charities' initiatives in order to understand whether they relate to the accomplishment of its mission and the funder's priorities identified in Figure 6-3. In addition, the following interviewee quotations suggest that both government and philanthropic funders have strong information needs on performance information, particularly in regard to information on outputs and outcome:

Generally outputs are in terms of a contracted volume and a number of clients, but they are not as important as the outcomes for us. We require providers to report back against a Results-Based Accountability reporting framework, so they are telling us about the outcomes that they are heading towards in achieving the outputs. (Family and Community Service Manager, Government Funder 3)

Increasingly we want to know what the impact of the organisation is and actually what is the impact of the part that we have funded...they really need to prove that they are making a difference for us to consider them. I think charities need to do it really in two ways: one is quantitative, the other is qualitative information. At the moment it is more likely to be 80 percent qualitative information in the form of stories and 20 percent hard facts in terms of evaluation. (Grant and Marketing Manager, Philanthropic Funder 4)

We are really interested in the difference that a charity is going to make, so we ask them what they intend to do, what activities do they look at delivering,

who will they reach, how much of it are they going to do? What do they think are the short and the long term outcomes? What is going to change? ...we are not so much worried about the outputs but more the outcomes. For us any information on outcomes is good, so getting on charities to understand and tell the story of what difference it may have made is quite important to us. (Grants and Project Manager, Philanthropic Funder 6)

This interview data shows that both output and outcome reporting are expected by the funders, with outcomes valued more highly than outputs. The government funder even incorporates requirements for this performance information in charities' funding contracts. For example, a mechanism of Results-Based Accountability (RBA), which will be discussed further in Section 6.4.3, has been introduced to enforce the provision of both output and outcome information, while outputs are seen by the government funder to be less important compared to outcomes. Examples of outcome information expected by government funders are demonstrated below:

For example someone comes in and gets a one-off budget at one end of the continuum of budgeting services. The charities need to capture from a client perspective at the end of that engagement whether the clients feel that they are more capable of managing their finances and they are more confident in that area of their lives. If so then they are better off. (Family and Community Service Manager, Government Funder 3)

For the children in respite you are gonna get some short-term outcomes such as I was happy with the service, and then when they are 20 you want them to say something like actually I had a good childhood, I was able to live with my parents and they got a break and things worked out really well...so they [charities] have to capture accountability for the funding. (Family and Community Support Team Manager, Government Funder 5)

The interview data suggest that government funders expect the reporting of outcomes in terms of both short-term and long-term. The short-term outcomes are relatively easier to identify such as positive feedback from beneficiaries after they have participated in a service. However, the long-term outcomes expected by Government Funder 5 are more difficult to capture as they involve a long span of time, e.g., when a beneficiary stays in the service from a child to a 20 year old. Therefore, reporting of short-term outcomes is a requirement but reporting of long term outcomes is an expectation of the government funders. Moreover, the government funders also expect contracted charities to report outcomes from the perspective of the beneficiaries. Philanthropic funders also require information on outcomes, as demonstrated in the grant application and report-back forms shown in Figure 6-15 and Figure 6-16.

Outcomes and Measures

We understand you wish to carry out this project to make a difference. We are interested in how you will measure this. Please specify UP TO FIVE outcomes you plan to achieve with the project, and the indicators you will use to track your progress. If funding is approved, you will be asked to report upon achievement of these outcomes.

Outcomes Aimed For (difference to be made)	Measured by	Indicators of Progress

Figure 6-15: Grant application form provided by Philanthropic Funder 3

Donation Report – Part 2 (please attach information if not enough room provided)

Outcomes Aimed For (Difference to be made)	Indicators of Progress/Measured by	Improvements Achieved to date (include both amounts & description)
«PlannedOutcome1»	«MeasuredBy1»	
«PlannedOutcome2»	«MeasuredBy2»	

Figure 6-16: Report-back form provided by Philanthropic Funder 3

Figure 6-15 indicates that Philanthropic Funder 3 requires charities that apply for grants to identify their intended outcomes (outcomes aimed for), outcome measures and indicators of progress prior to engaging with the charities. Once grant applications are approved, charities are required to report their achievement of these outcomes, as indicated in Figure 6-16. In other words, the philanthropic funder would like to see a comparison between the intended outcomes and the actual outcomes achieved by charities, as well as particular outcome measures that are used to identify the actual outcomes. In addition, unintended outcomes are also expected by philanthropic funders, as indicated by the following interviewees:

We are slightly less confined in the [private] philanthropy and we accept unintentional outcomes. We might be funding a youth project that then has a knock on effect in terms of family or cohesiveness, that is great for us and we will take these outcomes and be really pleased about it. If it was funded by government funders, they might be concerned that maybe the impact in the youth space was being diluted by the work with the family. (Grants and Project Manager, Philanthropic Funder 6)

We want to create an environment in which it is safe for innovation to flourish. Our recipients often might achieve 60 percent of their outcomes and they might fail but then it will lead to some other stuff that then grows into this big, unexpected, beautiful, blossoming tree that we were not expecting...I think trust is a key component. It might look risky but it is actually not if you first check if they are registered with Charities Services, you do their reference checks, you meet them and see what they have achieved. (Community Manager, Philanthropic Funder 8)

I think you have to accept that it is not always going to work. You know, sometimes people try new ideas and they do not work, that is actually fine...you have to trust them that is why we do such a rigorous evaluation at the beginning in which you make judgment about their ability to deliver based on a track record, then it is on trust. (Chief Executive Officer, Philanthropic Funder 5)

The interviewed Philanthropic Funder 8 used a metaphor of ‘growing a tree’ to describe the process of nurturing and expecting outcomes. The philanthropic funders acknowledge that not all service projects they funded would make intended outcomes. They try to foster an environment for charities to report their achievement of outcomes without being concerned about whether the outcomes are intended or not. It means the funders expect charities to report unintended outcomes, because they trust them to ‘do the right thing’ even if it was not what was originally planned. This trust is derived from numerous efforts conducted by the philanthropic funders designed to routinize appropriate practices in the New Zealand charity sector. This form of institutional work conducted by the philanthropic funders, i.e., embedding and routinizing (Lawrence & Suddaby, 2006), leads to the spread of acceptable practices for charities, and promotes the power of an institutionalized norm (DiMaggio & Powell, 1983) that aims to maintain institutions. This is different from irrational trust that derives from altruism: a well-identified motive for charitable giving (Bekkers & Wiepking, 2011).

The following interviewed funders identified that a narrative form of reporting, such as storytelling is used to report performance information:

With the [Results-Based Accountability] RBA model we are moving into more of a narrative reporting, so we see not only their numbers that they are tracking, but the narrative that shows good news, stories and outcomes that are happening. (Family and Community Service Funding Advisor, Government Funder 4)

Story telling becomes quite popular amongst charities whereby they interview some beneficiaries and ask them what is the most significant change that they have undergone as part of being involved in the programme? I think sometimes the story of even one participant in a programme can just summarise exactly what that charity’s impact has been. It may be subjective

but I think if it is a quote from the people that the charity's working with rather than from the charity staff or anything like that, we can take that as good evidence that they have had the desired impact. (Grants and Project Manager, Philanthropic Funder 6)

These quotations reveal that government and philanthropic funders encourage and expect narrative reporting as a 'storytelling' approach to reporting outcomes that are measured by mechanisms such as the RBA framework. Although outputs are included in narrative reporting, greater emphasis is placed on the outcomes of a charity's performance. The interviewed philanthropic funder above is especially in favour of such a storytelling approach (narrative reporting) as it is thought to represent the voices of the beneficiaries, not the charities.

Overall, this section has identified strong information needs of regulators and funders in New Zealand related to performance information, including mission statements, and output and outcome measures. More particularly, government funders require information on short-term outcomes but expect long-term outcomes, whereas philanthropic funders require information on the intended outcomes at the stage of grant applications, but they also expect any unintended outcomes to be identified when charities report back. This finding contributes to Connolly and Hyndman's (2013b) study in which performance information is viewed as paramount in meeting the information needs of funders. It also extends Connolly and Hyndman's (2013b) consideration of funders to a wider stakeholder group (i.e. philanthropic and government funders) by identifying these stakeholders' information needs regarding performance information. The study further recognizes that funders require information on the intended and short-term outcomes, which are relatively easy to identify, but also expect information on the unintended and long-term outcomes.

6.4.2 *Reasons for the Information Needs*

The previous section discussed the information needs of regulators and funders with respect to performance information, this section explains the reasons why this information is expected.

6.4.2.1 *Regulators*

The regulators' expectations for performance information reflect their perceptions of the uniqueness of charities. This is illustrated in the following documentary evidence:

The purpose of the Statement of Service Performance is to provide mainly non-financial information to help users understand what the entity did during the financial year...it is particularly useful in the not-for-profit sector when the focus is on achieving outcomes, rather than making a profit. (External Reporting Board, 2014d)

Although this quotation refers to the NFP sector as a whole, the SSP is developed and issued just for the charity sector. As noted in Chapter 1, charities exist to accomplish their charitable purposes and missions. These represent the uniqueness of charities, but they are general intentions of charities stated in broad terms. This study has identified that in order to understand the performance of a charity for a specific period of time such as a financial year, and more importantly the reason why the charity exists, it is crucial to require outcome reporting as a basis for better charity accountability.

6.4.2.2 *Funders*

The government funders also require performance information, especially on outcomes, and the reasons for this requirement are explained in the following quotations:

It is a little bit different from the way that government has historically worked in having outputs-based contracting, it is very much outcomes-based contracting now...the current government's priorities are vulnerable children and employment and the area that we operate in is predominantly early intervention and prevention, so the longer term outcomes link to the priorities. We feed all the regional reports to the service development teams in our national office to build up a national picture. So they aggregate all of the data to inform future service development. (Family and Community Service Manager, Government Funder 3)

We come from a history of disabled people living in their homes and relying on support work to help them get on with their life. But we have got stories of people who cannot get out of bed by themselves and a support worker did not turn up, so the beneficiaries were left in bed all day. Therefore an outcome for me would not be that we delivered 20 hours of support. It would be that the beneficiaries were able to get out of bed every day when they wanted to and they were able to get on with their daily life. I have no interest in measuring how many hours were provided, I would want to know that the right service was provided at the right time and the outcome is that the person was able to live an ordinary life. (Family and Community Support Team Manager, Government Funder 5)

These interview data indicate that government funders prefer outcome information for three reasons: (1) as noted in Chapter 2, charities deliver public services through government contracting. The outcomes, especially long term outcomes, reported by charities not only demonstrate the achievements and impact of charities' services, but also indicate the attainment of government priorities to constituents or citizens in New

Zealand. (2) Outputs-based contracting shows only the efficiency of a charity, such as the 20 hours of support mentioned by Government Funder 5, but it cannot represent the needs of beneficiaries and, thus, cannot measure the delivery of the ‘right services’ required by the funder. Outcome measures showing the effectiveness of the charity’s performance, are, thus, required by the government funders. (3) An aggregated outcome measure could be used to inform the future strategies of the government and, accordingly, the contractual requirements of the government funders could be changed. In addition, the reasons philanthropic funders require performance information are suggested by the following interviewee:

I think it is a cultural change that we need to create within charities to really value evaluation in terms of how it can change their impact and the effectiveness of what they do. The more they learn about the impact that they are making, the better their programmes will be and the more good they will do. I have seen it happen in a couple of charities with this programme we delivered. (Grants and Project Manager, Philanthropic Funder 6)

This interview data shows that this philanthropic funder attempted to cultivate an evaluation culture in the New Zealand charity sector, so that charities are not only able to prove to the funders that they are making a difference, but also able to use performance information to improve the effectiveness of their service delivery and adjust the impact they make.

Overall, key stakeholders’ expect performance information: to demonstrate the difference a charity makes; to improve the charity’s service delivery; and to link to government’s priorities and inform future strategies.

6.4.3 Reporting Enforcement Mechanisms

In order to ensure the provision of expected performance information, various work has been conducted by the regulators and funders in New Zealand. Initiatives include mechanisms such as the SSP imposed by the regulators, grant application and report-back forms, RBA and site visits required by the government and philanthropic funders. In addition, the funders have established additional mechanisms such as outcome measurement and reporting workshops to instil the importance of providing performance information. Additional evaluation funds have also been provided to equip charities in measuring and disclosing performance information to meet key stakeholders’ information needs.

6.4.3.1 *The Statement of Service Performance and Forms*

As noted in Section 6.4.1, the regulators use a SSP (see Figure 6-13) and philanthropic funders employ grant application and report-back forms (see Figure 6-14 and Figure 6-15) to enforce the provision of performance information. Failure to provide the required performance information could jeopardize charities' funding opportunities, suggesting strong coercive pressures (DiMaggio & Powell, 1983) are imposed by the stakeholders. This finding extends the study of Williams and Moxham (2009) who assessed the importance of Dutch charities' performance information to their funders. Williams and Moxham (2009) identified that the effectiveness of a charity is seen as important by the funders but it is not used as a major criterion in the selection of a charity to support. This study identifies that outcome reporting that indicates the effectiveness of the charity are seen as important by key stakeholders including regulators and philanthropic funders. However, the difference is that philanthropic funders require outcome information to assess both grant applications and reporting processes. Because reporting standards changed during the period of this research, it is unknown to what extent charities will comply with the new reporting standards issued by the XRB and whether the DIA-CS will use the outcome measures to be provided in the SSP to evaluate a charity's performance. Nonetheless, it is reasonable to believe that charities would comply with the new reporting standards under such coercive pressures, to demonstrate their creditability, accountability and to gain legitimacy from the regulators and their funders.

6.4.3.2 *Results-Based Accountability (RBA)*

As noted in Chapter 2, RBA is an international outcome measurement and reporting mechanism. Figure 6-17 illustrates key output and outcome measures in the RBA, and was provided by Government Funder 3.

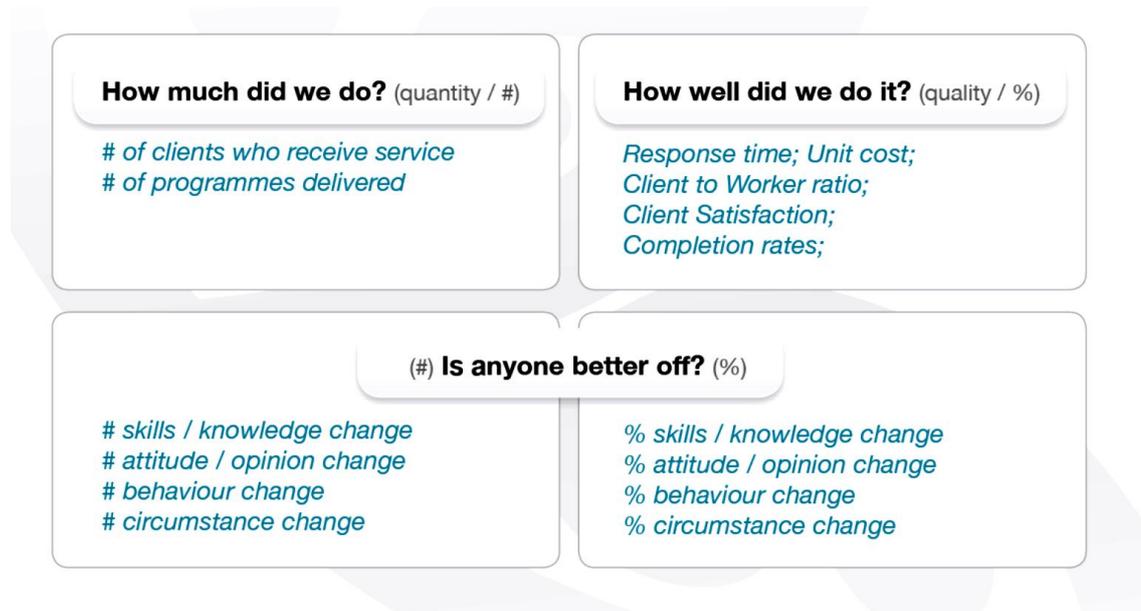


Figure 6-17: Three types of performance measures in RBA (Friedman, 2005, p. 2)

Section 6.4.1.2 indicates that RBA is identified as a favoured mechanism, and is incorporated into contractual requirements of some government funders. This is further evident in the following interview and documentary data:

We have very strict reporting templates that are RBA structured. The first part of the report is always the outputs, how many clients did you see? You were contracted for 200 and you have seen x number, does it meet our 80 percent threshold?...a standard beneficiaries' survey would be the most efficient method to capture those overall percentages, particularly if the number of clients is high...then the next step is how well did we do it? That is the story of how efficiently they delivered as an organisation. The final bit is was anyone better off? That is about outcomes. So we follow through that sequence from outputs to outcomes. (Family and Community Service Manager, Government Funder 3)

The RBA framework locates both output and outcome measures within three types of performance measures: *how much*, *how well* and *is anyone better off* (see Figure 6-17 above). These measures are incorporated into the contractual requirements of some government funders. As a result, all charities that the government funders contracted must adopt the RBA as a performance measurement mechanism and make disclosures according to an RBA reporting template to meet their government funders' information needs. As also identified by the interviewed Government Funder 3, the contracted charities have to meet their 80 percent threshold in terms of the output requirements, to secure their contracts. In a form of contracting that involves both penalties and incentives with respect to charity service delivery and reporting, the government funder holds

charities to account and requires compliance. When charities provide services and reporting according to the contractual requirements, the interview data found their contracts are more likely to be renewed. Otherwise, their contracts would be terminated. On one hand, it suggests the strong coercive pressures (DiMaggio & Powell, 1983) exerted from the government funders significantly influence the work and practices (Lawrence et al., 2009) of the charities. On the other hand, a form of institutional work, i.e. 'policing' (Lawrence & Suddaby, 2006), is used by the government funder through contractual requirements to ensure that charities deliver quality public services. The work of government funders is captured in the following quotations:

Our funding generally just rolls over if providers are delivering satisfactorily. If a provider is not achieving what we want in terms of outputs and outcomes, we will put them on an action plan to improve their performance. If they fail to meet the agreed actions, that provider will be exited and another provider or a replaced provider will be selected. (Family and Community Service Manager, Government Funder 3)

Our contracts have a lot of measures, programmes and milestones, providers have to achieve the whole way through and they have to report on a monthly basis. It is quite an intense programme where KPI's are built into their contracts...they also have practice advisors and us as funding advisors and programme advisors go in and monitor. (Family and Community Service Funding Advisor, Government Funder 4)

This interview data further demonstrates the policing work that government funders engage in, to ensure compliance. This work is evidenced by ongoing performance monitoring and evaluation, aiming to maintain the strength and stability of charities. By complying with contractual requirements such as the RBA mechanism, charities that are funded by the same government funders become isomorphic with each other and eventually these charities would become theoretically homogeneous (DiMaggio & Powell, 1983).

Moreover, it is interesting to see that without having overt external pressures directly imposed on them, an interviewed philanthropic funder also voluntarily integrated RBA language into its work and reporting practices:

Outcomes are more intangible and are more difficult than black and white outputs, but we really want to know the long term effect...we find a lot of our charities that we support are also funded by government funders and they are quite familiar with RBA. I think the language of that is something we are trying to echo here...we do not follow RBA fully but I guess we are trying to build in a common language into everything that we do. (Grants and Project Manager, Philanthropic Funder 6)

Given that government funders are generally more capable of investigating an appropriate outcome measurement, the RBA mechanism that is promoted by them is perceived to be a successful model in the eyes of the philanthropic funder. Through mimicry (Lawrence & Suddaby, 2006), the philanthropic funder adopts the RBA framework as a taken-for-granted practice, and such mimicking behaviours and mimetic isomorphism (DiMaggio & Powell, 1983) may largely be due to uncertainty in the charity sector as to how to measure and report outcomes.

6.4.3.3 *Site Visits*

Site visits are external monitoring activities that are required by funders to meet their information needs, as suggested by the following funders:

We not only have their reports, practice advisors and us as funding advisors also go in and monitor... the practice advisors go in monthly, they are more focussed on the actual frontline delivery. When we go in we are looking more at the contractual requirements, whether they are meeting their numbers etc...If we think there are any issues, they would be flagged in our system. When their reports come in six months later, we would check if they have improved based on what we had recommended. Sometimes we have a look at their databases when we go in and monitor, but we cannot access it unless we are sitting with them. One of our programmes has a shared database which goes to our national office, so everything they do they have to enter into our database. (Family and Community Service Funding Advisor, Government Funder 4)

I think [the site visit] is a great donor engagement tool for us to see on the ground what people are doing. It gives you a much stronger feeling of what they are delivering and actually achieving. You can see people they are working with and see it in action it is just so valuable. Our feedback from charities has been really positive too, they love to see us in their office or in their delivery space because they do not often get that chance to tell their story face to face. (Grants and Project Manager, Philanthropic Funder 6)

External monitoring activities include conducting site visits and reviewing documents and databases and the funders initiate these rather than rely passively on charities to report their performance information based on the required performance measurement mechanisms. The purpose of these activities is to ensure services are delivered according to the contractual requirements or specific authorised purposes. Site visits, in particular, allow funders to gather, according to their needs, performance information that may not be captured in the routine performance reporting. Figure 6-18 further illustrates the government funder of Charity A's requirements on conducting site visits.

B17 Access for Audit

B17.1 You and your sub-contractors must co-operate with us fully and allow us or our authorised agents, access to:

- a) your premises,
- b) all premises where your Records are kept,
- c) service users and their families,
- d) staff, sub-contractors or other personnel used by you in providing the Services,

For the purposes of and during the course of carrying out any Audit.

B18 Audit Process

B18.1 Subject to clause B25, in carrying out any Audit we may:

- a) Access confidential information about any Service User; and
- b) Observe the provision or delivery of the Services; and
- c) Interview or follow up Service Users and/or their families; and
- d) Interview or follow up any staff, sub-contractors or other personnel used by you in providing the Services.

Figure 6-18: Site visits to conduct service audits (Charity A's contractual funding agreement, 2010-2013, p.10)

This documentary evidence indicates that Charity A's government funder uses site visits to conduct its service audits in which any confidential information about beneficiaries can be accessed. The government funder can also observe the process of service delivery and contact any staff members or beneficiaries when they like, to obtain more performance information. Hence, site visits are a useful mechanism imposed by the funders to enforce the provision of performance information that identifies additional good practices and report deficiencies. This finding differs from that of Carman (2009), which identified that evaluators were hired by some government funders to conduct periodic site visits. The site visits can be interpreted not only as external forces (DiMaggio & Powell, 1983) imposed on charities to enforce performance information by the government funder, but also as an indication of a cognitive taken-for-granted belief (Scott, 2008) used to strengthen the engagement between the philanthropic funder and the funded charities. The difference between this study and Carman (2009) can also be explained from the institutional work perspective. By personally visiting charities' sites, New Zealand government funders devote numerous efforts and undertake institutional work (policing, and embedding and routinizing) (Lawrence & Suddaby, 2006) to educate the funded

charities why performance information is important and how to report them, which cannot be replaced by the contracted evaluators. This is driven by the conscious intentionality (Lawrence et al., 2009) of infusing the appropriate performance reporting practices (normative foundation) into the charities' day-to-day routines and practices.

6.4.3.4 *Workshops and Additional Evaluation Funds*

In order to facilitate charities' understanding of the information needs of government funders, mechanisms such as workshops are employed to promote appropriate performance reporting in the charity sector, as suggested by the following interviewee:

We have brought Mark Friedman [who developed RBA] to New Zealand a number of times and he provided workshops to both Ministry staff and charities...we have separate relationship managers to engage with the community and facilitate, upskill and work together with charities...we also have capacity funding that charities can apply for to have an independent mentor to build their capability include running organisational self-assessments, developing and implementing organisational plans. (Family and Community Service Manager, Government Funder 3)

The interview data suggests that a number of activities are employed by government funders to grow the capacity of their contracted charities in measuring and reporting performance information. These activities include providing educational workshops to staff in charities, and making available evaluation funds that incorporate an independent mentor, to cultivate evaluative capacity within charities. As with government funders, philanthropic funders also provide workshops and make additional evaluation funds available to aid charities in demonstrating their outcomes, as suggested by the interviewees below:

We tried to educate the leaders like the CEOs within those charities and that filtered down to their staff as a part of their normal practice. (Community Trust and CSR Manager, Philanthropic Funder 9)

If it is a large scale project, we will fund extra evaluation on top. We would fund an evaluator because it should be independent of the service provider. The more complex the evaluation, the more it is going to cost. So we tend to put a limit of 10 percent of the total grant as an additional evaluation cost. (Chief Executive Officer, Philanthropic Funder 5)

We are beginning to ask for independent evaluation. Third party, independent, objective and the results of that will help us determine whether we are going to fund them again. We are trying to build the third party evaluation into the funding. So for example we gave \$100,000 to a charity, maybe \$10,000 would be towards evaluation. (Grant and Marketing Manager, Philanthropic Funder 4)

This interview data shows that funders attempt to engage in various workshops and fund third-party evaluation to encourage the appropriate practice of performance measurement and reporting. More particularly, the workshops mentioned by the Philanthropic Funder 9 were provided to the leaders of charities with the assumption that appropriate or normative practice would spread easily within charities following a ‘top-down’ approach (Scott, 2008). By providing workshops and additional evaluation funds, both government and philanthropic funders actively infuse norms into the funded charities’ day-to-day routines and organizational practices, suggesting the embedding and routinizing form of institutional work (Lawrence & Suddaby, 2006). The workshops also facilitate professional networks where actors within charities exchange of information on their performance measurement and reporting practices. Hence, a normative isomorphism (DiMaggio & Powell, 1983) through professional networks is established to provide fertile grounds for promoting the shared norm, which influences charities’ understanding of the appropriate ways of measuring and reporting their performance.

6.4.4 *Problems Perceived by Funders*

Although institutional work and effort is conducted by funders in New Zealand, some limitations were identified in measuring and reporting performance information. First, the following interviewed philanthropic funder, who originally came from England, perceived the regulative role of DIA-CS as insufficient:

I think it is a mistake that Charities Services becomes a part of the government. It is not the right place for it because it defaults to becoming a regulator and that is not enough. If you look at other countries in the world who have a Charity Commission they do more than just regulate. They actually help the Not-for-Profit space to achieve more. So for me that is not the natural home, I would prefer an independent Commission. (Grant and Marketing Manager, Philanthropic Funder 4)

This interviewee suggested that the DIA-CS might over-emphasise its coercive regulative role (DiMaggio & Powell, 1983) and neglect its normative function in diffusing common administrative, managerial and evaluative practices in the charity sector. At the moment, the government and philanthropic funders carry out the normative function, but only a limited number of charities funded by them would be influenced. This points to a need to develop the shared understandings of appropriate practices and reporting behaviour through educational support, such as evaluation and training, driven by the DIA-CS.

Second, the following interviewees suggested that narrative reporting required by funders for reporting outcomes can be too lengthy to meet the needs of philanthropic funders in making funding decisions:

50 page documents, no-one reads them. They just gather dust so they need to be in a format that is meaningful. (Foundation Manager, Philanthropic Funder 7)

Our trustees are quite busy people and they only have a certain amount of time to look at our reports. So they want the information to be as clear and brief as possible. Although the stories are nice, if you want to make your point in order to carry on achieving what you are achieving, you need to find a way of getting it briefly. (Projects and Strategy Manager, Philanthropic Funder 3)

One of these interviewed philanthropic funders also indicated that the story approach of narrative reporting has a limitation in representing the overall outcomes of charities:

In the last few years there has particularly been a big focus on storytelling being the best way, probably the only way, to get your case across. They may pick a story about one client they have spent a lot of time with and it could be a very moving story, but it provides a limited value in terms of the assessment of the whole of the initiative that they are putting forward. I think the form of stories is useful, but it is over used. They [charities] need to make a point in terms of the outcomes of the organisations, not just the outcomes for one individual. (Projects and Strategy Manager, Philanthropic Funder 3)

The interview data above highlights a limitation of narrative reporting in providing complete evidence that charities have achieved desired and agreed goals, such as initiatives or authorized purposes of funders and charities' missions. Using a few life-changing stories of beneficiaries is perceived as insufficient to meet this group of philanthropic funders' information needs.

Third, the following interviewees suggested that the level of charities' capacity to measure and report performance varies significantly:

What we did see from those charities that participated in our workshops was a huge variety of capability in evaluation. Some had no idea, had never ever thought about it, the others had external evaluators or it was a really big part of how they made sure their services were effective. (Community Trust and CSR Manager, Philanthropic Funder 9)

They can tell you what they did with your money, basic outputs on how much activity they delivered, but that level of sophistication around different methodologies, balancing quantitative and qualitative, I do not think there is enough of that. Even the terminology is confusing for some people. What is an output versus what is an outcome? I think there is a lack of skills and knowledge in the sector often because people come from a motivation of

wanting to do good, not necessarily being qualified to evaluate. (Grants and Project Manager, Philanthropic Funder 6)

This interview data indicates that philanthropic funders are not satisfied regarding charity performance measurement and reporting practices. While engaging in work to build capacity may reduce these difficulties for charities that are funded by the government and philanthropic funders, the remaining charities still face challenges in measuring and reporting performance information. Another extension of this capacity problem is that charities' staff members prefer to focus on their service delivery work, i.e. engaging with beneficiaries, rather than on measuring and reporting performance information. The reason for this is outlined by a government funder:

We want the people with the heart, but we also want the business heads. These two have to come together because any full-time charity is a business. The back office functions are the same, the strategic planning required is the same, and the organisational governance and management ability to get the outcomes that you are after is the same...some of the small charities really need to lift their game. But often 'business' is a dirty word to charities and I would argue that is because they do not understand [the important of reporting performance information] and they should. (Family and Community Service Manager, Government Funder 3)

These interview data suggest that charities need to balance the *heart* and *head*, to meet the funder's needs for performance information. For example, the service delivery work of charities is driven by their altruistic *heart*, which is focused on doing good work and their charitable missions, whereas strategic planning and management are perceived as necessary *head* work, to measure and report outcomes. However, being business-like does not necessarily mean conducting commercialized activities to gain additional income. It is more likely to call for a greater degree of rationality enabling charities to optimize the performance measurement and reporting practices.

Another problem is identified in relation to the additional evaluation funds provided by the funders discussed in Section 6.4.3.4. The following interviewed philanthropic funder expressed a concern that charities might find it difficult to locate a good evaluator, as they lack general understanding of performance measurement and reporting:

I think even commissioning an evaluator is difficult and I do not think a lot of charities would know how to do it and they might not know who to go to either. So they end up, if they do have funding for evaluation, paying for somebody who might not be the best evaluator for them and they may not have briefed them well enough to get the information they want at the end. (Grants and Project Manager, Philanthropic Funder 6)

Last, although Section 6.4.2 identified that there was a change in government contracting from an outputs-based to an outcomes-based approach, this change was confined to a few government departments only. One interviewed government funder acknowledged that the respite service with which she was involved was still using outputs-based contracting:

I think they should be measuring outcomes based on what the client wants to achieve...in social services purchasing, I do not think there is any value in saying we purchased 300 bed nights if actually people did not want bed nights. I would use respite as an example, we have got families who say look I do not want to go and stay in a facility for 24 hours. I just want 2 hours so I can go out to dinner and somebody can look after my disabled child... at the moment a provider would say oh we cannot do that because we have to provide 24 hours, so you have 24 hours or nothing. (Family and Community Support Team Manager, Government Funder 5)

This form of outputs-based contracting, such as 24-hour blocks of service, cannot meet the needs of beneficiaries. Instead, it may even impede the achievement of outcomes.

6.4.5 Section Summary

Overall, this section has discussed performance information expected and required by regulators and funders, the reasons they have such expectations and requirements, various reporting enforcement mechanisms, and problems perceived by funders. For example, key stakeholders' expectations and requirements related to performance information, focus on output and outcome measures mainly, and government funders require information on short-term outcomes while expecting long term outcomes, whereas philanthropic funders require the reporting of intended outcomes at the stage of grant applications, but expect unintended outcome information when charities report back. These specific types of performance information identified by the funders contribute to Connolly and Hyndman's (2013b) study, which also investigated stakeholders' information needs. Since this chapter has discussed the information needs of key stakeholders in New Zealand, i.e. regulators and funders, the next section outlines the unheard voices of beneficiaries, who are also salient stakeholders to which charities are accountable.

6.5 The Unheard Voices

Section 2.5.1.3 noted that beneficiaries are an important group of stakeholders to whom charities provide services. Understanding their needs for charities' services becomes essential, not only for charities to assess their practices and actions, and eventually to ensure mission achievements, but for funders to strategize their priorities and agendas.

Nonetheless, beneficiaries have relatively lower salience compared to the other external stakeholders such as regulators and funders, for accountability information from charities. Hence, this chapter has used the voices of regulators and funders to represent the information needs of beneficiaries. The following government and philanthropic funders identified difficulties in capturing the information needs of beneficiaries:

A lot of people who access social services have many issues going on in their lives, where to give up time and to compromise their privacy potentially in telling their story, a lot of them will be reluctant. (Family and Community Service Manager, Government Funder 3)

The charities that we work with have found that when people leave their programmes they are hard to track down, and actually asking [evaluation] questions six months later is quite difficult. (Grants and Project Manager, Philanthropic Funder 6)

Clients do not complete the service, they drop off before the services are complete. They may think their problems have been resolved, or they do not want to be recorded. The thing is that clients generally do not like to do any sort of evaluation at the end of a process. (Family and Community Service Funding Advisor, Government Funder 4)

The interview data indicates that both funders and charities perceive beneficiaries as key stakeholders but their information needs are difficult to capture. The reason it is difficult to engage beneficiaries and understand their needs is explained by an interviewed government funder:

Disabled people are not necessarily paying for their services. They are very powerless and they have little ability to influence how services are provided and there is almost a 'you should be grateful for what you are getting' kind of mentality. (Family and Community Support Team Manager, Government Funder 5)

This interviewee believes that beneficiaries do not generally pay for the services they receive, thus, they lack an economic motive for demanding services and charity accountability. This finding adds to earlier studies (Connolly & Hyndman, 2013b; Connolly et al., 2009) that also found difficulties in understanding the needs of beneficiaries. Given that beneficiaries are lacking in voice and power, funders attempt to represent this group of stakeholder and provide a voice for them. Nonetheless, while the funders require considerable information to meet their own information needs, the following interviewed beneficiary identified that she has difficulties in accessing information, relating to her issues, that she sought in the public domain:

At time they are hot topics, but I did not have any information in front of me except the news media items. I know that there is privileged information so they cannot let me know all the details but I did not have any other access...I had difficulty trying to figure out whether I should Google that or whether there were some written materials around Charity A that I could place my hands on and have a look at. I think it is good to be well informed, that is what they could do better. (Beneficiary, Charity A)

This beneficiary of Charity A has information needs, but, perhaps due to the confidentiality of information about internal governance or details of services and activities, she could not find the information in the public domain. Regardless of whether this information could be disclosed to a beneficiary who is not an internal stakeholder, this interviewee expressed some expectations for Charity A's information, highlighting that the beneficiary does have information needs. Also, although funders, especially government funders, aim to represent the views of beneficiaries, the information they received from the contracted charities might not be disclosed sufficiently well in the public domain, to meet the information needs of beneficiaries, including the interviewed beneficiary.

6.6 Chapter Summary

This chapter has focused on the information needs of charities' key stakeholders in New Zealand including regulators, government funders and philanthropic funders. It has addressed the second research question for this study, i.e. 'how do the performance measurement and reporting practices of New Zealand charities address the information needs of key stakeholders?' The expected and required information, the reasons for such expectations and requirements, the reporting enforcement mechanisms used and perceived problems are analysed from the perspectives of the regulators and funders.

While this chapter has focused on the perspectives of regulators and funders, it also identified problems in capturing the needs of beneficiaries. In Chapters 7 and 8, the measurement and reporting practices of the two New Zealand case study charities in response to their key stakeholders' information needs are described. A comparison of the information needs of key stakeholders identified in this chapter and the charities' measurement and reporting practices will be made in Chapter 9.

Chapter 7: Performance Measurement by the Charities

7.1 Introduction

The previous chapter discussed the information needs of key stakeholders for background, financial and performance information. This chapter presents and critically analyses the performance measurement practices of the case study charities. As noted in Chapter 1, the first research question for this study is: ‘what are the performance measurement and reporting practices of New Zealand charities?’ This chapter addresses the aspect of ‘performance measurement practices’ in the case study charities from the perspectives of the charities.

In line with the previous chapter, this chapter also focuses on four questions designed to elucidate each area of performance measurement practices (financial, outputs and outcomes): (1) what information⁴⁹ is measured by the charities? (2) How do they measure it? (3) Why do they measure such information, and why do they use particular mechanisms? (4) Are there any problems perceived by the charities themselves with these measurement practices? The ‘how’ question is articulated prior to the ‘why’ question, which differs from the structure of Chapter 6. This is because this chapter critically analyses not only why the case study charities measure financial and non-financial performance information but also why they use a particular measurement mechanism. The logical flow is to investigate the reasons for using the measurement mechanisms after introducing the mechanisms. The performance measurement practices in this chapter are described in terms of financial measurement, output measurement and outcome measurement respectively in Sections 7.2, 7.3 and 7.4. This chapter emphasizes the outcome measurement⁵⁰ practices of the two case study charities. The measured outcomes, a number of outcome measurement mechanisms, reasons for measuring outcomes and using these mechanisms, and various problems of outcome measurement

⁴⁹ Since no evidence is found from the charities that the background information requires any form of measurement to be reported in meeting their key stakeholders’ information needs, the focus of this chapter is on measurement practices regarding the charities’ financial and performance information.

⁵⁰ Previous literature identified that measuring performance, especially outcomes, is important in examining the accountability of NFPs, including charities (Carman, 2010; MacIndoe & Barman, 2013; Moxham & Boaden, 2007). The interviewed funders also see outcome measures from this study as the more important performance information, compared to output measures, in meeting their information needs, as noted in Section 6.4.1.2.

perceived by the charities, are identified and critically discussed. Concluding comments are offered in Section 7.5.

7.2 Financial Measurement

Section 6.3 noted that regulators and funders in New Zealand require financial information in order to encourage the efficient use of charitable resources and to assess the financial accountability of a charity. This section uses evidence from the two case study charities to analyse critically the financial information measurement practices and the financial measurement mechanisms used. It identifies reasons for measuring and using the mechanisms, as well as problems arising from the financial measurement practices that the charities' perceive.

7.2.1 Measured Financial Information

Both charities measured financial information, including contract income, budget versus actual expenditures, and fundraising and administration costs.

7.2.1.1 Contract Income

Financial information such as contract income is measured by the case study charities, as illustrated in Figure 7-1 and Figure 7-2:

	Notes	2014 \$	2013 \$
Income			
Contract Income	4	4,714,777	4,714,777
Rental Income		138,620	102,123
Fees, Grants and Other Income		392,217	441,706
Total Operating Income		<u>5,245,614</u>	<u>5,258,606</u>

The accounting policies which materially affect the measurement of financial performance and financial position are set out below.

i) Revenue

Revenue primarily comprises of funding received from the Ministry and is recognised in the Statement of Financial Performance when the requirements under the service agreement have been met.

Figure 7-1: Charity A's income and accounting policy (Charity A's audited financial statements, 2014, p.7 & 9)

Government Grant Income

Government grants with conditions associated with the grant where there is an obligation to return the funds if they are not applied in full to the activities specified, are recognised as a liability when received and recognised as income in the period when the requirements under the grant agreement are met.

17 CONTINGENT LIABILITIES

Major sources of income are derived from a five year contract with [a government funder] to provide aged care service
Should these not be extended or renewed, significant costs would be incurred in reducing staff and associated overheads.

Figure 7-2: Charity B's accounting policy and note 17 (Charity B's audited financial statements, 2014, p.11&16)

Figure 7-2 shows that Charity B firstly recognized its major government funding, such as its five-year contract with a government funder, as a liability when received, then recognized and measured these funds as income in the period when its contractual obligations were met. Charity A also measured its contract income according to its government funder's requirements under the funding contract, as shown in Figure 7-1.

7.2.1.2 Budget versus Actual Expenditures

As identified in Figure 6-8, a budget reporting template is incorporated in Charity A's funding contract. Charity A is required to provide financial information, such as actual expenditures, for the six months being reported and for the contract term to date, which is then compared with the estimated budget expenditures for the six months being reported and the agreed budget forecast for the total contract term i.e. three years in the case of Charity A. The budget versus actual expenditures are further required to be classified into personnel, based on FTEs recruited; direct costs, including utilities; motor vehicle and media; and indirect costs including management and administration. This indicates that Charity A must measure its budgeted versus its actual expenditures as outlined in the budget-reporting template, to meet its government funder's financial information requirements.

7.2.1.3 Fundraising and Administration Costs

While both charities are mainly government funded, they have tried to diversify their funding streams so that financial information, such as fundraising costs and administration costs, is measured, as suggested by the following interview and documentary evidence:

The family services in [Charity A] are new, the challenge is we have got no funding from the government. To be self-sustainable without overloading our

staff who are donating extra [voluntary] time, we have to do fundraising. (Director of Ethnic Services, Charity A)

We have a budget of [NZD] 150,000 to run our family services for the coming year, and we are relying entirely on generous support from individuals and [community] trusts to achieve this...because we lack financial resources and we are the only agency offering multilingual support, our staff are working many extra hours on a volunteer unpaid basis to deliver our family services. (The Family Services Fundraising Proposal, Charity A)

My area is on the commercial side, I look after the assets and make a good profit to be able to pay the administration costs of [Charity B], so any money donated to [Charity B] goes to the end users. (General Manager of the Property Management Organization, Charity B)

The administration costs of Charity B are covered by its commercial income generated from property investment activities, so that the income from the government and philanthropic funding can be allocated towards program-related services, rather than general administration. To maintain a high program service ratio, Charity B must constantly measure its actual administrative costs and compare them with the budgeted administrative costs and commercial income. Moreover, Charity A has insufficient funds to support its family services, but other work, such as offering multilingual services to beneficiaries who have family issues, is still carried out in addition to serving existing beneficiaries with addiction problems. As a consequence, its staff members are working additional time on a volunteer, non-paid basis to help the beneficiaries, indicating an altruistic cognitive value (Scott, 2008) of doing good work. Moreover, it does not appear that Charity A measured its additional voluntary time for reporting in its financial statements. This may illustrate that doing good work is accepted as a taken-for-granted belief in Charity A. Since its family services have no government funding and Charity A is relying on philanthropic funders' support, fundraising costs are measured for the funds it must raise in continuing the family services.

Therefore, both charities measure financial information such as contract income, and budgeted versus actual expenditures, to meet their government funders' information needs. They also measure fundraising and administration costs, which are not required by the funders, in order to carry out non-contracted services and maintain a high program service ratio. Hence, the charities may not disclose this financial information to their funders. This supports Connolly and Hyndman (2013a) who found that many charities were hesitant to disclose their administration costs ratio. However, the measurement aspect of administration costs identified in this study adds to this prior literature. The

studied New Zealand charities' measurement practices for their fundraising and administration costs also extend to the view shared by Connolly, Hyndman and McConville (2013) that the funders expect information on financial performance, particularly regarding fundraising and administration costs, to assess charities' efficiency. This New Zealand study has found that the case study charities measure fundraising and administration costs, but this financial measurement was not due to their funders' requirements. The next section discusses the measurement used by the charities.

7.2.2 Measurement Mechanisms

The previous section identified the financial information measurement by the case study charities. This section indicates their financial measurement mechanisms.

7.2.2.1 Cost Centres and Accounting Packages

The following interviewee suggested that cost centres and accounting software packages, such as Microsoft Dynamics GP (formerly Great Plains), are financial measurement mechanisms:

We have a number of cost centres that are reported on for management purposes...we are using Great Plains for accounting...Great Plains is a huge big accounting software owned by Microsoft. (Financial Manager, Charity B)

This interview data reveals that both cost centres and accounting packages are mechanisms to measure financial information. In addition to the records found in traditional journals and ledgers, accounting packages contain more processes such as issuing invoices, writing cheques, paying employees, and budgeting. Each of these processes represents different accounting functionalities used to measure and report financial information. For example, the government funder of Charity A required invoices to be prepared and sent on a quarterly basis, so that contract income can be paid on specific dates, as illustrated in Figure 7-3:

E6 Payment Schedule

Payments will be made by us on these dates:	On invoices received by us on or before:	For services supplied in the period:	Amount (excl GST)
20 July 2010	30 June 2010	July – September 2010	\$1,142,871.45
20 October 2010	30 September 2010	October – December 2010	\$1,142,871.45
20 January 2011	31 December 2010	January – March 2011	\$1,142,871.45
20 April 2011	31 March 2011	April – June 2011	\$1,142,871.45
20 July 2011	30 June 2011	July – September 2011	\$1,112,813.63
20 October 2011	30 September 2011	October – December 2011	\$1,112,813.63
20 January 2012	31 December 2011	January – March 2012	\$1,112,813.63
20 April 2012	31 March 2012	April – June 2012	\$1,112,813.63
20 July 2012	30 June 2012	July – September 2012	\$1,129,921.46
23 October 2012	30 September 2012	October – December 2012	\$1,129,921.46
21 January 2013	31 December 2012	January – March 2013	\$1,129,921.46
22 April 2013	31 March 2013	April – June 2013	\$1,129,921.46
Total			\$13,542,426.16

Figure 7-3: Payment Schedule (Charity A’s contractual funding agreement, 2010-2013, p.42)

To meet its government funder’s information needs, Charity A uses appropriate accounting packages such as Xero. In addition to preparing invoices, accounting packages are also likely to include cost centres in order to track expenditures, such as fundraising and administrative costs, against income from different funding sources, projects and regions. Nonetheless, cost centres are identified as a separate mechanism here, due to their importance in measuring charity financial information. For example, the documentary analysis found that Charity A has different regions, and each region has its own projects and activities. It used Xero’s two tracking categories with multiple sub-categories to track and measure its income and expenditures. The primary tracking category could be selected from different regions, such as northern or southern regions, and the sub-categories included counselling services, public health activities, policy development activities and non-contractual services. This allows financial information such as fundraising and administrative costs to be measured accurately. The customized financial statements and budget reporting can also be produced, based on these cost centres. A similar tracking process was also identified in the case of Charity B, as suggested by the following interviewee:

We have a number of contracts through the Ministry, it is about matching budgets to projects. [For example] I have an annual budget and I need to respond to [the Ministry] where I am sitting on a monthly basis with that budget. (Early Childhood Education Service Manager, Charity B)

The interview data indicates that the financial information provided to the funders must be measured and reported periodically, and includes the allocation of expenditures in accordance with the agreed budget for a project or funding contract.

7.2.2.2 Budget Reporting Template

As shown in Figure 6-8, the budget-reporting template, which is incorporated into the funding contract, is another mechanism used to measure financial information, such as budgeted versus actual expenditures. This mechanism is particularly used by Charity A to meet the financial information requirements of its government funder. As with cost centres, the budget reporting template could also be incorporated into the accounting packages to track actual expenditures, which are then compared with budgeted expenditures periodically. The reporting of financial information to government funders will be further discussed in Section 8.3.

Overall, accounting packages, cost centres, and budget reporting templates are measurement mechanisms employed by the charities to measure their financial information, and are largely in accordance with their government funders' information needs. The next section explains the reasons both charities measure this financial information and use these mechanisms.

7.2.3 Reasons for Measuring and Using the Mechanisms

Two reasons for measuring financial information and using the measurement mechanisms described are identified in this section.

7.2.3.1 To Meet Government Funders' Information Needs

Section 6.3.1.2 identified that the government funders' needs for financial information include the provision of budgets. Such requirements are largely consistent with the financial measurement practices discussed in the previous section. The reason for the consistency is explained by the following interviewees.

90 percent of our income comes from the Ministry contract, so we are very vulnerable to a change in that contract or variance to that contract. (Financial Manager, Charity A)

We have to account for the Ministry, I have to report on the Ministry funding and how that is going. (Early Childhood Education Service Manager, Charity B)

As noted in Section 5.5, both charities are predominately dependent on government contracts for financing because 90 percent of Charity A's total income and 80 percent of Charity B's total income are funded by the government. Hence, both charities have to measure financial information in accordance with the contractual requirements of their

government funders to secure funding, indicating that coercive pressures (DiMaggio & Powell, 1983) are exerted by government funders on both charities to measure financial information. Such coercive influence is especially apparent when Charity B recognized and measured its government funding as a contingent liability. This suggests it has no control over extending or renewing the funding contract. Charity B has to measure its financial information according to its government funders' requirements in the hope that its contract could be extended. Although Charity A does not explicitly identify its government funding as a contingent liability, it is compelled to measure its budget versus actual expenditures and use the budget reporting template to meet its government funder's requirements.

7.2.3.2 To Improve Efficiency and Financial Sustainability

In addition to fulfilling the government funders' requirements, both charities also measure financial information such as fundraising and administrative costs that are not required by the funders. As discussed in Section 7.2.1, Charity B measures its administration costs that are covered by income generated from its commercial activities. The following interviewees suggested that Charity B measures this financial information to improve the efficiency of its performance and achieve financial sustainability:

We have to prove that we are efficient in the way we do stuff...we are looking at a product called Business Intelligence 360 which is an expensive product from the States. It links into Great Plains and allows us to do all reporting from Great Plains. (Financial Manager, Charity B)

My role is to steward and future-proof the assets, so we are able to make contributions to [Charity B] in another 10 years, 20 years, or 100 years. (General Manager of the Property Management Organization, Charity B)

Our [Property Management Organization] has a commercial responsibility to generate income, but it also has a social responsibility...how do you wrestle with your needs to be commercial and have a set of values that might not be commercial? My argument has always been that actually you are best to ask questions: how to better steward the resources we have? And what residential investments are we going to have for the mission of our work? (CEO, Charity B)

This interview data suggests that, through measuring the financial information and using various software solutions such as Business Intelligence 360 that links to the existing accounting package, managers of Charity B have a conscious intentionality (Lawrence et al., 2009) to improve the efficiency of the organization. It also suggests that the commercial activities of Charity B support both its commercial responsibility to achieve

financial sustainability and its social responsibility to accomplish its charitable mission. The involvement of commercial activities provides a new identity (Lawrence & Suddaby, 2006) to Charity B in which its commercial responsibility becomes a means to achieve the ultimate social responsibility. This supports a view shared by Carroll and Stater (2009) that NFPs, including charities, generate a diversified revenue portfolio to increase the organization's chances of survival. To achieve financial sustainability, the measurement of financial information such as administration costs become routine measurement work that is embedded (Lawrence et al., 2011) in Charity B.

The reasons that the charities measure their financial information include: to meet their government funders' information needs and to improve efficiency and financial sustainability of the organizations. The perceived problems of financial measurement are identified in the next section.

7.2.4 *Problems of Financial Measurement*

Two problems of financial measurement perceived by the case study charities are identified in the following sections.

7.2.4.1 *Going Concern Assumption*

Both charities identified a material uncertainty with the ongoing use of the going concern assumption, due to the unreliability of their income sources such as government funding and commercial income, as indicated in the following evidence:

Should [Charity B] not continue to receive financial support from the [Property Management Organization], this would give rise to a material uncertainty in relation to [Charity B]'s ability to continue as a going concern. If [Charity B] was unable to continue in operational existence for the foreseeable future or be unable to reduce operating expenses in line within the services offered, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the Statement of Financial Position. (Charity B's audited financial statement Note 1- going concern, 2014, p.8)

Without qualifying our opinion, we draw your attention to note 8 on page 13 of the financial statements which explains the Foundation's current reliance on continued funding from the [government funder]. The contract with the [government funder] is due for renewal in February 2015 and there are uncertainties around the level of funding that the organization will receive subsequent to this date. This indicates existence of a material uncertainty that may cast significant doubt about the Foundation's ability to continue as a going concern. (Charity A's audited financial statement, 2014, p.6)

This documentary evidence shows that the validity of the ongoing use of the going concern assumption was identified as a problem for both charities. As noted in Section 5.5.1.3, Charity A experienced a proposed reduction in its government funding. At the time of issuing the 2014 audited financial statements, Charity A was involved in a judicial review, and its funding contract was renewed until February 2015 only. However, as the High Court overturned the decision of the government funder on 23rd July 2015, the going concern assumption should be appropriate for the next audited financial statement, which will be issued for its 2015 financial year.

7.2.4.2 *Inaccurate Allocations of Cost Centres*

Another problem with financial measurement is the inaccurate allocation of cost centres. This is because general staff members and their service managers have insufficient accounting knowledge to enter financial information into the charities' accounting packages. For example, the documentary analysis found that Charity A uses Xero as its accounting package to measure and report financial information, and it invited all staff members, including those who have no accounting background as users of Xero, to input information from the invoices and receipts incurred in their regions. However, while staff members have permission to input financial information and allocate costs to particular cost centres only, their service managers (who also have no accounting background) can approve these invoices and cost centre allocations. Once the accounting entries are approved, the financial manager of Charity A cannot change any inaccurate allocations of cost centres except by creating additional journals at the end of the month to correct the invalid entries. This creates a problem of incorrect use of cost centres which could lead to inaccurate customized financial statements and budgeting reporting.

7.2.5 *Section Summary*

Overall, this section has discussed the practices of the two case study charities in measuring their financial information. Financial information, such as contract income and budget versus actual expenditures, was measured in accordance with the government funders' information needs. Strong coercive pressures (DiMaggio & Powell, 1983) were shown to constrain the charities' financial measurement practices. This was mainly because both charities were predominately dependent on government contracts for financing and were, thus, obliged to measure financial information according to their contractual requirements. The charities also measured financial information such as fundraising and administration costs to improve the efficiency and financial sustainability

of the organizations. The cost centres, accounting packages and budget reporting template were employed as measurement mechanisms. However, both charities were identified to have a material uncertainty with the ongoing use of the going concern assumption and their allocation of cost centres may not be entirely accurate. The remaining sections analyse the measurement of non-financial performance information in the case study charities.

7.3 Output Measurement

Section 6.4.1 noted that output reporting is required by funders in New Zealand to demonstrate the direct results of charities' services in a financial year. This section further analyses the outputs measured by the two case study charities, the measurement mechanisms used, the reasons for measuring outputs and using the mechanisms, and possible problems perceived by the charities in this process.

7.3.1 Measured Output Information

Both charities measured outputs for their services and activities. The number of beneficiaries, number of service sessions and activities, and key performance indicators are identified as three main output measures.

7.3.1.1 The Number of Beneficiaries

The following interviewees identified that outputs, such as the number of beneficiaries, measured by the case study charities:

We provide social support to about 60 families per year; in our homeless services, we support about 50 homeless people, and five homeless people are put into permanent housing per month. We provide about 35,000 to 40,000 meals per year; in our early childhood education area, we support two centres in South Auckland, one with 30 Samoan children and another with 70 Tongan children. (General Manager, Charity B)

The outputs are the number of clients who have addiction problem. (Board Member, Charity A)

This interview data shows that the number of beneficiaries is a common output measure, used by both charities to measure outputs of their services and activities. For example, Charity B uses this output measure to measure the efficiency of performance in different service areas such as family services, homeless services and early childhood education services.

7.3.1.2 *The Number of Service Sessions and Activities*

In addition to the output measure of the number of beneficiaries, the following interviewees suggested the number of service sessions and activities as other output measures:

We primarily measure outputs that would be numbers of beneficiaries we see [in the counselling services such as] full interventions, follow-ups and brief interventions. [These are] the measures the Ministry gives to us. (Director of Clinical Services, Charity A)

[The outputs for the public health activities include] the number of presentations, the number of stalls, the number of materials handed out, the number of pens handed out, the number of media stories, and the number of groups talked to the audience that has been reached as a result of our work. (Director of Public Health, Charity A)

We measure media placement, like how many times are addiction harm [identified] in the newspapers, how many times our charity is [mentioned] in the newspapers or on radio. (CEO, Charity A)

This interview data suggests that Charity A measures additional outputs relating to its services and activities. As noted in Section 5.5.1.2, Charity A provides counselling services to beneficiaries who have addiction problems, and it also delivers public health and public development activities to increase the awareness of addiction harm in the communities. Hence, the number of counselling sessions, public health activities and policy development activities are also output measures. The measured outputs for these activities further include number of presentations delivered, number of media releases and other details relating to the charity's public health projects. As outlined by the interviewed director of clinical services above, some output measures are provided by the government funder of Charity A. The minimum delivery requirements for counselling services and public health activities are outlined in the funding contract of Charity A, as illustrated in Figure 7-4:

1 FTE will deliver a minimum of 120 brief sessions per month (average 15-30 minutes each).
1 FTE will deliver a minimum of 60 Full Interventions sessions (average 60 minutes each) per month.
1 FTE will deliver a minimum of 60 Facilitation sessions (average 60 minutes each) per month.
1 FTE will deliver a minimum of 120 follow-up sessions per month (average 15-30 minutes each) per month.
1 FTE would work with 8 medium sized organisations per annum (or 4 large organisations), and Establishment and providing co-ordination and leadership to one harm minimisation network that meets at least four times a year.

Figure 7-4: Example of output measures requirements (Charity A's contractual funding agreement, 2010-2013)

Figure 7-4 indicates that the government funder of Charity A requires various output measures. The first four requirements allude to different types of counselling service and the last requirement is for the public health activities. Brief intervention, full intervention, facilitation and follow-up are four types of counselling services the funder requires Charity A to provide, and number of different types of counselling sessions is thus used as output measures. For example, as outlined in Figure 7-4 above, one full time counsellor must deliver 120 brief intervention or follow-up services, or 60 full intervention or facilitation services in a month. Such detailed output measurement practices are confirmed by the following interviewed counsellor.

We are required to achieve certain outputs per month. This requirement is from the contract between us and the Ministry. As a full time counsellor, I need to see three clients, three full interventions per day. (Counsellor 2, Charity A)

This interview data highlights that the output reporting requirements of the government funder are understood by staff members of Charity A such as the interviewed counsellor in this case, indicating the practices of measuring outputs are implemented by Charity A to meet its funder's requirements. Similarly, Charity B also measures additional outputs in its homecare services:

We also measure how many visits to beneficiaries. Some of the beneficiaries [visits] can range from one hour of support a fortnight to others who we go into three or four times a day, and we might send in two workers because they might otherwise be in a private hospital. (Homecare Service Manager, Charity B)

This interview data suggests that the number of visits to beneficiaries is another output measure of Charity B. Since the nature of homecare services is to visit beneficiaries in their own homes and beneficiaries are older people and those with disability problems, this output measure can be categorised into numbers of service sessions and activities.

7.3.1.3 *Key Performance Indicators (KPIs)*

Another output measure used by both charities is KPIs, as noted by the interviewees below:

The other thing we have is the KPIs which are set by the board. The KPIs are quite specific task objectives or campaign outcomes. They are things like: we will achieve a review of this legislation, it gets to select committee and it passes the first reading, x number of MP support it, the number of submissions that would be made to the select committee, those kind of measures. (CEO, Charity A)

We have got a whole project going on around developing KPIs...there are about 140 questions service managers have to answer. There are some around human resources, legislative compliance, risk management, and working within the sector. For example, in the area of the café, there is the number of clients referred that were accepted; handed out appointments but no shows; face to face contact hours, non-contact hours. (Financial Manager, Charity B)

This interview data suggests that the KPIs are developed by the charities in a specific area, such as campaigns for Charity A and overall service performance for Charity B. The next section discusses the output measurement mechanisms used by the charities.

7.3.2 *Measurement Mechanisms*

The mechanisms of output measurement used by the case study charities include the InterRAI and databases.

7.3.2.1 *International Resident Assessment Instrument (InterRAI)*

The following interviewees noted that the InterRAI is used as an output measurement mechanism by Charity B, and was imposed by its government funders to measure outputs in its homecare services.

There is a tool we use called an inteRAI assessment. So there are specific questions we have to cover with a client and then at the end, it gives scores that we follow through. As part of the assessment we also complete some general stuff such as health and safety assessments, and any risk assessments. (Homecare Service Supervisor 1, Charity B)

Whatever information we collect using the InterRAI goes into the computer system and [the government funders] are able to see it...basically the

assessment includes [beneficiaries'] personal information, how they manage their showers and meals, whether there are any difficulties. Also around their wellbeing, for example their mobility. If their mobility is poor, whether they are at risk of fall and how we can take care of that. (Homecare Service Supervisor 2, Charity B)

This interview data suggests that the InterRAI measures the details of beneficiaries, including aspects of their wellbeing such as mobility and self-care. Although the latter relates to information on outcomes, the InterRAI output measurement mechanism enables Charity B to measure the number of beneficiaries in its homecare services, and was identified as a measured output in Section 7.3.1. As also indicated in the above interview data, the InterRAI allows government funders to access information on outputs, indicating that coercive pressures (DiMaggio & Powell, 1983) are exerted by the government funders on Charity B to measure outputs. The InterRAI adopted by Charity B also measures outcomes, which is further discussed in Section 7.4.2.3.

7.3.2.2 *Databases*

Charity A has developed two databases to measure outputs from its counselling services and public health activities, as suggested by the following interviewees:

The output is with our reports from the [clinical database] with regards to how many sessions, brief interventions and facilitations we have done, so that gets recorded for us every month...we get the number of consultations, the number of brief interventions, and the number of people we are seeing and who we have asked about addiction problems. This information is in our clinical database. The other one is the public health database, which recorded presentations I delivered. So that is our output data which we tracked routinely. (Counsellor 3, Charity A)

...the other thing that we have is that we call the public health database, which tends to record every activity that anyone is doing public health work, not just our public health worker. It is not needed for the contract, [the government funder] does not require that. It has started up by our Midland manager who decided she wanted to record the activities that people were doing and try and tie them back to purchase units. Seeing the public health contract has purchase units of raising awareness. (Director of Business, Charity A)

This interview data indicates that the clinical database is used to measure number of counselling services of different types, whereas the public health databases measure a number of public health activities and other details of those activities, such as number of presentations. These two databases were developed by Charity A in preference to adapting externally designed mechanisms. Although the interviewed director of business identified that the public health database was not developed for its government funder,

the intention is to manage contractual requirements, such as connecting public health work to purchase units, better. Hence, in order to achieve legitimacy in the eyes of its government funder, Charity A developed two databases to measure outputs. The following interviewee further identified the details that each staff member of Charity A needs to input into the two databases:

We have two computer systems: one is clinical database to record our clinical work, the other is public health database where we input the public health data. In the clinical database, it requires us to input time, location, whether a counselling session is a brief intervention, a full intervention or follow-up. Within full intervention, it is divided into different categories: the first session with a client is called 'assessment', the latter ones include 'counselling' and 'facilitation'. According to our funding contract, one full time staff member needs to complete 3 full interventions that means 3 counselling appointments a day. A follow-up or brief intervention only counted as 0.5 full intervention, so we need to have 6 such appointments. The clinical database helps us to understand the minimum number of clients we need to see each day...the public health database requires us to input the details of public health projects. For example, if they are small, medium or large, and how many people attend those projects, for example 100 or 10 participants. (Counsellor 2, Charity A)

This interview data indicates that staff members must input the output information, such as number of participants to attend a public health project, together with details of a counselling session, and this is analysed and measured in the clinical and public health databases. This is consistent with the government funder's output reporting requirements identified in Section 7.3.1.2. Since Charity A develops its own databases, these requirements are incorporated into the databases. Hence, inputting the required output information becomes the staff members' day-to-day practices and routines. This shows a form of institutional work, i.e. embedding and routinizing (Lawrence & Suddaby, 2006), conducted by the actors (managers and staff) in Charity A, which leads to a better understanding and attainment of its government funder's output requirements. Such behaviour is driven by the conscious intentionality (Lawrence et al., 2009) of actors, i.e. managers, including the one who manages the database development and maintenance in Charity A, with an intention to fulfil the contractual requirements of its government funder in Charity A. This also reflects indirect coercive forces (DiMaggio & Powell, 1983) from its government funder.

The following interviewees suggested that Charity B also uses a database to measure the KPIs presented in Section 7.3.1.3:

We are using Access as a database in our services... it is more just aggregating data and reporting on that, but not providing any narrative [information]. (General Manager, Charity B)

We had [the KPIs] in a spreadsheet and there was about 1,300 links to the spreadsheet, it did not last very long. Then we put them into an [Access] database, the service managers fill in their bits and then [the General Manager] puts in his comments, and from the database it produces a report for [the General Manager] to present to the Board. (Financial Manager, Charity B)

This interview data indicates that Charity B used an Excel spreadsheet to measure outputs but it was not suitable for their needs. Instead, an Access database is used to report output measures internally among service managers, general manager and the board. The reasons for measuring outputs and using the output measurement mechanisms are explained in the next section.

7.3.3 Reasons for Measuring and Using the Mechanisms

Three reasons for measuring outputs and using the output measurement mechanisms are identified by the two case study charities. They are as follows: to meet the information needs of their government funders; to improve the efficiency of service performance; and to accomplish their charitable mission and objectives.

7.3.3.1 To Meet Government Funders' Information Needs

The following interviewees suggested that one reason for measuring outputs is to meet government funders' information needs:

We are funded by the Ministry, in order to retain or increase that funding we need to measure outputs. (Board Member, Charity A)

We manage our contract, so that our government funder has no reason to withdraw funding for our contracted services, because we are reliant upon that funding. (CEO, Charity A)

The InterRAI that we use for our homecare service is a contractual requirement. The Ministry has agreed that that will be the national tool and so we are required to do it. (General Manager, Charity B)

This interview data indicates that the charities are susceptible to the contractual requirements of their government funders in measuring outputs. Such responsiveness clearly indicates the existence of coercive isomorphism (DiMaggio & Powell, 1983), whereby the government funders have absolute authority to impose coercive force on charities so that they will comply with the output requirements. This coercive force is also

reflected by the fact that both charities are at risk of losing their funding if the contractual requirements of outputs are not met. As noted in Section 6.4.1.2, outputs are required by the charities' funders to meet their information needs for performance information. This is evident by the case study charities for which measuring outputs is a contractual requirement, and both charities must measure outputs in accordance with that requirement to receive their government funding continuously. This finding is similar to the view expressed by Irvine (2011) that coercive pressures are exerted to adopt accrual accounting in an Australia NFP through government funding requirements. Findings of this study reveal that coercive pressures are also imposed on the charities in measuring and reporting outputs.

Moreover, the previous section identified that databases were developed by Charity A to measure its outputs. Such development is subject to the requirements of Charity A's government funder, as indicated by the following documentary evidence:

You will be required to develop and maintain systems of performance management for all employees, and to review professional practices and processes used in service delivery. (Charity A's funding contract, 2010-2013, p.29)

The funding contract explicitly outlines that Charity A is required to develop and maintain systems to manage its performance, including measuring outputs. This may be because the addiction services that Charity A provides are in a specific area that requires specialized systems. This finding supports the view expressed by Moxham and Boaden (2007) that NFPs, including charities, in the Manchester area of UK that received government funding in their study measured only the output measures generated by their funders. However, this study finds that government funders not only compel their contracted charities to adopt output measurement mechanisms, but also require them to develop their own systems to measure outputs.

7.3.3.2 To Evaluate the Efficiency and Effectiveness of Performance

The previous sections identified that output measures, such as number of service sessions and KPIs, are used by both charities to measure their performance. The KPIs are an output measure used by both charities (see Section 7.3.1.3) and Charity B uses an Access database to record outputs. It is not apparent that this output measurement practice is influenced by their government funders. Instead, the reason for measuring outputs and using the mechanism may be due to indirect normative influences of key stakeholders in

the New Zealand charity sector such as government and philanthropic funders. Through establishing professional networks, such as providing workshops, normative isomorphism (DiMaggio & Powell, 1983) occurs when the charities' norms about performance measurement practices and behaviour are developed. This reflects the institutional work of government and philanthropic funders, discussed in Section 6.4.3.4. Hence, KPIs are used to evaluate the efficiency of service performance.

Moreover, the following interviewee of Charity A suggested that it is important to measure and track addiction counselling sessions, because beneficiaries could easily relapse without attending the sessions:

If they [beneficiaries] do not come to our counselling sessions, they will be easily relapsed. They understand that counselling helps them to stop addiction problem and they have to receive regular counselling sessions. But actually they only realized that when they relapsed. And then they may think 'oh I missed the counselling session, then I had relapsed, I should go back'. So I can see that how [the number of] counselling sessions is one kind of measurement. (Counsellor 1, Charity A)

This interview data shows that the number of counselling sessions may help to identify the issue in relapse. When a beneficiary attended more sessions, he (or she) was less likely to have the issue. In this case, the number of counselling sessions contribute to assess the effectiveness of Charity A's counselling service performance. Although this output measure is used to meet Charity A's government funder's information needs (as discussed earlier), the way the above interviewee used it is different. This indicates the staff members of Charity A use institutional work, in the form of embedding and routinizing (Lawrence & Suddaby, 2006), with the aim of achieving positive outcomes for their beneficiaries. The output measure is, thus, no longer limited to measuring efficiency, but is now used to evaluate the effectiveness of service performance. This finding adds to Connolly and Hyndman's (2013b) study that identified output measures as measuring only the efficiency of their studied charities.

7.3.3.3 To Accomplish Mission and Objectives

As noted in Section 5.5.1.1, the mission of Charity A is to build healthy communities together, free from addiction harm, and it has three objectives: changing lives, changing communities and changing the environment, to accomplish its mission. The following interviewees suggested that the reason for measuring outputs links to the accomplishment of its objectives:

We are the biggest single addiction provider in New Zealand and we are often in the media, so people tend to know that we exist. We get a lot of media enquiries and we do a significant amount of media release on a regular basis to raise awareness of addiction harm. (Marketing Manager, Charity A)

All three of our [objectives] are linked because our ability to influence [the environment] is dependent upon the [counselling] services and public health activities that we provide...the more that people are talking about the [addiction] issue, the more that they are concerned about it, more influence that we can have. (CEO, Charity A)

This interview data shows that an increased output measures such as the number of beneficiaries who received counselling services helps to accomplish the changing lives objective, whereas increased output measures, such as the number of media releases and more support for the policy development activities, facilitate the other two objectives. Hence, these output measures are used to raise the awareness of addiction harm in communities and to strengthen the position of Charity A, so it is likely be the higher authority in changing the environment of the addiction field. This shows that the managers of Charity A have a high degree of conscious intentionality (Lawrence et al., 2009) directed at achieving the objectives of changing communities and changing the environment, thus contributing to the accomplishment of its mission of minimizing addiction harm. The measurement of outputs is an intentional activity taken in relation to the accomplishment of its mission and objectives.

The next section discusses problems with these output measurement practices as perceived by the case study charities.

7.3.4 *Problems of Output Measurement*

There are three problems of output measurement identified in this study. They are: inaccurate output measures, ineffective output measures and resource constraints.

7.3.4.1 *Inaccurate Output Measures*

One problem of output measurement perceived by Charity B is its measured output information may not be entirely accurate, as suggested by the following interviewees:

If a person moved from our disability service into our older person service, we would still have to do an InterRAI assessment on them and that would mean asking questions that may have been asked before. Without wanting to duplicate work, sometimes there is value in asking those questions because things change, the person may feel differently. We would do that also because it is a contractual requirement that that particular tool needed to be filled out. (General Manager, Charity B)

We support people over sixty five years of age who are identified as having a disability related to aging living at home. A success for us is saying they do not need us anymore or that we are able to support them to be at home for as long as possible. (Homecare Service Manager, Charity B)

This interview data highlights two situations where inaccurate output measures may occur. One is internal transfers of beneficiaries between service areas, such as from disability to older-persons services, as noted by the interviewee above. The other is in the older persons-service area itself. Although both service areas are under homecare services and receive government funding, the contractual requirements, such as completing the InterRAI assessment (see Section 7.3.2.1) for each new beneficiary may cause inaccurate output measures. For example, the interviewed homecare service manager suggested that the homecare services of Charity B encourage its beneficiaries to be independent. However, beneficiaries of the older person service are mainly older people who have various health issues. They are more likely to be re-admitted into the homecare services once their health condition has deteriorated, even if they were formerly discharged from the services. In that case, inaccurate outputs may occur, as further admission is likely to be counted as an additional output for the same beneficiary.

7.3.4.2 *Ineffective Output Measures*

The problem of inaccurate output measures is also identified in the case of Charity A, but this problem has triggered another problem in its output measurement practices, as noted by the following interviewees:

The number of counselling sessions required is depending on the situation of each client. Some may require many sessions throughout a long period of time, maybe half year, one year or more than one year. They need ongoing supports. Otherwise, they may easily relapse, which means they will have addiction problems again. (Counsellor 2, Charity A)

Currently I have two clients, both relapsed. I was able to contact one guy, he wanted to come back to counselling. The other guy even did not answer his mobile phone, which means he is in a very serious situation. So my concerns are mostly around relapse...anyone who come to our counselling, they know they have addiction problems. They may relapse and come back, relapse and come back like that, but I do not think I fail the cases, I would like to think they are in the process. (Counsellor 1, Charity A)

This interview data indicates that relapse is a distinct but common issue in the addiction service, which could hinder the output measurement of Charity A. This is because a large number of counselling sessions do not mean the service provided by Charity A is effective, thus highlighting a problem of the reason for measuring outputs, identified in

Section 7.3.3.2. Although increased output measures, such as more counselling sessions, may reduce the issue of relapse and indicate that the counselling service is effective, the short-term measures may not capture long-term results. This means that the addiction problems may have recurred even though a beneficiary has previously received Charity A's counselling services. As such, the problem of relapse provides difficulties in measuring the effectiveness of performance, and output measures are ineffective. This problem perhaps is not new or very interesting. However, the addiction service issue of relapse provides new insight into this problem. As noted by the interviewed counsellor 1, having the issue of relapse is part of a beneficiaries' recovery process. It suggests that the actor of Charity A acknowledged this problem with ineffective output measures, but is still willing to continue using them as an indication of the effectiveness of service performance. This does not mean that Charity A has no other alternative outcome mechanisms to measure its effectiveness as a number of outcome measurement mechanisms used by Charity A are discussed in Section 7.4.2. It is more likely to suggest that actors of Charity A show a conscious intentionality (Lawrence et al., 2009) to measure its effectiveness and maintain the institution.

7.3.4.3 *Resource Constraints*

Resource constraint is another problem of output measurement that is identified by the following interviewees:

The [Access] is really only for internal use. It is not sophisticated enough to summarise data and talk about trends...but if you do not evaluate then you have just got this huge databank that you are not really using. I suppose you know it is not that I would not want to pay for that. We have got an ethical trade off. We decide whether we are going to support more people through service delivery or we are going to support the development of a database. (General Manager, Charity B)

When I started homecare service was all on paper based systems. I wrote an Access database originally and it performed until we went into the proprietary ones. You could not run homecare system without the computer, because it has grown from having a 100 clients to 1,200 clients. (Financial Manager, Charity B)

This interview data highlights that the Access database used by Charity B, as an output measurement mechanism, is unable to analyze output measures. This mechanism was developed by the interviewed financial manager for different service areas of Charity B. Due to an increased number of beneficiaries in the homecare services, another mechanism was used to measure outputs in that area. However, it seems that the other service areas

are still reliant on the Access database to measure outputs, although the interviewed general manager acknowledged that ‘it is not sophisticated enough’. This indicates that a problem of resource constraints occurs in their output measurement practices. In addition, a balance of “ethical trade off” highlights the fact that the interviewee may have difficulty deciding on where to spend limited resources: one relates to service delivery and the other is a database development to measure output.

7.3.5 Section Summary

Overall, this section discussed output measurement in the case study charities. Both charities measured outputs in different areas of their services and activities. The existence of coercive isomorphism (DiMaggio & Powell, 1983) was identified as influencing the use of output measurement mechanisms either by direct imposition or by the requirement to develop databases. A high degree of conscious intentionality (Lawrence et al., 2009) was also acknowledged by the managers of Charity A in using the measured output information to evaluate the efficiency and effectiveness of service performance, and to accomplish mission and objectives. However, problems perceived by the charities with these measurement practices included: inaccurate output measures, ineffective output measures, and resource constraints. The next section discusses the outcome measurement of the case study charities.

7.4 Outcome Measurement

The previous section outlined measured output information and output measurement mechanisms used by both charities. However, the following interviewees shared a view that outputs are ineffective in measuring the charities’ performance and activities, and outcomes are more effective as performance information.

I equate outputs to more quantitative information, they are easier to measure but do not tell you much...they do not tell you the depth of the interactions with [the community] or what were the spinoffs that happened at our monthly gathering that are unexpected, which are outcomes and they are really valuable. (Community Development Worker, Charity B)

Outputs let us know we have gone through the motions, we have seen the clients. But to us the important question is after seeing these clients, were we helpful? Were we effective? (Director of Clinical Services, Charity A)

The interview data suggests that measuring outputs is relatively easy but it cannot measure the effectiveness of the services and activities in either charity. This view also aligns with the government funders’ information needs as noted in Section 6.4.2 in which

outputs are deemed inadequate to capture the issues and complexity of social services and, thus, the government funders prefer information on outcomes. Hence, this section focuses on measurement practices related to outcomes. The measured outcome information by the case study charities is discussed, followed by a discussion of the outcome measurement mechanisms. The reasons for measuring outcomes and using the mechanisms, and various problems of outcome measurement perceived by the charities, are critically analysed.

7.4.1 *Measured Outcome Information*

This section discusses the types of outcomes that are measured by the case study charities. The following interviewees suggested that Charity A measured outcomes for its counselling services, public health and policy development activities.

In terms of counselling services, the outcomes would be enabling beneficiaries to overcome their addiction problem. In terms of public health that would be a community which develops an effective strategy for reducing addiction harm. In terms of policy development, that would be actual change in laws, regulations and policies. (Board Member, Charity A)

We deal with the people who actually have got the problems that need counselling and our aim is to improve their position in life. With our public health work we take a preventative approach to deal with all the factors that encourage addiction problems and try to reduce them. (Direct of Business, Charity A)

The measured outcome information is identified in different areas of Charity A's services and activities, which is also in accordance with Charity A's objectives, as noted in Section 5.5.1.1. The measured outcome information for the counselling services is a reduction in the addiction problems of beneficiaries, and an improvement in the beneficiaries' positions in life. This aligns with their changing lives objective. For the public health activities, the measured outcome information is an improvement in awareness of addiction problems at a community level by delivering health promotion projects, which is consistent with the objective of changing communities. The measured outcome information for policy development activities is policies, standards and legislation relating to the minimization of addiction problems, thus linking to the objective of changing the environment. As such, Charity A measures outcomes in each area of its services and activities, and the information also links to the objectives of Charity A in accomplishing its mission. The measurement mechanisms for these outcomes especially in the area of counselling services will be further explained in Section 7.4.2.

In addition, the following interviewee noted that outcomes are measured in the homecare services of Charity B:

The outcomes we are looking for are to discharge beneficiaries to independence...it falls out of the Health for Older People Strategy [of the government funders] around aging in place...if we cannot get beneficiaries to discharge we might be able to work through their [needs] level to a lower level, saying actually they do not need so much support. So they might come in today and be what we would call a 3A, but in three months' time, they might be a 1A, which means they have improved significantly. So reduction in needs is a real outcome for us. (Homecare Service Manager, Charity B)

This interview data suggests that there are two types of outcomes measured in homecare services, and these are subject to the beneficiaries' needs levels and health condition. The ultimate outcome is to discharge beneficiaries to independence once they have relatively low needs for the services and better health. These outcomes are measured in accordance with the strategy or priorities of Charity B's government funders. It supports the discussion in Section 6.4.2, where government funders expect and enforce charities to provide performance information, so that achievement of the government's priorities can be demonstrated. With respect to high-needs beneficiaries who cannot live independently in their own homes, so that the ultimate outcome cannot be achieved, reduction in the needs level is measured as an outcome by Charity B. Moreover, outcomes are also measured in the other services and activities of Charity B, as noted by the interviewees below:

We are measuring how people's wellbeing is affected by participating in community projects. If they feel good about participating then that is an outcome. (Community Development Worker, Charity B)

I guess for some people it is about quality of life, by accessing our service and utilising what we do, their quality of life improves significantly. (Homeless Service, Charity B)

For early childhood education, the payback goes forever thus the impact is that the children are really positive about their education, which gives them a better life. (Early Childhood Education, Charity B)

This interview data identifies that Charity B measures outcomes for its homeless services, early childhood education, and community development activities. However, some outcome information is long term. For example, the outcome of early childhood education occurs when a child grows up, which may present difficulties in evaluating the performance of Charity B in the shorter term. While the next section further discussed the

outcome measurement mechanisms, the problems of outcome measurement are further discussed in Section 7.4.4.

Overall, both charities measure outcomes for their services and activities. The next section discusses the measurement mechanisms employed by the charities.

7.4.2 Measurement Mechanisms

A number of outcome measurement mechanisms are used by the charities. Charity A employed various outcome measurement mechanisms that include the Outcome Rating Scale and Session Rating Scale (ORS/SRS) and Interactive Drawing Therapy (IDT) to measure outcomes for the counselling services, and surveys to evaluate outcomes for their public health activities. Charity B uses the International Resident Assessment Instrument (InterRAI) to measure outcomes in its homecare services, the Client-Directed, Outcome-Informed (CDOI) instrument in its family services, and the RBA for the other services and activities. Besides the surveys used by Charity A that are internally developed by the charity, the other measurement mechanisms are externally adapted to the organizations. This section discusses how each mechanism measures outcomes for the case study charities, and explains the reasons for using the measurement mechanisms in Section 7.4.3.

7.4.2.1 Outcome Rating Scale and Session Rating Scale (ORS/SRS)

Campbell and Hemsley (2009) identified that the ORS/ SRS is a reliable and feasible mechanism to measure outcomes in psychological practices such as counselling services. Charity A uses the ORS/SRS as an outcome measurement mechanism for its counselling services, as suggested by the following interviewees:

One of the good things about ORS/SRS is that they bring the clients' voices into the room, so it is not just the counsellor thinking I did a brilliant job, it is the client actually giving feedback. It is the clients' opportunities to let us know how we are doing, have we been on track with them or not? We are finding this to be a good way to see if we need to change course of what we are doing with our clients to achieve better outcomes. (Director of Clinical Services, Charity A)

We are actually measuring the improvement of quality of life and measuring per session of service of a particular intervention. We are having immediate feedback from the ORS. We are also measuring the relationships between the clients and counsellors [by using the SRS]. (National Operations Director, Charity A)

The ORS/SRS is used as a combined mechanism to measure the effectiveness of counselling services that also enables beneficiaries to voice their experience prior to, and after, receiving the services. This addresses the problem of capturing the voices and feedback from beneficiaries after participating in the services, as identified in Section 6.5. The following interviewee, who investigated and introduced the ORS/SRS to Charity A, also indicated that this mechanism measures outcomes in a prompt and convenient way:

There are lots of assessments out there, but they are long and cumbersome, nobody is going to do them...the ORS/SRS are both only four questions each and a 10cm scale and the client just makes a mark to indicate how their feelings are going. It is fast and it takes less than a minute for client to do and not that long for counsellor to talk with the client about it. (Director of Clinical Services, Charity A)

As demonstrated in Figure 7-5 below, the ORS that is conducted at the beginning of each counselling session measures the beneficiaries' counselling outcomes in the areas of individual, interpersonal, social and overall wellbeing.

Outcome Rating Scale

Looking back over the last week (or since your last visit), including today, help us understand how you have been feeling by rating how well you have been doing in the following areas of your life, where marks to the left represent low levels and marks to the right represent high levels.

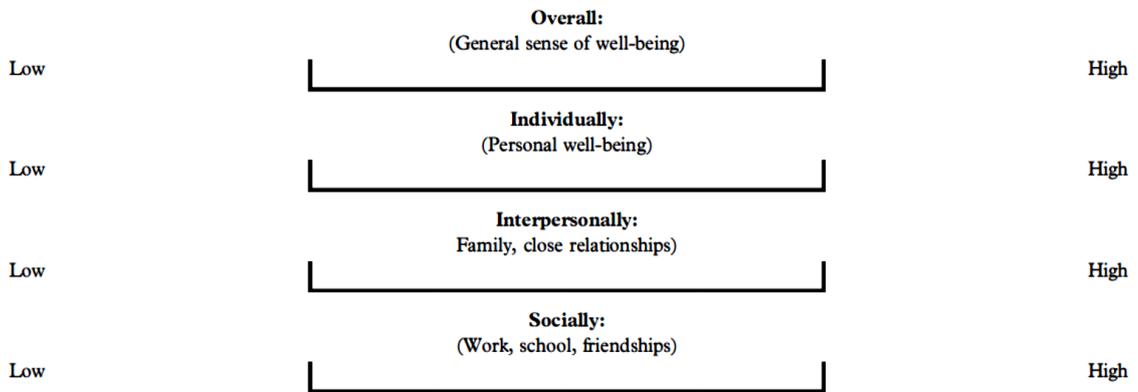


Figure 7-5: Outcome Rating Scale (S. D. Miller & Duncan, 2000)

Figure 7-6 outlines the SRS in which the counselling experience of beneficiaries and their relationships with their counsellors are evaluated. It is completed at the end of each session.

Session Rating Scale

Please rate today's session by placing a hash mark on the line nearest to the description that best fits your experience.

I did not feel heard, understood and respected	Relationship:	I felt heard, understood and respected
We did not work on or talk about what I wanted to work on or talk about	Goals and Topics:	We worked on and talked about what I wanted to work on or talk about.
The therapist's approach is not a good fit for me	Approach or Method:	The therapist's approach is a good fit for me
There was something missing in the session today	Overall:	Overall, today's session was right for me

Figure 7-6: Session Rating Scale (S. D. Miller, Duncan, & Johnson, 2002)

Figure 7-5 indicates the achievement of counselling outcomes and Figure 7-6 measures the beneficiaries' experiences of how good they found the sessions to be. The ORS and SRS are seen as a simple outcome measurement mechanism which is recognized to be highly feasible (Duncan et al., 2003; S. D. Miller, Duncan, Brown, Sparks, & Claud, 2003). The following interviewed counsellor concurs with this view, and she suggested that the ORS/SRS scores be recorded in the clinical database discussed in Section 7.3.2.2, and a graph produced to compare the outcomes for beneficiaries after they attend a number of counselling sessions.

Their [ORS/SRS] scores are in the [clinical database], we can graph that for every session and are able to see if they are below the cut-off rate. [For example,] If a client is below the cut-off rate of 25, the person is distressed...it is a good measure of how they are getting on and how we are getting on and if we are getting the job done. (Counsellor 3, Charity A)

The ORS/SRS scores reveal immediate outcomes before and after beneficiaries attend the services, while a long term outcome for the beneficiaries is outlined in a graphical representation that is produced from the clinical database in which both the session outcomes and the level of alliance with counsellors are measured. An ORS/SRS example for one of the interviewed counsellor's beneficiaries is demonstrated in the interview data and Figure 7-7:

This client has been in prison and he has been feeling really depressed...he was a bit suicidal and he is prone to self-harm, and then he gradually improved over time. [At the beginning] his trust in me was very low when he was

down...then it goes up because he is recovering here. [Pointing to Figure 7-7]. Now he is studying for his engineering course. More importantly, you can see [from ORS] his mood has elevated and he is stabilized. That was over quite a period of time...he sent me a card today, [although] he does not know when my birthday is. (Counsellor, Charity A, 3)

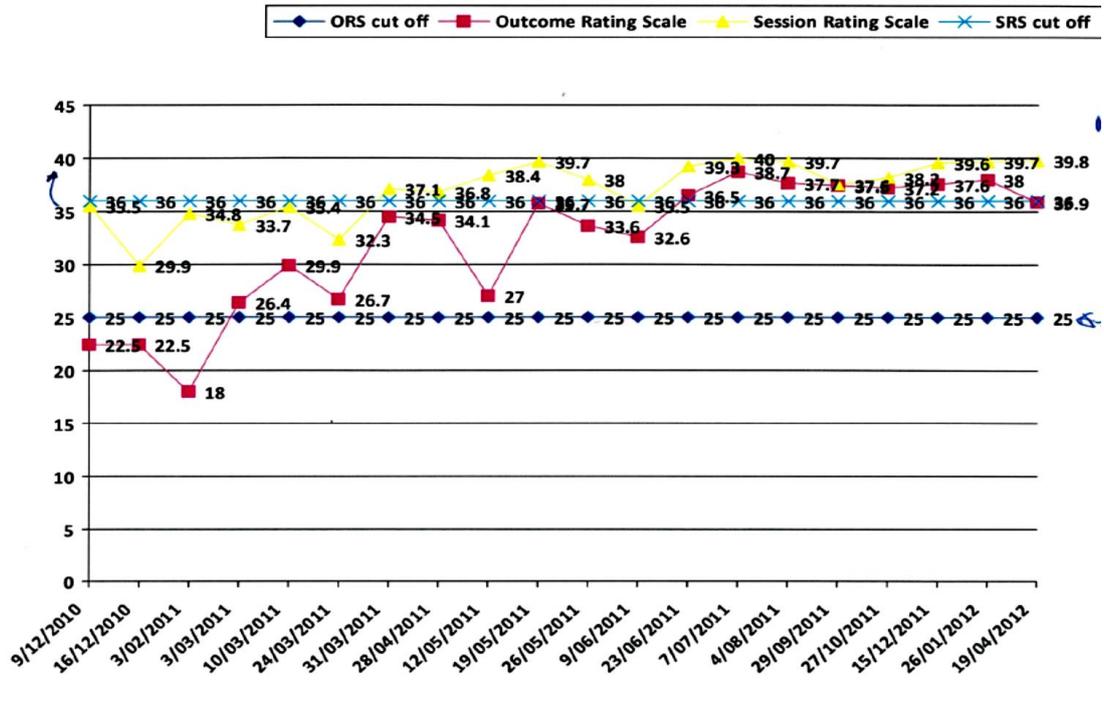


Figure 7-7: Example of ORS/SRS graph

Figure 7-7 indicates that the scores of the ORS and SRS for the beneficiary gradually increase and eventually reach the cut-off (maximum) scores after a number of counselling sessions. The SRS reflects a relationship between the beneficiary and the counsellor that contributes to counselling outcomes, and beneficiaries' trust is essential to establish such relationships. This supports Orlinsky, Ronnestad and Willutzki's (2004) finding that a positive alliance is one of the best predictors of outcome. As such, building trust is seen as a taken-for-granted understanding that is internalized by actors such as beneficiaries and counsellors, and trust is acted out as a cognitive belief (Scott, 2008) to connect actors in achieving outcomes in the counselling services. The trust demonstrated by the interviewed counsellor here is in line with the trust of philanthropic funders as identified in Section 6.4.1.2, where the funders' trust is derived from the institutional work of routinizing the appropriate performance practices in the New Zealand charity sector.

In summary, the ORS/SRS measures outcomes in the counselling services of Charity A whereby both immediate outcomes after attending the counselling sessions and the level

of alliance between beneficiaries and counsellors are demonstrated. After inputting the beneficiaries' ORS/SRS scores into the clinical database developed by Charity A, a long term outcome for the beneficiaries is also measured.

7.4.2.2 Interactive Drawing Therapy (IDT) and Surveys

IDT was considered by practitioners in New Zealand as a useful tool to ascertain the underlying issues of beneficiaries and empower them to establish goals for change (Everts & Withers, 2006). An interviewee concurs with this view and suggests that IDT is another outcome measurement mechanism in the counselling services:

A measure I normally use is IDT, which is using clients' drawings to reflect their deeper problems. I have a client that used IDT...at the beginning of counselling sessions, he had felt vulnerable and was depressed. I asked him to draw a picture to reflect his feeling and he drew that he sank into the bottom of the ocean. After a few sessions, his drawing showed that he slowly floated up a bit from the bottom...after he had a number of further sessions, he felt that he was on a boat floating on the sea. At the end of his treatment [before I discharged him], he felt uplifted like he was on an airplane. So I can tell based on his drawings that he has been changed. (Counsellor 2, Charity A)

IDT is a therapeutic method which encourages beneficiaries to draw and write their feelings. The interview data above highlights that the counselling outcomes are measured by comparing the drawings of a beneficiary. Moreover, the following interviewee suggested that surveys are used to measure outcomes in public health activities.

If we go out to do a presentation, evaluation forms are handed out and recorded. You give them a piece of paper to fill in, which asks 'what was the most interesting', 'was this helpful' and that sort of thing. (Director of Business, Charity A)

The interview data indicates that surveys are used to measure outcomes in which participants of the public health activities could reveal whether they are better informed on the addiction-related issues. This view is shared by an interviewed beneficiary.

It just opened my eyes to see how serious the problems can be to have addiction practices, and how serious my problem was when I wasted my time blaming my mother but in fact it is not her problems. (Beneficiary 2, Charity A)

This interview data suggests that the beneficiary of Charity A perceives that the public health activities she attended are helpful and her awareness of the addiction harm has improved. The outcomes of public health activities may relate to an increasing number of

beneficiaries seeking help in the counselling services, once beneficiaries have better understandings of the addiction issues.

Therefore, Charity A employs the ORS/SRS and IDT to measure outcomes in their counselling services, and surveys to evaluate outcomes for their public health activities. No evidence suggests that there is any mechanism adopted by Charity A to measure its policy development activities, as those outcomes can be identifiable explicitly when a policy is either changed or not changed. The next two sections discuss the outcome measurement mechanisms used by Charity B.

7.4.2.3 *International Resident Assessment Instrument (InterRAI)*

Section 7.4.1 identified that the measured outcome information for Charity B's homecare services is of beneficiaries living independently in their own homes, which is according to its government funders' strategy. The following interviewees suggested that InterRAI is also enforced by the funders, and explain it as follows:

InterRAI is a standardised measure used in New Zealand across older people service to measure goals, the extent of rehabilitation and a measurement of progress is towards independence. It is a contractual requirement. (General Manager, Charity B)

When [beneficiaries] come they have an assessment called an InterRai which is an evidence based tool that Ministry brought into New Zealand. I think it is a Canadian system originally and it is particularly for older people. Everyone has that common assessment regardless of what provider they go to, and so it is creating a national data set. We use that to determine a needs level [of the beneficiaries]. (Homecare Service Manager, Charity B)

This interview data indicates that InterRAI is not only an output measurement mechanism (see Section 7.3.2.1), but also a measure of the extent of a beneficiary's independence in the homecare services, and a beneficiary's needs level is considered as a criterion to facilitate this outcome. Moreover, the interview data also suggests that Charity B is not the only contracted charity to use this measurement mechanism, as InterRAI has been imposed on all providers in the same field nationwide. The reason for employing this mechanism is further explained in Section 7.4.3.1.

7.4.2.4 *Results-Based Accountability (RBA) and Client-Directed, Outcome-Informed (CDOI)*

Chapter 6 identified that RBA is an international outcome measurement and reporting mechanism that is accepted by some funders in New Zealand. It has three types of

performance measures: how much, how well and is anyone better off. The following interviewee indicated that RBA was used by Charity B to measure outcomes:

We have got a whole project going on around developing measures. There is three questions that I am asking people. How much do you do? How well you do it? And is anybody better off? Standard RBA questions. Is anyone better off question is a difficult question and we are introducing CDOI to measure how we are going on working with clients in the family services. So there are basic questions that you ask at the beginning and the end of an interview and then you graph the results. If the graph is going up you are doing well and you do not have to do anything, but if it is going down then something is not working right and you have to change the way you work with that client. (Financial Manager, Charity B)

This interview data indicates that Charity B employs an outcome measurement mechanism CDOI to measure the ‘*is anyone better off*’ question under the RBA framework. The CDOI is essentially the ORS/SRS introduced in Section 7.4.2.1 but it is referred to by a different name in Charity B. The adoption of RBA is in line with the information needs of the government funder as identified in Section 6.4.3.2. However, Charity B is at an early stage of measuring outcomes in its services and activities other than its homecare services. Section 7.4.4.1 further discusses the reasons Charity B does not fully implement its outcome measurement mechanisms. The next section explains the reasons for measuring outcomes and using the outcome measurement mechanisms identified in this section.

7.4.3 *Reasons for Measuring and Using the Mechanisms*

The previous sections outlined the measured outcome information, and various outcome measurement mechanisms are employed by the case study charities. This section explains the reasons for measuring outcomes and for using the measurement mechanisms.

7.4.3.1 *To Meet Government Funders’ Information Needs*

Sections 7.3.2.1 and 7.4.2.3 identified that the InterRAI was imposed by the government funders of Charity B on all contracted charities in the same field. The following documentary evidence concurs with this view:

Through the collection and interpretation of high quality data about the characteristics and outcomes of persons across a variety of health and social services settings, InterRAI aims to promote evidence-based clinical practice and policy decisions...the assessment tool is used in the management of older clients and those deemed as being of like in age and interest. It started as an assessment instrument used in Canada and the US, but has now evolved into a suite of assessment tools that can be used on any older client in any environment. Its development has involved a network of researchers in more

than 30 countries and the assessment tools are used throughout the world...[the government funder] drove the use of the assessment, so that by 1st July 2012 the assessment tools were in use for all needs assessment and service coordination throughout New Zealand. (InterRAI brochure of one government funder of Charity B, 2012)

In October 2012, the Ministry announced that the use of InterRAI would be mandatory in all aged residential facilities in New Zealand by July 2015. (Another government funder of Charity B website, 2015)

The documents above indicate that the InterRAI was first widely accepted by other countries in a similar field and then implemented mandatorily in all contracted charities and other providers in New Zealand. One government funder of Charity B under a mimetic influence first adopted this mechanism, as it was perceived to be a legitimate tool that is validated and commonly used in other countries. Once it was adopted in New Zealand, the other government funder also used it and both funders then exerted coercive pressures on contracted charities and other providers to implement such measurement mechanism in homecare and older people services. Thus, a combination of mimetic and coercive pressures have been identified to enforce Charity B to use this outcome measurement mechanism in its homecare services.

7.4.3.2 To Gain Funding Opportunities

Charity B also voluntarily adopts outcome measurement mechanisms such as the CDOI as identified in Section 7.4.2.4, although the following interviewees suggested that the adoption of these mechanisms are not required by its current government funders.

I think government [funders] are interested in the [RBA] framework, so we expect government to, in time, require organisations funded by government to align themselves broadly to the RBA framework. So it makes strategic sense to do that now for ourselves so that we are in the habit of doing it. (General Manager, Charity B)

We just want to make sure that we are getting the best bang for our buck. It is about measuring the impact we are having on the communities and knowing that we are spending the very limited scarce resources the best...we have to prove that we are efficient in the way that we are getting results because government agencies only fund people that are using RBA or CDOI to give them measures. (Financial Manager, Charity B)

The interview data shows that although there are no outcome requirements explicitly identified in its current funding contracts, Charity B tries to align itself with the existing and the other government funders' strategies and priorities. As such, potential funding opportunities coerce Charity B to adopt both the CDOI and RBA in measuring outcomes.

The adoption of the RBA is consistent with government funders' information needs, which favour the RBA as a mechanism for measuring outcomes (see Section 6.4.3.2). Nonetheless, according to Campbell and Hemsely (2009), CDOI (also called ORS/SRS) is designed mainly for clinical and psychological practices and, thus, is more useful for Charity A than Charity B. It is interesting to see that Charity B, which does not provide counselling services, also adopted the CDOI. This may indicate either a lack of understanding toward outcome measurement, or that there are no other available mechanisms to select in the New Zealand charity sector. Nonetheless, the actors (managers) of Charity B shape its own context (Suddaby et al., 2010) as a means of managing the coercive pressures in order to secure funding. The interviewees below further explained the reason for adopting the CDOI:

In terms of the CDOI, we are using that because some other organisations that we know have used that framework and have reported positively about it. They have found it useful in terms of measuring outcomes for individual clients but also for measuring other things within the organisation. These are organizations that are working reasonably closely together now so it makes sense for us to adopt a common measurement of framework. It means we can have good conversations with each other about our work...we can compare and contrast data because it is collected on the same platform. (General Manager, Charity B)

[CDOI] is an American based system that our sister trust in Wellington uses to measure how they are working with clients...they also use it to manage their whole performance. [A leading person in Wellington] goes to courses in America and presents what she is doing, she is a guru on this subject. (Financial Manager, Charity B)

This interview data suggests that the adoption of the CDOI is influenced by other organizations that are seen as successful or 'pioneers' in outcome measurement. It illustrates that Charity B perceives the outcome measurement mechanisms as being used by others in its service areas, with the potential for mimetic influence (DiMaggio & Powell, 1983).

7.4.3.3 To Evaluate the Effectiveness of Service Performance and Accomplish Mission

Although Section 6.4.2 noted that there was a shift from outputs-based to outcomes-based government contracting, Section 7.3 identified that the funding requirements for Charity A's services and activities are still fundamentally outputs-driven. Nonetheless, Section 7.4.2 identified that Charity A adopts the ORS/SRS and IDT to measure outcomes in its counselling services, and surveys to measure outcomes for its public health activities. The

following interviewees suggested that such adoption behaviour is not imposed by its government funder:

The contract with the government funder is not focused on outcomes at this point, but we have taken an innovative move. As a service that provides counselling, the important thing is if we are being effective with what we do and if we really care about whether we are effective in what we do. Then we need some ways to measure that. (Director of Clinical Services, Charity A)

We are certainly measuring the outcomes, especially in counselling services... [Outcome reporting is] not in the contract yet, I think the new contract will have an outcome framework and so then we will be able to prove that we have taken the outcome framework. (Director of Business, Charity A)

This interview data indicates that the government funder does not currently require measuring outcomes, but Charity A is proactively measuring outcomes in its counselling services and public health activities to evaluate the effectiveness of service performance and mission accomplishment. As such, the government funder of Charity A is not considered as a coercive force to push the use of outcome measurement in Charity A. Charity A measures outcomes without the influence of funders' mandates, which differs from Thomson (2010) who suggests that the outcome measurement practices of NFPs, including charities, are significantly influenced by funders' requirements. This finding also contrasts with Moxham and Boaden (2007) who argue there were no incentives for NFPs, including charities, to measure outcomes from their case studies. The following interviewee identified the reasons why Charity A measures its outcomes and uses these mechanisms:

I suppose [outcomes] guide our services. It is the right thing to do, otherwise we do not know who are we working for? Outputs are essential for us to know that we are doing what is asked of us from the Ministry, and outcomes are measured because it is why we do what we do. The purpose of varying existences is to make a difference. How do we know if we are doing what we set up to do? It has to be able to measure the difference. (National Operations Director, Charity A)

This interview data suggests that measuring outcomes is perceived to be the 'right thing to do', implying an organizational norm of appropriate practice (DiMaggio & Powell, 1983) in Charity A. Managers and staff are key sets of actors who have the capacity to influence the norm in responding to pressures towards outcome measurement practices. The following interviewees indicate that managers of Charity A perceive that the willingness of staff members plays a critical role in the implementation of outcome measurement mechanisms.

It is not just a quality improvement thing for our organisation, it helps a lot of them to think about what they are doing in their sessions and whether or not they are connecting, whether or not they are managing to help their clients get a good life. Some of them who did not like the idea think it is great now. (Director of Business, Charity A)

If clients give us a score of zero when they come to a session, you know that either you are the wrong person for them or they need more services...it is very rewarding to see a client going from a score of 6 to a score of 27, when you know that they are recovering and getting control of their life...it is a good measure of how they are getting on and how we are getting on, and if we are getting the job done. (Counsellor 3, Charity A)

The interview data suggests that both staff and managers of Charity A support the adopted mechanisms, such as the ORS/SRS. Hence, the value and importance of outcome measurement to evaluate the effectiveness of service performance and mission accomplishment are more likely to be recognized by these actors. This concurs with Zimmermann and Stevens (2006, p. 325), who stated:

...knowing the value of the process while having an appreciation for the downside in terms of volume of work can help organizations make more educated decisions about how deeply they want to get involved with outcome measurement.

As such, the willingness of staff members determines the extent to which outcome measurement is implemented in the organization. The implementation of outcome measurement mechanisms in Charity A thus is likely to be achieved when staff and managers are on board, a finding that also supports the view expressed by MacIndoe and Barman (2013), that institutional pressures from normative networks and resource providers do not affect the extent of use of outcome measures to evaluate services and activities.

7.4.3.4 *To Gain Legitimacy from Stakeholders*

The following interviewees of Charity A indicated that mimetic pressures exist in its outcome measurement practices:

The measures that are used in our organisation are statistically significant and they are international measures that have uniformity, so there is no problem there. (Counsellor 3, Charity A)

Two psychologists in the United States – Scott Miller and Barry Duncan want to have a way to measure client progress and to get feedback from the client, they begin to take information from longer assessments and pairing that down to come up with the ORS/SRS. So ORS/SRS have been validated and they are seen as a reliable instrument. (Director of Clinical Services, Charity A)

The interview data suggests that ORS/SRS is verified in the US and it is a commonly accepted international outcome measurement mechanism. As a result, Charity A attempts to enhance its legitimacy in the eyes of stakeholders by adopting this mechanism. It is not evidenced that uncertainty is the force to encourage Charity A for such imitation, but adopting the mechanisms such as the ORS/SRS are likely to enhance the certainty and credibility of outcome measurement. Such mimetic adoption supports Eckerd and Moulton (2011) who find that NFPs, including charities, are significantly and substantially more likely to adopt evaluation practices based on the perception of what other organizations are adopting. In addition, as illustrated on Charity A's official website and annual reports, Charity A co-hosted international conferences on addiction issues with another service provider and an addiction research centre on a biennial basis. The participants at conferences are national and international addiction service providers, researchers, and practitioners in the area of addiction problems. Charity A, another service provider, the research centre and participants are groups of actors who construct 'normative networks', as defined by Lawrence and Suddaby (2006). These groups of actors could share their experiences of outcome measurement, introduce outcome measurement mechanisms, and interact with other participants who have common interests. Thus the adoption of outcome measurement mechanisms by Charity A can be seen as an attempt to portray itself as a legitimate institution, to enhance its reputation under both mimetic and normative pressures (DiMaggio & Powell, 1983). The adoption of outcome measurement mechanisms acted as a legitimate action to promote conformity under pressures from normative networks and mimetic pressures within the addiction service environment, thus the finding of this study extends those of Eckerd and Moulton (2011) by identifying the normative reasoning for using the outcome measurement mechanisms in the New Zealand charity sector.

7.4.4 Problems of Outcome Measurement

The case study charities perceived four problems with their outcome measurement mechanisms. These problems include: resource constraints and staff resistances, dishonest feedback from beneficiaries, misunderstanding the funding contract, and misalignments between the contractual requirements and missions.

7.4.4.1 Resource Constraints and Staff Resistances

The following interviewee identified that resource constraints are a problem of outcome measurement:

They [measurement mechanisms] all require some work done to them, some refining or tailoring, so there is a cost associated with that, if it can be done. If you are going to go with a computer based tool, immediately that requires an investment in infrastructure so that everybody has a computer or everybody has a hand held device if the platform requires a portable device. So there can be a lot of cost associated with it. And then if you are going to collect this data and use these tools there also time and effort and understanding required... someone is going to lead that, someone is going to manage them, someone is going to understand about evaluation or identify an evaluator, but you might have to do a tender process to select them and you need to raise the money to pay for the evaluation, these are not cheap things to do. Some funders speak quite glibly about evaluation like there is an expectation of the charity sector that evaluation will be done and will be part of the ongoing work. I think that is fine, I have no argument with it, but how do we resource that in a way that is useful? (General Manager, Charity B)

This interview data identifies various resource constraints such as high costs associated with evaluations and lack of available evaluation funds, time and expertise. Although some government and philanthropic funders provide extra evaluation funds, as discussed in Section 6.4.3.4, the above interview data identifies that it is still difficult to raise additional funds for evaluating and measuring outcomes. This problem not only influences the decisions to adopt additional outcome measurement mechanisms, but also hinders the extent of implementing the existing outcome measurement mechanisms, such RBA discussed in Section 7.4.2.4:

...is anyone better off is a difficult question. We do not know [how to answer that]. We have not got quite to that stage. We are just getting the social workers to understand that it is an important measure. It is a major shift of thinking and reporting in that way. (Financial Manager, Charity B)

We have basically borrowed the *how much, how well and better off* [emphasis added] concepts from the RBA. Whether we implement it any further is still to be discussed or be agreed on. There is a bit of debate in the organization about whether we will do that or not. (General Manager, Charity B)

This interview data indicates that RBA is not implemented fully into the Charity's service delivery and that this due mainly to the problem of resource constraints. Moreover, staff resistance is another reason that Charity B does not fully implement its outcome measurement mechanisms, as suggested by the following interviewee:

When we went to a process by which we actually were saying we want to reduce the amount of care, you can imagine if you are a support worker and your income is dependent on people receiving support, that you might not want them to be independent. Because it means that you might potentially have less income. So we had to work through that with the support workers and to make sure they understood why we were doing what we were doing, that the outcome was better for the client. Some clients that would leave and

be discharged and not need them as much, there would be others coming because the population of old people continues to grow. (Homecare Service Manager, Charity B, 25)

This interview data suggests that resistance is identified from the support workers when they implement the strategy of promoting beneficiaries' independence in the homecare services. The wages of support workers are closely connected to the number of hours provided to beneficiaries. Resistance occurs when the support workers are paid less when their working hours are reduced once beneficiaries' conditions are improved. The reasons that Charity B does not fully implement its outcome measurement mechanisms echo some observations made by other researchers, such as resistance from internal stakeholders, who treat outcome measurement as a resource drain and distraction (Carman & Fredericks, 2008); and capacity issues including increased workload for measuring outcomes adequately (Zimmermann & Stevens, 2006).

7.4.4.2 Dishonest Feedback from Beneficiaries

Although a number of outcome measurement mechanisms are identified in Section 7.4.2, the interviewees below mentioned that dishonest feedback from beneficiaries is a problem for their outcome measurement practices:

[ORS/SRS] could not tell a beneficiary's willingness to change. Many beneficiaries are reluctant to be here. They may be forced by their families, or they need a re-entry pass [some self-excluded beneficiaries have to receive a certain amount of counselling sessions to re-enter the addiction practices]. They are physically here, but they believe they have no problems at all. Those beneficiaries refuse to talk about their issues. So when we do the outcome rating scale, which asks how well you have been doing this week. The responses are perfect. They give 9 or 10 out of 10. When we do [the session rating scale] and ask them to rate today's session, they give excellent marks. Therefore, the outcomes measured by ORS/SRS do not reflect the beneficiaries' real feelings. (Counsellor 2, Charity A)

Sometimes when they are doing assessment like ORS/SRS, they try to put what other people want to hear. Say if I put myself in a 1 to 10 in Likert scale, I want to be closer to the 10 probably. There is kind of a mind-set around it...because they want to look better than they were, to look like they are feeling better than they were. (Director of Clinical Services, Charity A)

The client may feel obliged to give the responses they think the counsellor wants to hear as opposed to being totally honest. They might feel the counsellor has been a little bit of help, but they say you are being great, you helped me a lot, which might not be the full truth. (Academic, Charity A)

This interview data indicates that many beneficiaries are reluctant to receive counselling services but they are assigned for treatment by other people, such as their families. As a

result, they may refuse to complete an outcome measurement mechanism like the ORS/SRS in an honest way, or they might feel obliged to provide a falsely positive outcome. The willingness to discuss their issues is relatively low. This problem of dishonesty not only occurs in the case of the ORS/SRS, it could be applicable to the other mechanisms such as surveys. Consequently, reliability and usefulness of the mechanisms discussed in Section 7.4.2 are questionable. Similarly, this dishonesty problem is also identified in Charity B's homecare services, as suggested by the following interviewee:

[Beneficiaries] may say one thing and not be able to do it. They may say they need less help when they actually need more...or some of them might only have a few hours a week, but they are wanting like seven days a week. (Homecare Support Worker, Charity B)

Some beneficiaries have incorrect self-assessments as they are dishonest when their goals are assessed, which may be because beneficiaries are afraid of losing the existing services once their needs level is reduced. This finding is consistent with the perception identified in Section 6.5 that beneficiaries are vulnerable and lack power.

7.4.4.3 *Misunderstanding the Funding Contract*

In addition to the dishonesty problem, Charity A also seems to misunderstand the government funder's expectations, as expressed in its funding contract. A snapshot of Charity A's funding contract (see Figure 7-8) noticeably indicates that the government funder is interested in outcomes.

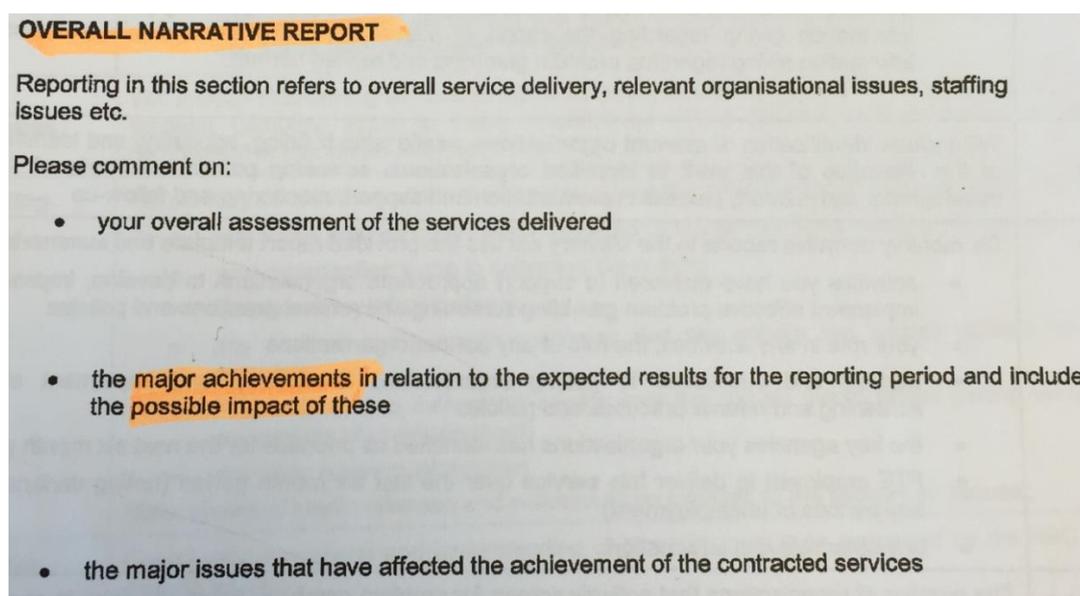


Figure 7-8: Narrative report template (Charity A's contractual funding agreement, 2010-2013, p.76)

In addition to the narrative report above, the template for public health projects in the funding contract also inquiries about outcomes of public health activities explicitly. Some terms like “expected short to medium term outcomes, expected long term outcomes, outcomes to date, and comment on whether expected outcomes were met” elaborate the government funder’s expectations on outcome reporting (Charity A’s funding contract, 2010-2013, p.86-87). Such emphasis on the outcomes is consistent with funders’ information needs and is identified in Section 6.4.1.2, but it is largely different from the perceptions of Charity A’s actors, who consider their government funder does not require outcomes (see Section 7.4.3.3). This observation highlights misunderstandings between Charity A and its government funder in terms of measuring and reporting outcomes. It may be because Charity A generally receives routine renewals of its contract, and it does not capture new updates about outcome requirements, or because outcomes are required only for public health activities, as indicated in the public health project template. However, actors (managers and staff members) in Charity A perceive measuring outcomes for counselling services as being more important, and consider both the ORS/SRS and the IDT for use to measure outcomes in counselling services.

As indicated in Section 6.4.3.2, government funders will not provide continuous funding when there are misalignments between their expectations, which are reflected in the contractual requirements, and charities’ practices. Charity A’s proposed funding cut (see Section 5.5.1.3) further demonstrates this view, which highlights the vulnerability of charities that are highly dependent on government funding. This finding supports Benjamin’s (2012) questioning of the viability of the funder-grantee relationship when conflict exists between funder’s expectations and NFPs’ including charities’ practices. However, the misalignment or conflict are not entirely due to Charity A not reporting what its funder requires. Without knowing outcomes required by the government funder, Charity A adopted and implemented outcome measurement mechanisms into its services and activities giving counselling services great emphasis and this is consistent with funding allocations (see Section 5.5.1.3). Thus, the decision to cut funding may not be a direct result of non-compliance with the contractual requirements. The interviewed government funder below suggests that *value for money* is a criterion when funders review the contract renewal and tendering processes.

Well just because a contract ends in 3 years does not mean it should automatically be renewed. We have got guidelines, it is called business rules and government guidelines for contracting. If we are going to renew a contract

we have to say yes we have tested the market, we know there is nobody else out there and we should renew the contract and that happens to varying degrees, so technically every time a contract comes up for renewal we should be saying well are we getting the right service, are we getting *value for money* and should we be going to tender?...we thought that if we streamlined it through one provider, that we would get much better *value for money*...there is a very tight process around tendering. When the Ministry went in for tender, they would have to be really clear about what it is that they were looking for. And I can say unequivocally that the service that won the contract would have been able to meet that criteria more than the other. (Government funder, 5)

Value for Money (VfM) is exactly what it says; the value received for the money spent. It is simply the ratio of the total costs compared to the total quantified benefits, or value delivered; 'bang for your buck'...however, sufficient robust evidence does not exist to enable the benefits, or outcomes to be quantified...due to this lack of hard evidence to quantify the outcomes, the main focus of this review has had to be on inputs and outputs rather than outcomes. (Value for Money review of addiction services report prepared for the government funder of Charity A, 2011, p.6)

As identified in the above report of the VfM review of addiction services, where Charity A is included, outcome measures were not elaborated, even though the importance of outcomes is recognized. Decision-making about which organizations are funded does not appear to have been affected by the extent of outcome measurement practices. As such, the measured outcome information (see Section 7.4.1) and the use of outcome measurement mechanisms (see Section 7.4.3) are not relevant for funding decision-making. The interviewee below further noted that Charity A was criticized for not being politically neutral when carrying out its policy development activities, which is more likely to cause a tarnished reputation in the eyes of its funder.

I am not too worried about [the funder] finding out what we are doing. I think they can guess, they have pretty much got a good idea anyway. I do not need to spell it out for them, but my concern is that we manage our contract, so that they have no reason to withdraw our funding for our contracted services, because we are reliant upon that funding, so that is why we pay so much attention to exceeding our contract, why we argue about political neutrality, make sure we all understand what all the rules are, and that they have no grounds to criticize us or evoke the terms of our contract which could lead them to cancel. (CEO, Charity A)

This interview data shows that the actors (managers and staff members) of Charity A constantly engaged in the process of institutional work that was deliberately maintained, but unfortunately potentially disruptive to the institution (Suddaby et al., 2010). The process of disruption is reflected in its prioritization of intended outcomes and stakeholders, so that accomplishing its mission takes precedence over securing resources, and achieving legitimacy in the eyes of beneficiaries is seen as more important than are

funders. With no intention of deliberately disrupting the institution, the institutional work conducted by actors aims to accomplish their mission but incidentally fails to maintain the form of the institution. A funding cut proposed by the government funder of Charity A is, thus, an unintended consequence (Lawrence et al., 2009). This finding supports Carman (2009) in which personal relationships, reputation and trust are among a myriad of factors that funders used to make their funding decisions. However, the unintended consequence of the proposed funding cut extends Carman's (2009) study, as this study further identifies that funding decisions are not made based on the outcome measurement practices of charities, although measuring and reporting outcomes is identified as important in meeting the funders' information needs.

7.4.4.4 Misalignments between the Contractual Requirements and Missions

The following interviewees highlighted that tension exists between the contractual requirements from the government funders and the missions of the case study charities:

We have our contract with the Ministry, so we are very restricted in terms of what we can do within the confines of our contract. Then we have what we want to achieve, as an organization. Sometimes they align and sometimes they do not. For example, part of our mission might be to generate political change, which is not necessarily acceptable within our ministry contract. So we have our own overarching mission and strategies. (Director of Public Health, Charity A)

Community development is about a process. You gather people to determine what they want to work on and what they want to see change. But as a charity, you might lock yourself into doing something about housing where actually that is not important to a community, you keep on doing it because that is what you have signed up to do with your funding and that is how you are measuring success. The charity runs the risk of ticking boxes and really not understanding the impact because they are doing something for the sake of it. There is no room to really be innovative or listen to what the beneficiaries want to work on. (Community Development Worker, Charity B)

This interview data suggests that both charities are struggling to balance their contractual requirements and their own missions. The charities must fulfil their contractual requirements to secure funding (\$) and to gain legitimacy in the eyes of funders. In addition, they also attempt to accomplish their missions (♡) and to gain legitimacy in the eyes of other stakeholders such as beneficiaries and internal stakeholders. This is consistent with the 'head and heart' analysis discussed in Section 6.4.4. As identified in Chapter 1, charitable purpose and mission are the reason a charity exists. The charitable purpose is relatively broad, but its mission is specifically relevant to each charity. Nonetheless, the charity may risk sacrificing its mission when it chases government

funding. Adhering to its contractual requirements while at the same time attaining its mission, require significant efforts (Lawrence et al., 2009) from the actors in the charities. As noted in Section 5.5.1.1, Charity A's objectives of changing lives, changing communities, and changing the environment are carried out by providing counselling services, public health and policy development activities respectively. The following interviewee suggested that the third objective is seen as a priority to accomplish Charity A's mission, whereas achieving the first two objectives are treated as prerequisites to the third objective.

The [counselling] treatment of people is only one part and is actually a secondary part...we are endeavouring and trying to effect change. This is what we call [policy development activities] which are critical to prevent the addiction problems... Also, the more that our charity is mentioned, the more that we are positioned as being an authority in this area, the more our political strength to argue for changes in legislation or approach by government at local level and at national level increases. (CEO, Charity A)

The interviewee data suggests that the three objectives of Charity A are inter-dependently working towards its mission. By accomplishing the first two objectives of changing lives and changing communities, Charity A has more authority and strength to achieve its changing-the-environment objective. For that reason, the first two objectives serve as a foundation to achieve the third objective. However, this is largely different from the required funding and FTE paid staff allocations from the government funder (see Table 5-7 in Section 5.5.1.3) which mean that the third objective, largely implemented by policy development activities, received approximately five percent of the government funding, whereas the other objectives, which receive the predominant funding have a lesser focus. Charity A tries to discredit the formal structure imposed by the contractual requirements, as such structure or institutional template is less likely to attain legitimacy. Accordingly, policy development activities are developed as a preferred mission accomplishment action, while counselling services and public health activities are the means of maintaining that preference. Such misalignment between contractual requirements and service delivery highlights the notion of decoupling (J. Meyer & Rowan, 1977) where the actual practice of Charity A, designed to accomplish its mission, is decoupled from a formal structure that is imposed by its government funder in order to temporarily maintain legitimacy. In addition, the adopted outcome measurement mechanisms, which are also formal structures, have been implemented substantively into the actual practice of Charity A.

As identified in Figure 7-9 below, the contractual requirements of Charity A do not contain any outcome measurement mechanism, thus the provisions in the contract bear little or no relation to the adoption of outcome measurement mechanisms.

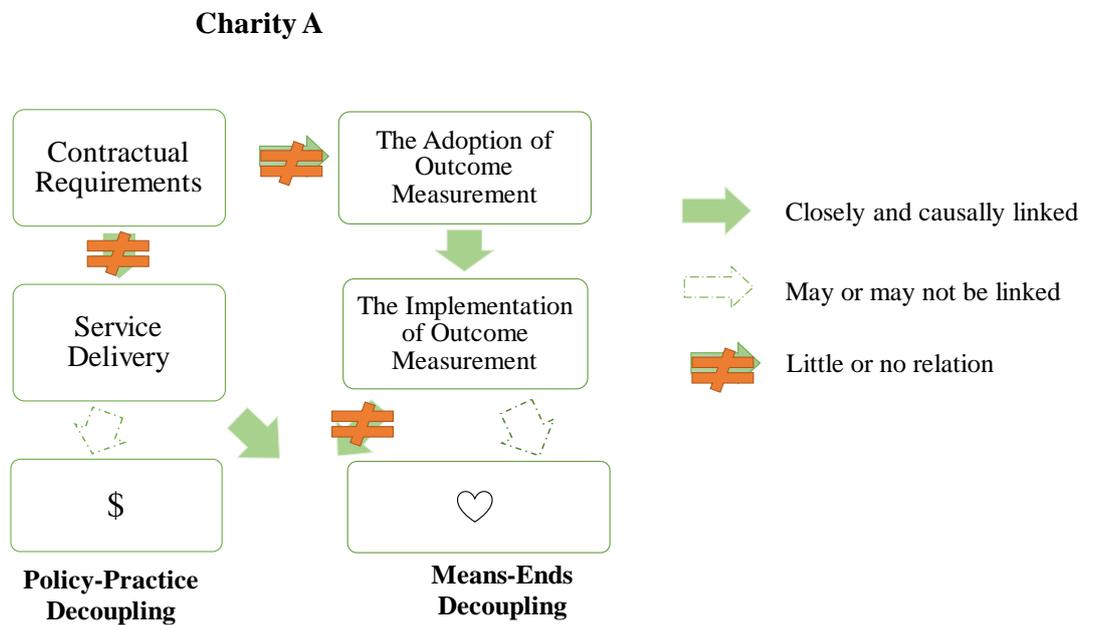


Figure 7-9: Charity A - problem of decoupling - adapted from Bromley and Powell (2012)

Figure 7-9 shows that the actual practices are furthered analysed into service delivery and the implementation of outcome measurement, varies in its response to accomplishing Charity A’s mission (♡) and securing its funding (\$). On one hand, Charity A actively engages in policy development activities and disregards its main income sources, for counselling services and public health activities, so that service delivery decouples (little or no relation) from its contractual requirements, but links closely to its mission accomplishment (♡). This indicates policy-practice decoupling in which contractual requirements of Charity A are violated since mission accomplishment is seen as more important, thus adoption of the formal structure imposed by the contractual requirements is merely symbolic (P. Bromley & Powell, 2012). On the other hand, Figure 7-9 above also demonstrates that Charity A adopts a number of outcome measurement mechanisms such as the ORS/SRS voluntarily for its counselling services, and implements them substantively into its service delivery. While Section 7.4.4.3 identified that Charity A misunderstands its funding contract, which requires outcome reporting for public health activities, Charity A’s does measure outcomes for its counselling services. Hence, the implementation of outcome measurement has little or no relationship to securing its funding, since the outcomes measurement practices for counselling services do not

contribute to funding decisions. This indicates a symbolic implementation and is referred to as means-ends decoupling by Bromley and Powell (2012). This finding differs from those of Thomson (2010) and MacIndole and Barman (2013) as funders' mandates are not the reason driving the implementation of outcome measurement in the case of Charity A. Moreover, the substantive implementation of the outcome measurement mechanisms may or may not link to its mission accomplishment. This is because policy development activities are seen as the ultimate means to achieve a mission that is not measured by any mechanism.

Alternatively, Figure 7-10 indicates that the contractual requirements are closely adhered to by Charity B in which both service delivery as well as the adoption and implementation of the outcome measurement mechanism of the InterRAI are closely linked, thus resulting in secure funding (\$). However, there is no evidence that its mission (♡) is achieved, thus the services and activities Charity B delivers may or may not be linked to its mission.

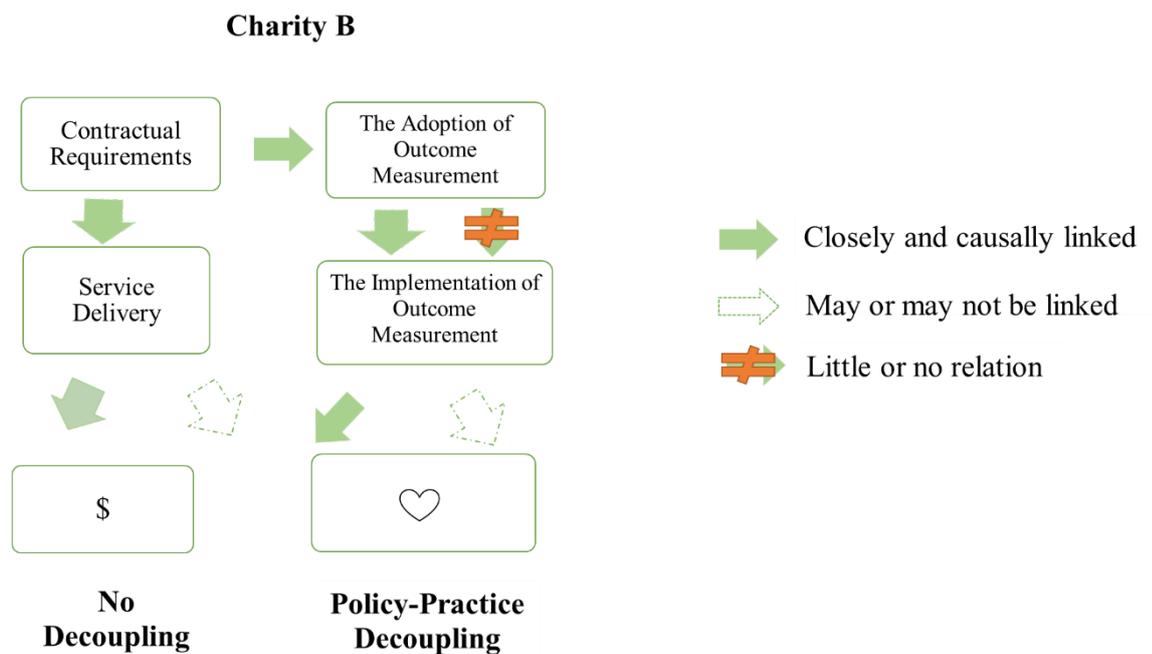


Figure 7-10: Charity B - problem of decoupling - adapted from Bromley and Powell (2012)

As discussed in Section 7.4.4.1, Charity B adopts some outcome measurement mechanisms such as the RBA and CDOI but does not implement them fully into its daily practice, as shown in Figure 7-10 above. Since the implementation of outcome measurement mechanisms is found not to be a criterion to determine funding decisions (see Section 7.4.4.3), the funding contracts (\$) are more likely to remain unchanged by such symbolic adoption, which illustrates a policy-practice decoupling (P. Bromley &

Powell, 2012). The policy-practice decoupling is used as a strategy to maintain the best use of limited resources (P. Bromley & Powell, 2012). Nonetheless, no evidence is identified with respect to whether the decoupling from the adoption of the outcome measurement has any influence on accomplishing Charity B's mission (♥), thus Figure 7-10 indicates the implementation of outcome measurement may or may not link to the mission accomplishment (♥) of Charity B.

Figure 7-9 and Figure 7-10 are adapted from Bromley and Powell (2012) but are tailored to the findings of this study. Both charities attempt to achieve their funding contracts (\$) and missions (♥) by delivering contracted services and activities and measuring outcomes. However, the actual implementation and relation to the attainments of contractual requirements and mission accomplishment are largely different. As such, decoupling occurs in both case study charities. Building on the analysis of Bromley and Powell (2012), both types (policy-practice and means-ends) of decoupling are evident in this study in which the unique nature of charities' mission-driven activities adds another dimension to the analysis.

7.4.5 Section Summary

This section has identified measured outcome information by the case study charities, the outcome measurement mechanisms used, the reasons for measuring outcomes and using the mechanisms, and various problems of outcome measurement perceived by the charities. The reasons for measuring and using the outcome measurement mechanisms, and problems perceived in the outcome measurement are important findings of this study. While Charity B adopts the mechanisms of InterRAI and RBA due to coercive pressures, mimetic influences are also identified in the case of Charity B for adopting the CDOI. Charity A used outcome measurement mechanisms such as the ORS/SRS due to mimetic and normative pressures, and both normative networks and internal stakeholders (managers and staff) are important drivers that influence Charity A to implement the mechanisms substantively. However, the coercive pressures from its government funder are not identified as an influential force.

Four main problems of outcome measurement practices perceived by the case study charities were also identified. The problems include: resource constraints and staff resistance; dishonest feedback from beneficiaries; Charity A's misunderstanding of its funding contract so that the extent of implementing outcome measurement mechanisms

was found to be irrelevant for funding decision-making; and misalignments between the contractual requirements of the government funders and the charities' missions.

7.5 Chapter Summary

This chapter has discussed the performance measurement practices of the two case study charities. It has addressed the first research question for this study, i.e., 'what are the performance measurement and reporting practices of New Zealand charities?' From the perspectives of the charities, the 'performance measurement practices' aspects were critically analysed. In particular, the measured information, the measurement mechanisms, the reasons for measuring and using the mechanisms, and problems perceived by the charities with these measurement practices were identified. This study found that both charities measured financial and non-financial performance, including outputs and outcomes, by employing various mechanisms. The practices of measuring performance are mainly in line with the information needs of their government funders. This chapter also investigated the relationships between the imposed structures of contractual requirements and the outcome measurement practices, and further accentuated how the relationships linked to the results of secure funding (\$) and mission accomplishment (♥) by using Bromley and Powell's (2012) recent decoupling typology. The next chapter continues to focus on addressing the first research question, and the performance reporting practices of the charities will be presented and discussed.

Chapter 8: Performance Reporting by the Charities

8.1 Introduction

The previous findings chapters identified that key stakeholders in New Zealand expect to receive background, financial and performance information, and that the case study charities measured both financial and non-financial performance. As noted in Section 2.5.1, the salient stakeholders to which charities are accountable include external stakeholders such as regulators, government funders, philanthropic funders, beneficiaries, and volunteers, as well as internal stakeholders, such as the Board of trustees and paid staff. Salient stakeholders include the key stakeholders (regulators, government funders and philanthropic funders) discussed in Chapter 6, and other stakeholders including beneficiaries, volunteers and internal stakeholders, who have relatively lower saliency. This chapter presents and critically analyses the performance reporting practices of the case study charities to these salient stakeholders from the perspective of the charities. It addresses the aspect of ‘performance reporting practices’ in the first research question outlined in Chapter 1, i.e., ‘what are the performance measurement and reporting practices of New Zealand charities?’

The chapter is organized into five sections. Section 8.2 discusses the two studied charities’ disclosures to regulators. Section 8.3 emphasizes disclosures to government funders, since both charities are predominately dependent on government funding to survive as noted in Section 5.5. Section 8.4 analyses the disclosures made to the charities’ other external stakeholders, including philanthropic funders, beneficiaries, and volunteers. Section 8.5 examines disclosures to internal stakeholders, including the Board of trustees, managers and staff members. This area is currently under-researched, thus the internal reporting practices identified in this study make a useful contribution to the literature. As in the previous two findings chapters, this chapter emphasizes four questions for each category of disclosures: (1) what information is disclosed by the charities? (2) How do they disclose it? (3) Why do they disclose such information, and why do they use particular mechanisms? (4) Are there any problems perceived by the charities themselves with these reporting practices? Concluding comments are in Section 8.6.

8.2 Disclosures to Regulators

As noted in Section 2.5.1.1, both DIA-CS and XRB are key regulators in the New Zealand charity sector. The XRB develops and issues reporting standards, and the DIA-CS

oversees charities’ registration and reporting processes and provides guidance for charities about complying with the standards developed by the XRB. This section uses evidence from the case study charities to critically analyse their reporting practices to the regulators. The disclosed information and associated reporting mechanisms are firstly analysed, followed by identified reasons for disclosing the information and using the mechanisms, and possible problems perceived by the charities.

8.2.1 Disclosed Information

All three types of information, i.e., background, financial and performance information are disclosed to their regulators by charities A and B.

8.2.1.1 Background Information

As noted in Section 5.3, the details of all New Zealand registered charities are presented on the Charities Register under the *Charities Act 2005*. Figure 8-1: below illustrates that both charities’ background information is publicly available on the Charities Register.

Charity A	Charity B
Purpose & Structure	Purpose & Structure
<p>▲ Note: The main sectors, activities and beneficiaries are bolded.</p>	
<p>Activities: Provides services (e.g. care / counselling) Provides advice / information / advocacy</p>	<p>Activities: Provides services (e.g. care / counselling) Makes grants to organisations (including schools or other charities), Provides human resources (e.g. staff / volunteers), Provides buildings / facilities / open space, Provides religious services / activities, Homeless Day Centre</p>
<p>Sectors: Social services Education / training / research, Health, Community development</p>	<p>Sectors: Social services Accommodation / housing, Education / training / research, Community development, Religious activities, Fund-raising, Promotion of volunteering, Homeless Support</p>
<p>Beneficiaries: General public Children / young people, Other charities, Older people, People of a certain ethnic / racial origin, Family / whanau, Migrants / refugees</p>	<p>Beneficiaries: General public Children / young people, Voluntary bodies other than charities, Older people, Family / whanau, Religious groups</p>

Figure 8-1: Snapshot of the purpose and structure of charities A and B (the Charities Register of the DIA-CS, 2015)

Figure 8-1: provides a summary of both charities’ background information such as their activities, sectors and targeted beneficiaries. Although this information is disclosed by

the charities, it is summarized by the DIA-CS, enabling the other stakeholders, such as volunteers, to understand the charities' structure and activities better. For example, the areas of social services Charity B provides are disclosed. Thus, we see that Charity B contributes to more activity subgroups, under the social service group in New Zealand (see Appendix 1), compared to Charity A. The disclosure of such background information is consistent with the information needs of the regulators as noted in Section 6.2.1.1.

8.2.1.2 Financial Information

Both charities also file their Annual Returns, which include financial information, to the DIA-CS, as identified in Figure 8-2 below.

Charity A					Charity B				
Annual Returns					Annual Returns				
Date Submitted	For Year Ended	Total Income	Total Expenditure	Financial Statements	Date Submitted	For Year Ended	Total Income	Total Expenditure	Financial Statement
-	30/06/2015	-	-	-	-	30/06/2015	-	-	-
15/12/2014	30/06/2014	\$5267742	\$5352335	3.56MB-pdf-	17/12/2014	30/06/2014	\$12314000	\$12147000	6.16MB-pdf-5.29MB-pdf
17/12/2013	30/06/2013	\$5330988	\$5275672	3.2MB-pdf-2f	15/11/2013	30/06/2013	\$11642000	\$11633000	1.03MB-pdf-0.68MB-pdf
16/11/2012	30/06/2012	\$5317908	\$5285572	4.38MB-pdf-	22/11/2012	30/06/2012	\$12925000	\$12691000	1.03MB-pdf-3.58MB-pdf
31/10/2011	30/06/2011	\$5159515	\$5052821	4.55MB-pdf-	9/12/2011	30/06/2011	\$10970000	\$10530000	0.53MB-pdf
3/12/2010	30/06/2010	\$5039202	\$5180716	1.98MB-pdf-	22/11/2010	30/06/2010	\$9437000	\$9432000	1.07MB-pdf-
9/12/2009	30/06/2009	\$5280105	\$5278766	1.29MB-pdf-f					

Figure 8-2: Snapshot of the Annual Returns summary of charities A and B (the Charities Register of the DIA-CS, 2015)⁵¹

Figure 8-2 indicates that financial information such as total income and expenditure for a financial year is disclosed by both charities. The required templates for the statement of financial performance and position are also completed, as demonstrated in Figure 6-5 when submitting their Annual Returns. Figure 8-3 outlines Charity A's gross income section in the Statement of Financial Performance template, which is similar to the total income section in its audited financial statement (see Figure 8-4) for the year ending 30th June 2014.

⁵¹ Note that the file names of the financial statements, which are the last columns of each charity's Annual Returns summary in Figure 8-2, are cropped, to maintain the confidentiality of the case study charities.

<u>Gross Income</u>	
Government grants / contracts	4,714,777
All other grants and sponsorship	155,713
Income from service / trading operations	154,698
Membership fees	0
Donations / koha	2,734
Bequests	1,907
New Zealand dividends	0
Other investment income	160,748
All other income	77,165
Total Gross Income	5,267,742

Figure 8-3: Charity A's gross income section of the statement of financial performance (Charity A's Annual Return Summary, 2014, p.1)

	Notes	2014 \$
Income		
Contract Income	4	4,714,777
Rental Income		138,620
Fees, Grants and Other Income		392,217
Total Operating Income		5,245,614
Interest Received		22,128
Total Income		5,267,742

Figure 8-4: Charity A's total income section of the statement of financial performance (Charity A's Audited Financial Statement, 2014, p.7)

Figure 8-3 and Figure 8-4 indicate that Charity A follows the Annual Return reporting template by allocating its income to the categories required by the DIA-CS. For example, as demonstrated in Figure 8-4, the contract income is identical to the government grants and contracts in Figure 8-3, and the other income is also allocated according to the regulators' specific information needs. The disclosed financial information by the charities is thus in line with the information needs of the regulators discussed in Section 6.3.1.1. Moreover, both charities also uploaded copies of their audited financial

statements to the Charities Registers. As noted in Section 6.3.1.1, the regulators in New Zealand require a copy of financial statements only, but it does not have to be audited⁵². Hence, both charities disclosed more financial information through the mechanism of audited financial statements than was required. This mechanism is further discussed in Section 8.2.2.1.

8.2.1.3 *Performance Information*

As discussed in Section 6.4.1.1, input information, which is considered a type of performance information, is required by the DIA-CS. Figure 8-5 and

Figure 8-6 below show that both charities A and B provided the required performance information by the regulator.

<u>Paid work (average week)</u>	
People employed full time	44
People employed part time	17
Average paid hours per week	2,005
<u>Volunteer work (average week)</u>	
Number of volunteers	8
Hours per week	35

Figure 8-5: Charity A's paid and volunteer work (Charity A's Annual Return Summary, 2014, p.1)

<u>Paid work (average week)</u>	
People employed full time	40
People employed part time	183
Average paid hours per week	1,870
<u>Volunteer work (average week)</u>	
Number of volunteers	11
Hours per week	35

⁵² As discussed in Section 5.3.3, there are some new reporting requirements mandated by the New Zealand regulators under the Financial Reporting Act 2013 to report performance information for periods beginning on or after 1st April 2015.

Figure 8-6: Charity B's paid and volunteer work (Charity B's Annual Return Summary, 2014, p.1)

There have been some changes to the regulations and legislation for charity reporting. Although the New Zealand Accounting Standards Board is currently developing standards on Service Performance Reporting for Tiers 1 and 2 charities, charities that apply Tiers 3 and 4 standards (see Section 5.3.3.2) are required to apply the SFR standards for periods beginning on or after 1st April 2015. This is in line with the regulators' information needs for performance information (see Section 5.3.3 and Section 6.4.1.1). Since both charities A and B are under Tier 2 according to the new reporting standards as discussed in Section 5.3.3.2, they are not currently required to provide output and outcome information. However, Charity B discloses to the DIA-CS additional information in their annual reports, which are available on the Charities Registers. For example, the 2014 annual report of Charity B contains performance information, such as examples of successful beneficiary outcomes, as highlighted below:

He has made massive steps with us. In the past, Johnny used to disappear for a few weeks, going underground when things got tough. Now, he is engaged, working hard, and if he cannot attend an appointment, he is the first to call us and let us know. (Charity B's annual report, 2014, p.19)

This documentary evidence outlines the outcomes for a beneficiary after receiving Charity B's services. Such reporting is not currently required by the regulators, but is voluntarily disclosed by Charity B. The reason for disclosing this performance information is discussed in Section 8.2.3.

In summary, both charities disclose their background, financial and input information to the DIA-CS, as is in accordance with the regulators' information requirements, and disclose additional financial information. Charity B even voluntarily discloses outcome information. The next section discusses the mechanisms used to report this information to regulators.

8.2.2 Reporting Mechanisms

The previous section identified the information disclosed to regulators, and this section indicates the case study charities' reporting mechanisms.

8.2.2.1 *Annual Returns, Audited Financial Statements and Annual Reports*

The previous section identified that charities A and B disclose their background, financial and some performance information to regulators. Figure 8-2 in the previous section identifies that Annual Returns are the key mechanism used to disclose this information, and both charities filed their Annual Returns. The following interviewee further suggested that Charity A not only files its Annual Returns, but also acknowledges recent changes to the charity reporting regulations that have increased disclosure requirements:

There are legal requirements that work as a driving force for us to disclose the audited financial report to the DIA-CS...as the DIA-CS steps up its role, more changes are developed. Before you were able to file a return without your audited accounts, now you have to file your audited account at the time of filing the return. (Financial Manager, Charity A)

As identified in Section 5.3.3.3, if the OPEX for a charity is over or equal to NZD 1 million, the charity is deemed a large sized charity, and a qualified auditor must audit its financial statements. Since both charities' OPEX is greater than NZD 1 million (see Section 5.5), they are considered to be large charities and, thus, they need to lodge audited financial statements with their Annual Returns. Hence, both Annual Returns and audited financial statements have become reporting mechanisms to disclose the charities' information, where the audited financial statements contain mainly financial information and the Annual Returns include background, financial and input information. Although the new statutory audit and review requirements came into effect for periods beginning on or after 1st April 2015, the DIA-CS will monitor the financial information from 2016.

Moreover, Section 8.2.1 identified that Charity B discloses performance information such as outcome information through the mechanism of annual reports. This mechanism together with the audited financial statements is disclosed to regulators when the charities file their Annual Returns. The Annual Returns are, thus, used to disclose additional financial and performance information contained in the mechanisms of audited financial statements and annual reports, whether it is required or not. This is largely different to reporting practices of charities in England and Wales, as noted in Section 2.5.2.1. Unlike New Zealand charities, the Trustees' annual report is a statutory requirement for England and Wales charities. This inconsistency highlights that charity international regulations have not converged globally. The convergence and globalisation of charity regulation will be further discussed in Section 9.2.1.

8.2.2.2 Websites, Newsletters and Media Releases

The Annual Returns and audited financial statements discussed in the earlier section mainly include background and financial information, and annual reports that contain performance information are voluntarily disclosed by Charity B. In addition, both charities used other reporting mechanisms such as websites, newsletters, and media releases to disclose performance information:

Newsletter

Click here for [past copies](#) of our newsletter.

Annual Report

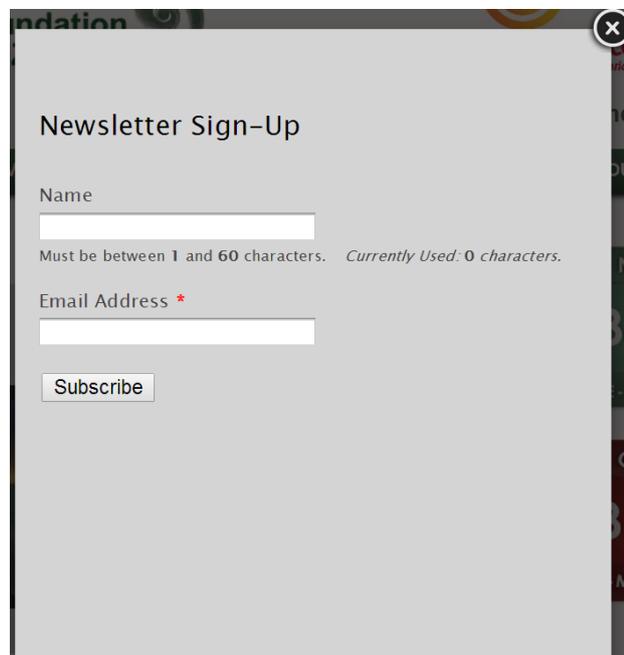
Our annual reports feature recent highlights and achievements. Download the [2014 Annual Report](#), [2012 Annual Report](#) and [2011 Annual Report](#).

Media

[Charity B] often publishes material to assist the media to access accurate, up-to-date information on issues relating to our work.

Click here for our latest [media releases](#), and our [archive](#).

Figure 8-7: Charity B’s reporting mechanisms (Charity B’s website, 2015)



ndation

Newsletter Sign-Up

Name

Must be between 1 and 60 characters. *Currently Used: 0 characters.*

Email Address *

Subscribe

Figure 8-8: Newsletter sign-up available on Charity A’s website (Charity A’s website, 2015)

This documentary evidence suggests that newsletters, annual reports and media releases are additional reporting mechanisms that are available on websites of the charities. For

example, media releases and newsletter sign-up are available on Charity A's website and Figure 8-7 shows that performance information such as recent highlights and achievements contained in Charity B's annual reports, is accessible by regulators. Hence, regulators could get access to additional performance information from these reporting mechanisms. The reasons the charities disclose information and use the reporting mechanisms are discussed in the next section.

8.2.3 *Reasons for Disclosing and Using the Mechanisms*

Two reasons for disclosing information to regulators and using the reporting mechanisms are identified in this section.

8.2.3.1 *To Meet the Information Needs of Regulators*

The following interviewee suggested that meeting information requirements of the DIA-CS is one reason that Charity A discloses information and uses the Annual Returns as the reporting mechanism:

We go back to what the Charities Commission [DIA-CS] requires. For example, the number of staff we have, where we get our money from, whether it is grant or donation, basically breaking down how we spent it. (Financial Manager, Charity A)

This interview data highlights that Charity A discloses the required information such as background, financial and input information to the DIA-CS in fulfilling its legal obligations. As outlined in Section 8.2.1, both charities disclosed information to meet their regulators' information needs. Such reporting practices are largely due to the fact that the charities are compelled to comply with the regulatory requirements. As such, both charities are under coercive pressures (DiMaggio & Powell, 1983) from the DIA-CS, which has regulatory power to place restrictions on the charities through regulation. As registered charities, both Charities A and B must file Annual Returns and provide the required information to meet the information needs of the regulators. Failure to do so could lead to a consequence of being deregistered. As identified in Section 5.3.3.1, almost one-fifth of registered charities have been deregistered by the DIA-CS, further highlighting the coercive force that is imposed on charities, to provide the required background, financial and input information.

At the time of collecting data from both charities, the information they disclosed was still in line with the previous reporting requirements under Generally Accepted Accounting Principles (GAAP). Hence, these requirements apply to financial information only. As

noted in Chapter 5, the New Zealand Accounting Standards Board is currently developing standards on Service Performance Reporting for Tiers 1 and 2 charities, and is intending to issue a proposed standard for comment by early 2016. At this stage, both charities are not required to disclose any performance information. Nonetheless, it seems likely that charities A and B will provide the required performance information once standards for Tier 2 are developed based on their current practice of voluntary disclosure to their regulators. This assumption is also made because of the identified coercive force of the DIA-CS in monitoring and enforcing charities to comply with the standards developed by the XRB, including the ones for Tier 2 charities.

8.2.3.2 To Gain Legitimacy from Other Stakeholders

Section 8.2.1 also identified that both charities disclosed additional information, such as the audited financial statements and annual reports, to the DIA-CS even though this financial and performance information was not required at the time of collecting the data. This disclosure of additional information is not the result of coercive forces from the DIA-CS. Instead, the charities may exert more efforts toward disclosing this information to gain legitimacy from other stakeholders. This is because the additional information is publicly available on the Charities Register (see Section 5.3.3.1), and such reporting practices could enable stakeholders, such as volunteers and potential funders, to understand better the charities' financial and performance information and, thus, gain legitimacy of in the eyes of these stakeholders, while increasing their confidence in supporting the charities. In order to gain legitimacy in the eyes of potential funders and volunteers who may access the Charities Register, both charities have exhibited conscious intentionality (Lawrence et al., 2009). As such, the reporting practice of disclosing additional financial and performance information is an intentional action undertaken by the charities to raise support. Hyndman and McDonnell (2009) highlighted that government regulation could be a way to address the problem of information asymmetry between the internal and external stakeholders of charities. The practice of reporting additional information to regulators identified in this study could be another way to address the problem of information asymmetry, thus adding to Hyndman and McDonnell (2009). The next section discusses the problems perceived by the charities with this reporting practice.

8.2.4 Problems Perceived by the Charities

As noted in Section 8.2.1, both charities disclose financial information to the regulators via completing their Annual Return templates. However, unlike Charity A, which disclosed almost identical financial information as indicated in Figure 8-3 and Figure 8-4, significant variances are identified between Charity B's income allocations in its 2014 Annual Return and its audited financial statement for the same period. This problem is identified in Figure 8-9 and Figure 8-10 below.

Gross Income	
Government grants / contracts	1,723,000
All other grants and sponsorship	855,000
Income from service / trading operations	8,258,000
Membership fees	0
Donations / koha	1,064,000
Bequests	0
New Zealand dividends	0
Other investment income	56,000
All other income	358,000
Total Gross Income	12,314,000

Figure 8-9: Charity B's gross income section of the statement of financial performance (Charity B's Annual Return Summary, 2014)

	<u>Notes</u>	2014 \$000's
Revenue	5	9,981
Other Income		2,215
TOTAL INCOME		12,196
5 REVENUE		2014 \$000's
Revenue comprises the following:-		
Aged Care Services		7,751
Government Grants and Contracts		1,723
Early Childhood Education		455
Human Resource Services		52
		9,981

Figure 8-10: Charity B's total income section and notes of the statement of financial performance (Charity B's Audited Financial Statement, 2014)

Figure 8-10 indicates that Charity B's revenue comprises government contracts in relation to aged care services, early childhood education and other government grants and contracts. However, this is inconsistent with the income allocation demonstrated in Figure 8-9 where the majority of income is attributed to the service provision/trading operations category, not the government grants/contracts category. According to the DIA-CS (2015a), the government grants/contracts category should include all income received from central and local government sources including grant payments or payments for contracted services. However, the aged care services income (see Figure 8-10), which is from a five year contract with a government funder of Charity B, is not included in the category of government grants/contracts but in the income from service provision/trading operations.

Moreover, the amounts of total gross income in Figure 8-9 and Figure 8-10 disclosed in the Annual Returns and audited financial statement are also inconsistent. It may be because Charity B disclosed gross income on one mechanism and net income on the other one. This inconsistency between the disclosed financial information in the Annual Returns and audited financial statements highlights a problem in the financial disclosures to the regulators. This may suggest that information that is more detailed should be disclosed in publicly available reports, so that the reasons for the differences can be identified.

8.2.5 *Section Summary*

This section has discussed the practices of the case study charities in reporting to their regulators. Both charities disclosed background, financial and input information via the reporting mechanisms of Annual Returns. The disclosures of this information are largely compelled by the DIA-CS's requirement to comply with the standards developed and issued by the XRB. The charities also disclosed additional financial information in the reporting mechanism of audited financial statements and Charity B used annual reports to disclose its performance information. Moreover, both charities used other reporting mechanisms such as websites, newsletters, and media releases to disclose performance information that regulators could access. These disclosures of additional financial and performance information are not required by regulators, but are aimed at gaining legitimacy in the eyes of potential donors and volunteers. However, a problem of

inconsistency was identified between Charity B's disclosed financial information in the Annual Returns and audited financial statements. This suggests that more detailed information should be disclosed by Charity B to identify the reasons for the differences. The next section analyses reporting to the government funders.

8.3 Disclosures to Government Funders

Section 2.5.1.2 identified that government funders are a key stakeholder for charities and charities must disclose information to funders in order to demonstrate their accountability. This section discusses the case study charities' practices in reporting to their government funders, and their disclosed information, reporting mechanisms, reasons for disclosing and using the mechanisms, and possible problems perceived by the charities are critically analysed.

8.3.1 *Disclosed Information*

All three types of information, i.e. background, financial and performance information are disclosed by charities A and B to their government funders.

8.3.1.1 *Background and Performance Information*

The following interviewees suggested that both charities also disclose performance information such as outputs and outcomes to their government funders:

For counselling reporting it is more numerical. Every month we send some clinical figures off to the Ministry for an idea of how we are going, while the public health workers are working on projects all the time and they have project plan and a timeline. They have to write their own narrative reports on what is going on with the project. So unlike the clinical figures, the ministry will not know until six months is up if there is something different to what was expected. (Director of Business, Charity A)

We provide quarterly reports or half yearly reports to the government funders. Largely they are output driven. Increasingly I think they will become outcome driven but at the moment they are still output driven. (General Manager, Charity B)

There is a government funder's report I have to complete. It covers things like how many admissions we have had, how many discharges, how many clients have been reassessed, how many clients are on hold, if they are in hospital or gone away, those sorts of things. That then goes to the funder once a month because it links in with how we get our funding. (Homecare Service Supervisor 1, Charity B)

This interview data shows that performance information, especially about outputs, is disclosed to the government funders of the charities. Charity B periodically discloses performance information to its government funders, but mainly in the form of outputs. For example, the disclosed outputs in homecare services include the numbers of beneficiaries admitted to and discharged from the services, and these are reported on a monthly basis. Section 7.4.2.3 noted that outcomes for the homecare services are measured by the outcome measurement mechanism InterRAI as is required by the government funders. Nonetheless, a majority of the disclosed information is still largely related to outputs rather than outcomes. The InterRAI mechanism is further discussed in Section 8.3.2.

Charity A discloses counselling outputs on a monthly basis and public health activities via narrative reports on a six-monthly basis. The counselling outputs are identified in Section 7.3.1, and these include the minimum delivery for each type of counselling service including the brief and full intervention sessions. Outcomes are disclosed in the form of a narrative report for public health projects. This is in line with the government funder’s expectations on outcomes for the public health activities identified in Section 7.4.4.3, in which a narrative report template is incorporated in Charity A’s funding contract. By comparing the actual outputs for a public health project to the project plan and its timeline, outcomes to date are reported against the expected short to medium term and long term outcomes to fulfil the contractual requirements.

The specific information required by the government funder of Charity A is further illustrated in the following documentary evidence.

Reporting	<p>Six monthly narrative reports to the Ministry will use the provided report template and summarise:</p> <ul style="list-style-type: none"> • activities you have delivered to increase community resiliency and promote and enhance social protective factors • your role in any activities, the role of any partner organisations • barriers and successes delivering activities and forming partnerships • the target groups, communities at risk and populations identified as priorities for the next six month period • FTE employed to deliver this service over the last six month period (noting variances and any periods of unemployment) • any other relevant information
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Figure 8-11: Charity A's public health activities reporting requirements (Charity A's contractual funding agreement, 2010-2013, p. 73)

Figure 8-11 indicates that both background and performance information is required to be reported to the government funder of Charity A. The background information includes Charity A's role in the public health activities, and the target groups and communities at risk. The required performance information includes inputs such as FTEs employed, outputs such as activities delivered, and outcomes in which both negative and positive outcomes are required, such as barriers and successes in delivering activities. Hence, Charity A discloses both background and performance information to its government funder in meeting its information needs. The reporting mechanism of narrative reports is further analysed in Section 8.3.2.

8.3.1.2 Financial Information

As discussed in Section 7.2.1, both charities also provided financial information such as contract income, and budgeted and actual expenditures, in meeting their government funders' information needs, and such financial information is reported to government funders periodically. This is consistent with the government funders' requirements on financial information discussed in Section 6.3.1.2.

In summary, both charities disclose background, financial and performance information to their government funders, but performance information includes mainly outputs rather than outcomes. The next section discusses the reporting mechanisms used to disclose the information.

8.3.2 Reporting Mechanisms

A number of reporting mechanisms are used by the case study charities. They include: budget reporting template, audited financial statements, narrative reports, cooperated with site visits, InterRAI and informal disclosures.

8.3.2.1 Budget Reporting Template

Section 7.2.2.2 noted that a budget-reporting template (see Figure 6-8) is used by Charity A to measure and report financial information to the government funders. This mechanism is used by Charity A to meet the financial information needs of its government funder.

8.3.2.2 Audited Financial Statements

The audited financial statements are another reporting mechanism that both charities used to disclose financial information, as outlined in the following documentary evidence:

4 CONTRACT INCOME			
The Foundation's principal source of income is from the Ministry dependent on on-going support from the Ministry		The Foundation is . Contract until 28 February 2015.	
		2014	2013
		\$	\$
Ministry	contract income.	<u>4,714,777</u>	<u>4,714,777</u>

Figure 8-12: Note 4 separate identification of contract income (Charity A's audited financial statement, 2014, p.11)

Figure 8-12 shows that Charity A identified its government funding separately in the audited financial statement. This is because government funding is the principal source of income for Charity A, and it is dependent on this continuous financial support from the government funder. This separate identification is in line with the government funders' information needs discussed in Section 6.3.1.2, in which a government funder (not Charity A's government funder) clearly indicated that all contracted charities are required to identify government funding as a separate income item in their financial statements. As such, Charity A's financial reporting practices are consistent with the government funders' requirements.

8.3.2.3 Narrative Reports

The following interviewees suggested that both charities disclose narrative reports to their government funders in order to fulfil their contractual obligations.

My report to the Ministry is mainly narrative reporting. I write these reports. Each of my team sends me a monthly report on the public health activities that have been happening within each of their regions. In addition to the data we collect on the public health work, we also collect a narrative or story on each of the more significant projects. (Director of Public Health, Charity A)

Some of our reporting is narrative...we have to report on examples of what projects or initiatives we are doing. We report against the strategic plan goals, so if there is something come up that is an identified strategic plan goal, we have to report how our work connects into that. (Early Childhood Education Service Manager, Charity B)

This interview data indicates that reporting practices of the charities to government funders include preparing reports that contain outcomes in the form of a narrative. These reports are tailored to the specific information needs of the funders, such as reporting on the progress of public health activities. As noted in Section 8.3.1.1, both background and performance information is required in a narrative format by the government funder of Charity A. Hence, narrative reports are a reporting mechanism for disclosing this information in order to demonstrate that the contracted services are delivered in accordance with the contractual requirements. This finding adds to Connolly, Hyndman and McConville (2013) by confirming their assumption that monitoring reports might be required by government funders to disclose the funded charities' progress in terms of outcomes. The study also further identifies that narrative reports, a specific type of monitoring report in the case of Charity A, are used to meet the government funder's information needs.

8.3.2.4 *Cooperation with Site Visits*

As noted in Section 6.4.3.3, site visits are used as a reporting enforcement mechanism by government funders. The following interviewee of Charity A confirmed that its government funder conducted periodical site visits:

The Ministry do service audits every 3 years, we must be coming up to one (National Operations Director, Charity A).

If they [the government funder] want to know we have delivered services, they would come along and say 'do you evaluate your public health work?' we will say 'Yes, see this big pile here? There are all the sessions and evaluation forms, you can read them if you like'...so it is a contract audit, they audit actual outputs against the contract to check if we have got contract units add up. But if the mix is very different, then we get a black mark on our contract...they do not look at our ORS/SRS...or if the numbers are improving or not, that is of no interest to them. (Director of Business, Charity A)

The interview data suggests that Charity A cooperated with site visits required by its government funder. The information on outputs is disclosed and verified against its contractual requirements. For example, the number of counselling sessions delivered per month is compared to the government funder's requirements on output measures as discussed in Section 7.3.1.2. As noted by the interviewees above, the site visits (service audits) are conducted every three years. Charity A must conform to such requirements to meet its government funder's information needs and to gain legitimacy in the eyes of the funder. Failure to cooperate with site visit requests or refusal to provide any required

performance information, such as outputs could lead to a jeopardizing of its contract renewal. This suggests strong coercive pressures (DiMaggio & Powell, 1983) imposed by the government funder of Charity A. Moreover, even co-operating with site visits, Charity A may still “get a black mark” on its contract when the disclosed output information does not meet the government funder’s contractual requirements (as noted by the interviewed Director of Business). Moreover, the interview data above also indicates that the focus of site visits is not on outcomes. This highlights the government funder’s priority is not to obtain outcome information, which differs to the outcomes-based government contracting discussed in Section 6.4.2.2.

8.3.2.5 *International Resident Assessment Instrument (InterRAI)*

As noted in Sections 7.3.2.1 and 7.4.2.3, InterRAI is a performance measurement system imposed by government funders on Charity B and all service providers, to measure performance information such as outputs and outcomes in its homecare services. The following interviewee further suggested that InterRAI is also used for reporting purposes:

Whatever information we collect using the InterRAI goes into the computer system and the government funders are able to see the information as well. So it is shared between them and us. Whatever information they need, they can get it from there. (Homecare Service Supervisor 2, Charity B)

The interview data suggests that the performance information measured and stored in the InterRAI is shared with the government funders of Charity B. This highlights the coercive pressures (DiMaggio & Powell, 1983) exerted by the government funders to ensure the provision of information to meet their needs. On one hand, InterRAI is an efficient reporting mechanism compared to the other reporting mechanisms, such as narrative reports, since the charities do not have to spend extra time in preparing separate reports. On the other hand, any information in the InterRAI, including problems or negative outcomes, is available to the government funders. This ‘open book’ system is imposed by the government funders to ensure a high degree of information transparency in the case of Charity B and other New Zealand charities that are funded by them.

8.3.2.6 *Informal Disclosures*

Informal disclosure is further identified as a reporting mechanism for disclosing information to the government funders of Charity B, as suggested by the following interviewee.

We are a year behind in a project, but the [government] funder is really good. That is because we have kept them up to date all along, we have been saying this is what was happened this week, this is what we have got in place. We have been really lucky in the sense that they have trusted us and even gave us other projects. If I had waited until reporting date at the end of the year and said I am really sorry, they would not have given us additional funding. So that is what makes me think this approach works. (Early Childhood Education Service Manager, Charity B)

This interview data reveals that Charity B uses regular informal disclosures to report performance information to its government funder. This highlights that Charity B seeks to gain trust from its government funder, and to discharge accountability. An established trust relationship becomes an advantage to extend the contract or re-negotiate the contractual requirements with its funder. Such trust-enhancing accountability supports Cordery, Baskerville and Porter's (2010) findings that also identified the importance of a trusting relationship between funder and provider, but the mechanism of informal disclosure identified in this study is new to the prior literature. The reasoning for using this reporting mechanism is further explained in Section 8.3.3.

In summary, this section has identified 6 types of reporting mechanisms for disclosing information to government funders. The mechanisms include a budget reporting template, and audited financial statements to disclose financial information, narrative reports to disclose background and performance information, cooperation with site visits to disclose any required information (mainly on outputs), InterRAI to disclose any available information through sharing it with government funders (Charity B), and informal disclosures to report performance information. The next section explains the reasons for disclosing this information and using the reporting mechanisms.

8.3.3 *Reasons for Disclosing and Using the Mechanisms*

Two reasons for disclosing information to government funders and using the reporting mechanisms are identified in this section.

8.3.3.1 *To Fulfil the Contractual Requirements*

The following interviewees suggested that both charities disclose information to demonstrate their accountability and to fulfil the government funders' contractual requirements:

We render unto Caesar which is Caesar's. We give to the Ministry, we report to them on those methods that are much of their concern, which is our contract, our services, our quality and we do that in great detail. (CEO, Charity A)

The shift has gone over a long period of time away from just the churches doing [social service delivery], to the governments taking a bigger hand. Government departments are not interested in whether you are a church organisation or not, they are interested in whether you have the infrastructure to provide a contract service? The income from contracted services will actually increase for some, and others are just going to disappear. Will we fit in that? We do not know. We are a large provider, but not the largest provider or contractor. (CEO, Charity B)

This interview data indicates that both charities disclose information in accordance with the contractual requirements of their government funders. The contractual requirements constrain the charities to delivering relevant public services as specified in their contracts and their reporting practices are largely subject to monitoring and reporting requirements imposed by their government funders. Strong coercive pressures (DiMaggio & Powell, 1983) are exerted by government funders on the charities to fulfil their contractual requirements and expectations such as monitoring and accessing information through InterRAI. This illustrates a power relation in which government funders have dominant power to determine which charity to fund, and charities have to comply fully to maintain this relationship. To avoid losing funding, both charities must cooperate with their government funders, hence eventually they become isomorphic in their processes (DiMaggio & Powell, 1983).

8.3.3.2 To Gain Trust from Government Funders

Despite the coercive pressures exerted upon the charities via a form of contract that restricts the types of services they provide, informal disclosure is identified as helpful in Section 8.3.2.6. The mechanism of informal disclosure is a purposive action (Lawrence & Suddaby, 2006) of Charity B that intends to establish a trust relationship between the government funders and Charity B. This adds an additional dimension of trust to the accountability relationship identified in Section 2.3.

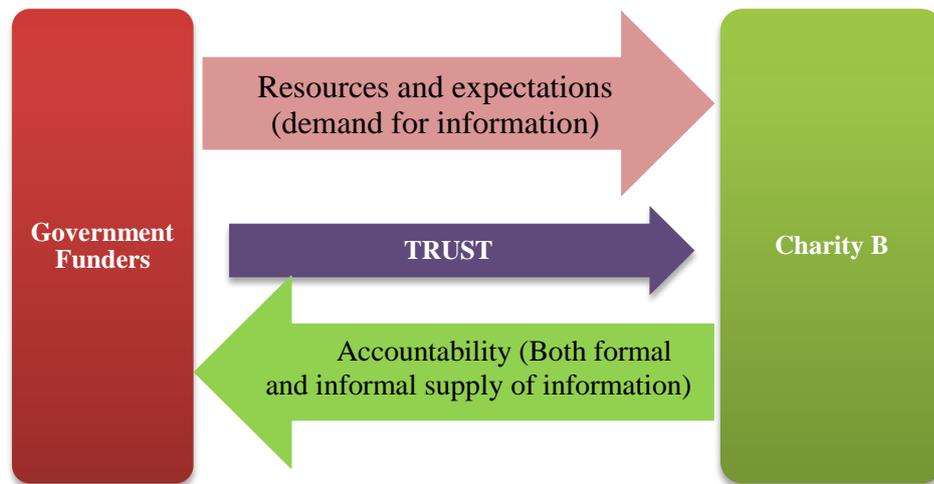


Figure 8-13: Accountability relationship including trust-adapted from Connolly and Hyndman (2003)

Figure 8-13 illustrates that government funders' provision of resources implies expectations and demands for information, and that Charity B delivers its services and supplies both formal and informal information to discharge its accountability and gain legitimacy from the funders. In addition to this fundamental accountability relationship, the regular informal provision of performance information also leads the government funders to trust Charity B to perform delegated services, and such trust could lead to less monitoring and reporting oversight and, eventually, contractual stability is more likely to be guaranteed. This finding supports Christensen and Ebrahim (2006) who noted that open communication improves accountability and ensures better service provision. However, this study reveals that informal interactions are identified between Charity B and its government funders, not among staff members within a charity as in Christensen and Ebrahim's (2006) study. Also, the trust relationship based on informal contracting disclosures is likely to play a pivotal role for Charity B to deliver services with an assurance of contractual stability and for its funders to predict the quality of the charity's future service delivery. As such, the element of being trusted through regular informal information disclosure is a contribution of this study to the previous literature. The next section identifies some problems perceived by the studied charities in reporting to government funders.

8.3.4 *Problems Perceived by the Charities*

The previous section discussed Charities A and B's reasons for disclosing information to their government funders. This section identifies three perceived problems with their reporting practices.

8.3.4.1 *Gaps between Contractual Requirements and Outcome Reporting*

Section 8.3.1 identified that government contracting is largely outputs driven, thus, both charities must disclose output information to meet the government funders' contractual requirements. The following interviewees indicated that the reason output measures are frequently reported is because they are easier to understand, even though they are less meaningful than outcome measures:

Turning something into a number of people, the funder will understand and it brings focus. But if you gave a narrative report about counselling you will get a far better picture than when you look at some numbers. You have got to know what people are thinking and how well we are going rather than counting things all the time. (Director of Business, Charity A)

We do answer the [output] questions and I believe we answer them extremely well, but it is just about reinforcing the status quo, it does not actually ask where do you want to be next? How do you get to the next point? Because simply saying we housed 60 people is only a high level answer, it needs to dig down into that to find out what is happening for that person or that family. What is the long-term impact? (CEO, Charity B)

This interview data suggests that outcome measures are considered more meaningful, and that both charities are dissatisfied with reporting largely outputs. This is because outputs are unable to articulate the effectiveness of service delivery. This view supports the information needs of government funders related to outcome reporting as identified in Section 6.4.1.2. Significant efforts are undertaken to measure outcomes by the charities, especially in the counselling services of Charity A (see Section 7.4). However, the contractual requirements for Charity A's counselling services do not contain any outcome reporting obligation. The following interviewed government funder also confirmed that the contracted charities have gone ahead with measuring outcomes, even though they are not required to do so by their contracts:

What happened historically is that we have been quite slow to develop outcome measures, and providers have gone ahead and decided that they would do that anyway. Then they developed their own outcome measures, which sometimes could be over budget, and it can be quite subjective about what a good life is and what a good service is. I think there are different outputs and outcomes for the funder and for the provider. If they can establish them and agree on them together, I think that is going to be much better for everyone than if they kind of collect outputs for the Ministry and outcomes for themselves. (Government funder, 5)

Despite this interviewed government funder identifying that the outcome measures charities adopted are subjective and lack verification, she acknowledged the efforts and

work of charities with regards to measuring and reporting outcomes, even though this work goes beyond the government funders' contractual requirements. This highlights a problem of inconsistency between the increasing needs for outcome measures by both charities and government funders, and the absence of outcome reporting requirements that demonstrate charity accountability. The findings of this study point to a relevance gap between the information disclosed and the information required, as also identified by Connolly and Hyndman (2013b). However, this study further highlights that the case study charities measure their performance information, which includes outputs and outcomes, but often only outputs are disclosed in accordance with contractual requirements. As such, the reason for the relevance gap is not the charities' inability to measure and report outcome information, but mainly that their contracts do not require outcome information. This highlights a misalignment between the expectations of government funders for outcome reporting as identified in Section 6.4.1.2 and the outputs-driven contractual requirements. In addition, this finding differs from Christensen and Ebrahim (2006), which identified that NFPs, including charities, are more likely to collect data on what is necessary for reporting purposes. This study finds that the case study charities acknowledge the importance of measuring and reporting performance information, especially outcome information, even though they are difficult to measure and report. More importantly, the charities have undertaken significant work that goes beyond contractual requirements in an effort to measure outcomes. Nonetheless, since the current contractual requirements do not emphasize outcomes reporting, outputs are largely reported, in accordance with the requirements.

8.3.4.2 Time-consuming and Onerous Nature of Narrative Reporting

As identified in Section 8.3.2.3, narrative reports are disclosed to government funders of the case study charities. The following interviewees suggested that the process of preparing such reports can be cumbersome and time-consuming:

In the narrative report, we are not reporting on each individual stall [it is a stand at an event promoting public health activities] we are doing, but we are reporting on bigger projects...this should help align with the Ministry objectives. But it is quite cumbersome and potentially quite a significant admin task. It is quite a compliance cost for us. (Director of Public Health, Charity A)

This interview data reveals that monitoring reports often have standardized reporting templates that restrict the charities' ability to elaborate on their outcomes. Although the reports allow the charities to disclose their outcomes alongside the other performance

information such as outputs, the reporting practice is seen as a tedious and onerous process by the interviewees. This may be because outcomes are measured mainly by some outcome measurement mechanisms voluntarily adopted by the charities as discussed in Section 7.4.2. Reporting outcomes within a restrictive template creates additional work for the charities to fulfil their contractual obligations. Nonetheless, the charities are obliged to provide necessary information in the required templates to obtain continuous funding. This highlights the coercive pressures (DiMaggio & Powell, 1983) exerted by government funders, which have the absolute power to punish the charities by cutting funds when they fail to report according to their contractual requirements.

8.3.4.3 *Unwillingness to Report Information*

As noted in Section 7.4.4.4, the changing environment objective and policy development activities are identified as a priority, and the ultimate means of accomplishing Charity A's mission. However, the prioritized activities received only approximately five percent of the government funding. The following interviewee suggested that Charity A does not wish to disclose its policy development activities to its government funder:

In terms of our agenda for the change, we do not discuss that with the Ministry, because the Ministry is a part of the government and to the government we are of second to change. So this puts the Ministry in a difficult position, and because their agenda might not align to our agenda, the Ministry does not like organisations that exert political pressure. So we create more work for them and they are an arm of the government, and if we are trying to influence the government that can be directly contrary to them. (CEO, Charity A)

This interview data suggests that Charity A is unwilling to disclose information relating to its policy development activities. As discussed in Sections 8.3.1 and 8.3.2, Charity A discloses the required information by using reporting mechanisms such as narrative reports in accordance with the contractual requirements of its government funder. Charity A must follow the contractual requirements to deliver information on its counselling services and public health activities. However, its unwillingness to report information relating to its policy development activities highlights a problem that objectives of Charity A may not completely align with its government funder's priorities.

In summary, the studied charities perceive several problems in reporting to their government funders. A relevance gap between the contractual requirements and disclosure of outcome information is identified as a concern. The problem of the time-consuming and onerous nature of reporting outcomes within a restrictive template is also identified by both charities. Finally, Charity A is unwilling to disclose information

relating to its policy development activities as its objective of changing the environment does not completely align with its government funder's priorities.

8.3.5 *Section Summary*

This section has discussed the practices of the case study charities in reporting to their government funders. Both charities disclosed background, financial and performance information (mainly outputs) to their government funders. A number of reporting mechanisms such as a budget-reporting template and audited financial reports were used by the charities to disclose financial information, and narrative reports, cooperation with site visits, and InterRAI were used to disclose performance information. Such reporting practices were in accordance with their contractual requirements. Charity B also made regular informal disclosures to gain trust and legitimacy from its government funders. The element of trust adds to the accountability relationship between the government funder and Charity B. Nonetheless, three problems were identified with these reporting practices. The next section discusses disclosures to the other external stakeholders.

8.4 **Disclosures to Other External Stakeholders**

Section 2.5.1 identified that charities also disclose information to the other external stakeholders, such as beneficiaries and volunteers. This section further discusses the reporting practices of the case study charities in regard to their other external stakeholders. In addition to beneficiaries and volunteers, this section also includes philanthropic funders⁵³ of the charities as other external stakeholders who also provide financial support to the case study charities. This section focuses on reporting to these external stakeholders. The disclosed information is first discussed, followed by an analysis of the reporting mechanisms used by the charities, their reasons for disclosing information and using the mechanisms, and their perceptions of possible problems with these reporting practices.

8.4.1 *Disclosed Information*

All three types of information, i.e., background, financial and performance information, are disclosed to their other external stakeholders by both charities.

⁵³ Philanthropic funders include both the existing and potential grant-making NFPs that fund the case study charities and the individual donors who support the charities.

8.4.1.1 Background and Performance Information

Both charities A and B disclose their background and performance information, such as their mission statements and output information to their other external stakeholders, as indicated by the following interview and documentary evidence:

They can get a lot of information from our website. General information like if they know someone might need help, how they are going to get help. Signs to look for someone might have addiction problems, fact sheets if any reason they want to look for stats and facts. (Marketing Manager, Charity A)



Figure 8-14: Charity B's mission statement (Charity B's annual report, 2014, p.16)



Figure 8-15: Output Information (Charity A's annual report, 2014, p.9)

 To **raise awareness** of the benefits and value of knowing our neighbours locally (North Shore), regionally (wider Auckland) and nationally

 To **increase connection** and interaction between neighbours in specific areas on the North Shore

 To **strengthen capacity** within neighbourhoods to respond to issues when or if they arise

 To **equip local leaders** to be 'catalysts of connection' in their own communities of place

Goals...

"I've lived here for twenty years and we've never done anything like this! The street now feels like a family".

Figure 8-16: Performance Information in a community development project (Charity B's no.1 newsletter, 2009)

The evidence above indicates that both charities voluntarily disclose information to their other external stakeholders including beneficiaries, volunteers and philanthropic funders. Background information such as contact details and fact sheets about addiction problems and performance information in terms of mission statement, outputs, project goals and beneficiaries' testimony are disclosed. For example, Figure 8-14 illustrates Charity B's mission statement about turning lives around in the area of the homecare services for beneficiaries with disability issues. Figure 8-15 demonstrates that output information such as 12,801 counselling sessions and 2,909 public health activities is disclosed in the 2014 annual report of Charity A. Figure 8-16 shows Charity B's goal of a community development project, and a beneficiary's testimony. Moreover, performance information such as beneficiaries' testimonies is also available on the websites and annual reports of the charities, as illustrated in the documentary evidence below:

I will be forever grateful to the team at [Charity A] for helping me to put my life back into perspective, following years of addiction harm. I honestly wonder whether I would still have been alive today without your help. (A beneficiary's testimony, Charity A's annual report, 2014)

To help you get to the heart of what we do and how we work, we have produced a booklet which features stories shared by some of the people who know us best - our clients, our donors and our staff. You can read the booklet and other [Charity B's] publications [here](#). (Charity B's official website, 2015)

I do not know what I would do without [Charity B]. They are a marvellous help and are always so eager to help...I know that with the support of [Charity B] I will continue to live at home and that is very important to me. (A beneficiary's testimony, Charity B's booklet, 2014)

Such beneficiaries' testimonies and their life-changing stories demonstrate the outcomes of the charities' services and activities, which are disclosed to other external stakeholders through the charities' websites and annual reports.

8.4.1.2 *Financial Information*

In addition to disclosing background and performance information, easily understood summaries of financial information are also disclosed in the annual reports of the charities, as demonstrated in Figure 8-17:

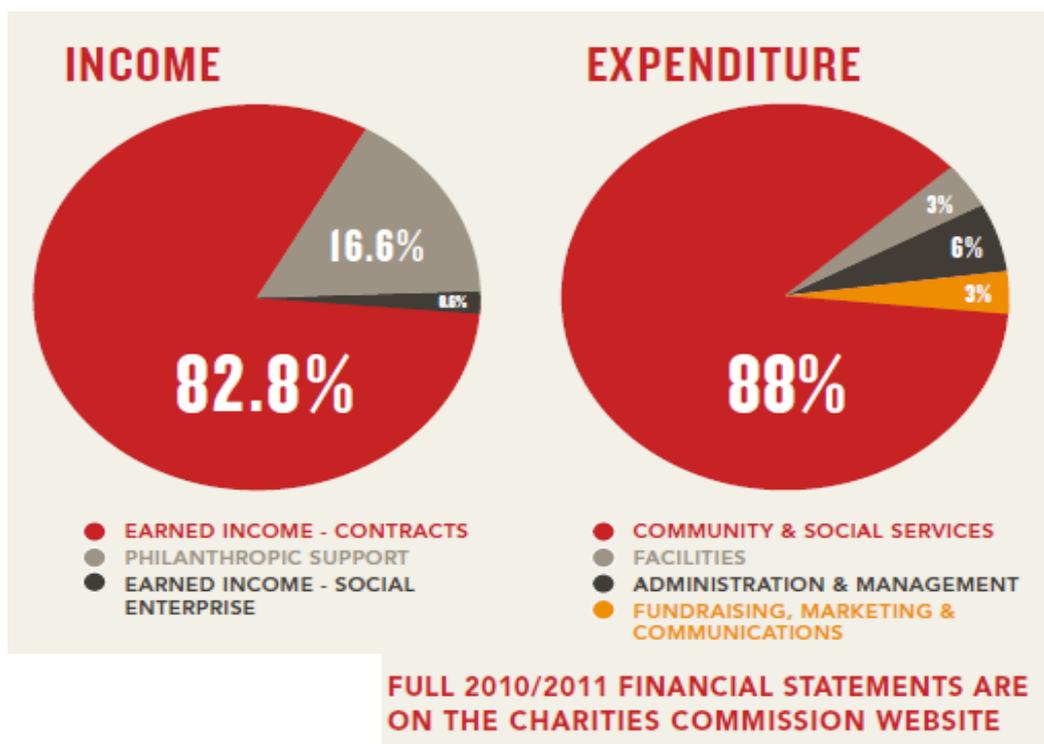


Figure 8-17: Financial information disclosed by Charity B (Charity B’s annual report, 2011, p.19)

Figure 8-17 demonstrates a summary of Charity B’s income and expenditure for the 2011 financial year. This indicates that Charity B does not intend to disclose detailed financial information on its annual reports, but the full financial statements are available on the DIA-CS website if any stakeholders are interested in reading it. This is further supported by the following quotation from the financial manager of Charity A:

We do not provide our stakeholders financial information directly but we disclose the audited financial reports to the Charity Commission [DIA-CS] and we have stakeholders’ reports including financial reports and other information, which are available on our website. (Financial Manager, Charity A)

The above interviewee identified that the audited financial statements are disclosed to the DIA-CS, thus any stakeholders who have information needs for Charity A’s financial information can access the Charities Register to find that information. The financial information disclosed by Charity A is illustrated in Figure 8-18 below:

Financial Information

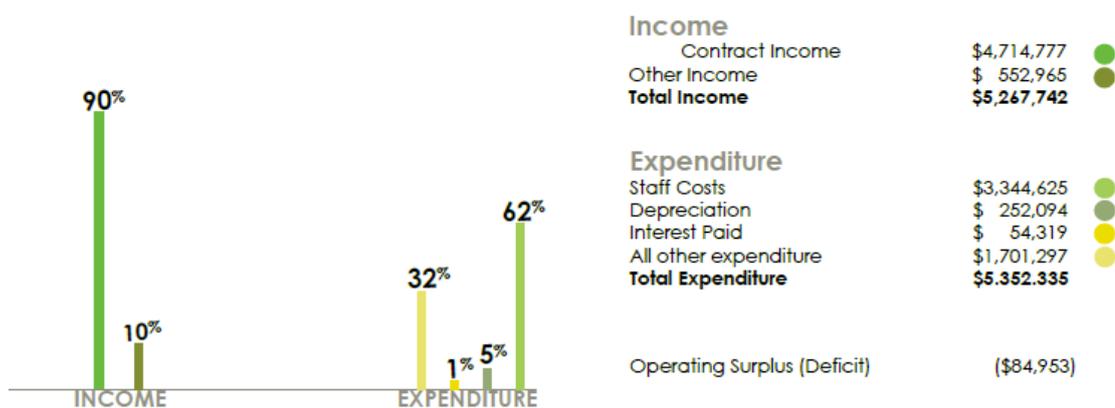


Figure 8-18: Financial information disclosed by Charity A (Charity A's annual report, 2014, p.9)

The above evidence shows that financial information is disclosed to the other external stakeholders of the charities, which supports the view of Connolly and Hyndman (2013b) that audited financial statements are the most frequent disclosure mechanisms used by England and Wales charities. However, this study found that the disclosed financial information was mainly in the form of an overview or summary, rather than the complete audited financial statements. Such a difference could be due to the legislative requirement to produce a Trustees' Annual Report in England and Wales.

In summary, this section has identified that three types of information: background, financial and performance information are disclosed to the other external stakeholders of the charities. The next section discusses the reporting mechanisms used.

8.4.2 Reporting Mechanisms

The case study charities used many reporting mechanisms to disclose their background, financial and performance information to their other external stakeholders. The first two reporting mechanisms were used for philanthropic funders only, and the other mechanisms are used to disclose information to the other external stakeholders in general.

8.4.2.1 Grant Application and Report Back Forms, and (Audited) Financial Statements

As noted in Chapter 6, grant application and report-back forms are imposed by philanthropic funders, to obtain background, financial and performance information from their funded charities. The documentary analysis found that both charities completed their grant application and report-back forms, since they both received philanthropic funding.

This reporting mechanism enforces the charities to disclose financial and non-financial performance information. It is illustrated in the following evidence:

Please complete this form telling us how your organisation and the community have benefited from funding so far.

Please also include your organisation's latest **financial statements**; this helps us to see how you have accounted for the grant (Please provide your most recent financial statements and/or an up-to-date income & expenditure statement no older than three months).

If your Annual Report or any similar document contains this information, you may like to send this in as well.

Figure 8-19: Report-back form of Charity B's philanthropic funder

Figure 8-19 shows that Charity B discloses performance information to its philanthropic funder, such as how the organization has benefited from its philanthropic funding. Three key questions are completed in the report back form:

1. What has your organization spent this grant on so far? Please provide any project delivery data (e.g. number of participations, number of projects, attendance or other key project statistics).
2. How is our funding helping you deliver the outcomes you identified in your application?
3. How is the community benefiting from your organization having this grant?

(Questions in the report back form of Charity B's philanthropic funder, 2014)

The first question requires output reporting such as the number of participations or projects, whereas the other two questions emphasize information on outcomes. Charity B must complete these questions by providing the required performance information and conform to this reporting requirement to meet its philanthropic funder's information needs. Moreover, it also has to provide its latest financial statements, which do not have to be audited, or a statement of income and expenditure, to indicate the funds have been spent appropriately. Since Charity B receives philanthropic funding for its homeless service, an unaudited financial statement for funds spend on homeless service delivery needs to be disclosed. The documentary evidence also indicates that Charity B's philanthropic funder welcomes any additional performance information in other mechanisms, such as annual reports. This suggests high expectations on performance reporting from the philanthropic funder. The annual report, as another reporting mechanism, is discussed in Section 8.4.2.3.

8.4.2.2 *Accessed Additional Evaluation Support*

Section 6.4.3.4 noted that both government and philanthropic funders provided additional evaluation funds to their funded charities in order to cultivate appropriate performance reporting practices in the New Zealand charity sector. The following interviewee of Charity B indicated that it received additional evaluation support from its philanthropic funder:

When they [philanthropic funder] provided 3-year's funding that supported our homeless work, they put around that funding some evaluation support. They brought in an evaluator to help each organization to develop an evaluation of its work...this has been helpful! (General Manager, Charity B)

This interview data shows that Charity B accessed additional evaluation support provided by its philanthropic funder. This imposed mechanism is slightly different from the enforcement mechanism of additional evaluation funds discussed in Chapter 6, but it still highlights that the philanthropic funder of Charity B has expectations of performance information. The appointment of an evaluator to help Charity B and other funded charities means that the expected performance information is more likely to be disclosed. The manager of Charity B perceived that this mechanism imposed by its philanthropic funder is helpful in disclosing the necessary performance information. Hence, Charity B meets its reporting requirements in order to access additional evaluation support.

8.4.2.3 *Annual Reports and Websites*

Section 8.4.1 indicated that annual reports and websites are used by the charities to disclose their background, financial and performance information to the other external stakeholders, including philanthropic funders, beneficiaries and volunteers. Annual reports and websites, thus, are reporting mechanisms for disclosing information to these stakeholders. In particular, performance information, such as beneficiaries' testimonies and life-changing stories, is disclosed through both reporting mechanisms. The following interviewees note that they perceive this type of performance information and mode of reporting to be appropriate to the audience of stakeholders:

I like what we do because it has the personal touch and it focuses around real life people and real life stories. (Early Childhood Service Manager, Charity B)

The beneficiaries do not know what financial information, outputs and outcomes are. We need to use simple ways they resonate with. (Community Development Worker, Charity B)

This interview data indicates that the disclosure of performance information is a recognized and acceptable approach in Charity B as it is seen as an easier way to connect with stakeholders such as beneficiaries. As noted in Chapter 2, Connolly and Dhanani (2009) identified that the annual review enables charities to tell their story and is targeted at smaller funders, beneficiaries and the public at large. As a shorter and more condensed version of annual report, annual review includes many stories, photographs and diagrams in a less formal language (Connolly & Hyndman, 2013a). Hence, the reporting practice in the annual reports identified in this study is similar to the story-based approach of the annual review identified by Connolly and Dhanani (2009). However, the annual review, which is voluntary in England and Wales, is not a common voluntary disclosure mechanism in New Zealand. Moreover, unlike England and Wales-based studies conducted by Connolly and Hyndman (2013b) and Connolly and Dhanani (2009), New Zealand studied charities are not statutorily required to disclose their annual reports. Their reporting practices to these external stakeholders are entirely voluntary.

In addition, Charity A uses their websites as a mechanism to encourage audiences such as beneficiaries and volunteers to get involved in making submissions to local and national government on addiction issues.

The Council is reviewing its policy on addictions. Submissions are open and will be accepted until 5pm on Friday 18 July. We encourage you to have your say. In New Zealand, addiction causes considerable harm to children and their families. These harms include neglect, financial hardship, lack of provision of necessities, and family breakup. Addictions are also a cause of anxiety, depression, violence, crime, and suicide among adults. For these reasons it is important to have a policy that reduces harm. (Charity A's website, 2014)

This documentary evidence illustrates that Charity A informs its stakeholders of the severe harm caused by addiction problems and that a government policy on addictions is under review. As noted in Section 5.5.1, Charity A focuses on policy development activities to influence the government policies on addictions. The more people are informed by this message on its website, the higher the chance that they might provide submissions to influence the policy. As such, the website is an important reporting mechanism for disclosing information. This finding supports Saxton and Guo (2011) who found that US NFPs, including charities, used websites to provide financial and performance information. However, this study identifies that Charity A uses its website to engage stakeholders' support and submissions to change government policies on

management of addictions, thus highlighting the intentional work done by Charity A to accomplish its charitable mission.

8.4.2.4 *Newsletters*

Section 8.4.1.1 noted that newsletters are another reporting mechanism used to disclose performance information to the charities' other external stakeholders. The following documentary evidence shows the need for area information in a community development project of Charity B:

Over the last few weeks, many of us have been affected by the Christchurch Earthquake, directly or indirectly through friends and family. Our thoughts are with all residents who experienced loss. We have been encouraged by the many stories of neighbourliness arising from this tragedy...during times of emergencies, it is our neighbours who are our closest source of help. The challenge for all of us is not to wait for difficult circumstances before making contact with our neighbours. (2010 No.2 Community development project newsletter, Charity B)

This indicates that despite many newsletters used to disclose performance information to the other external stakeholders in general, some information in newsletters is directed at specific stakeholder groups. For example, the newsletter above was issued in the period of the Christchurch Earthquake in 2010. It targeted stakeholders such as beneficiaries and other participants in a community development project, to enhance neighbourhood engagement. Figure 8-20 further illustrates that the disclosures target philanthropic funders, including individual donors:



**75 MADE HOMELESS FOR 13.5 HOURS,
\$100K+ RAISED FOR AUCKLAND'S HOMELESS,
YOU HELPED MAKE THIS HAPPEN**

Figure 8-20: Disclosures to philanthropic funders including donors (Charity B' September newsletter, 2011)

Figure 8-20 shows that Charity B expresses its appreciation for donations received for a homeless service project via a newsletter. Nonetheless, both charities may prepare reports or other disclosures specifically to meet the information requirements of some stakeholders, such as philanthropic funders, but other stakeholders, such as volunteers, rely on publically released information to meet their performance information needs.

8.4.2.5 *Media Releases*

Media releases are used by both charities as another reporting mechanism, as illustrated by the following interview and documentary evidence.

Homelessness is a significant issue in New Zealand and one that is growing. It goes far beyond rough sleepers to include individuals and families living in hostels, garages, sleeping in cars, and sharing over crowded accommodation. This is the hidden side of homelessness.

Figure 8-21: Charity B's media release on homeless issues (Charity B's media release, 24th November 2009)

If there is something newsworthy if there is a story worth mentioning, then we will put on a media release with relevant information, any stats and facts or research to fact it up. If they seek additional information, we got in the library we can pull out information they might need. So that is done on a regular basis. We got lots of media enquiries and we do significant amount of media releases as well. (Marketing Manager, Charity A)

The above evidence suggests that the reporting mechanism of media releases is used to disclose background and performance information to the other external stakeholders in general. For example, Charity B used media releases (as demonstrated in Figure 8-21) to disclose information relating to homeless issues, whereas Charity A disclosed information relating to addiction issues in New Zealand.

In summary, grant application and report-back forms, (audited) financial statements, accessing additional evaluation support, annual reports, websites, newsletters and media releases are identified as reporting mechanisms used by the case study charities to disclose background, financial and performance information to their other external stakeholders. The next section explains the reasons for disclosing the information and using the reporting mechanisms.

8.4.3 *Reasons for Disclosing and Using the Mechanisms*

Three reasons for disclosing information to other external stakeholders and using the reporting mechanisms are identified in this section. They are to discharge accountability, to enhance the organizational profile and credibility, and to raise additional support.

8.4.3.1 *To Discharge Accountability*

Section 8.4.1 identified that both of the studied charities disclose background, financial and performance information to their stakeholders. The following interviewees suggested

that such reporting practices are intended to both discharge accountability and gain legitimacy in the eyes of the other external stakeholders:

I think it is key to be open and transparent as an organisation. We are kind of upfront about the things we do, the outcomes we are achieving or not achieving. It gives people a chance to engage with our organisation and the work we are doing. It allows people to come on board if it is the work they support. (Director of Public Health, Charity A)

If we are ever going to make an impact, you actually have to convince society, particularly what I have called the electorate society. So putting information out there that is not just for government funders, our supporters can say yes we understand what this means. (CEO, Charity B)

This interview data indicates that both charities disclose information about their charitable missions and the extent to which the missions are accomplished, to improve their charities' transparency and accountability. The 'supporters' mentioned by the interviewed CEO of Charity B are referred to as the other external stakeholders, such as volunteers. To discharge charity accountability to these stakeholders, all types of information are disclosed (see Section 8.4.1)

8.4.3.2 *To Enhance Organizational Profile and Creditability*

In addition, the following interviewee suggested that Charity A intends to raise its organizational profile by disclosing information to the other external stakeholders:

Our annual reports are sent to some of our key stakeholders, [for example] MPs who are involved in decision making, because they help inform policies and regulations around addiction...it is important to make sure they are informed about what is going on with what we are doing, what is happening, what we are hearing from clients...if we are getting so much media articles mentioning our name, that is sort of good results. Because it not only raises the awareness of the organization, it raises the awareness around the issues. It is good for the organization in terms of credibility. (Marketing Manager, Charity A)

This interview data shows that Charity A uses annual reports and media releases to enhance its creditability in the area of addiction services. As noted in Section 7.4.4.4, Charity A attempts to be the authority in its institutional environment, to advance its "changing the environment" objective that is seen as the ultimate means to accomplishing its mission. As such, actors within Charity A consciously engage in its policy development work, with the intention of accomplishing its mission. As noted in Section 3.5.2 (see Table 3-2), the form of institutional work described as 'valourizing and demonizing' illustrates the normative foundations of an institution through "public

demonstrations of what was right and what was wrong” (Lawrence & Suddaby, 2006, p. 232). In this case, policy development activities are seen by the actors within Charity A as the ultimate means and institutional norm to accomplish its ‘changing the environment objective’ which leads to its mission. It thus highlights the valourizing and demonizing work (Lawrence & Suddaby, 2006) to enact the institutional norm. Consequent on Charity A’s institutional work, its public profile is more likely to increase, as suggested by the following interviewees:

[A senior officer] in the Addiction Commission made a comment saying ‘[Charity A] and people of that nature may have something to say about that’, so he named us and people like us. We were identified as the premier or the first person in his mind. That is probably evidence of us making an impact. (National Operations Director, Charity A)

Recently there is a kind of controversy about [an addiction venue] that tries to make a deal with the government. Every time I see the newspaper and TV news about this subject, I could easily recognise there is a mention about [Charity A], so whenever there is addiction related issues, I could easily find [Charity A]’s contributions. (Volunteer 1, Charity A)

This interview data above indicates that the voluntary reporting practices of Charity A enhance its organizational profile. Hence, through disclosing information on its website and media releases, Charity A generates organizational legitimacy in the eyes of the other external stakeholders, such as the interviewed volunteer above. Similarly, the raising of Charity B’s organizational profile is also identified by its interviewed homelessness service manager as a reason for disclosing performance information:

It is about raising profile. The fact is that for 48 hours we basically put homeless issues on the front page of papers and on the radio and television news and stuff like that. (Homelessness Service manager, Charity B)

This interview data indicates that to raise its profile is the reason Charity B used media releases to disclose information relating to its homeless service.

8.4.3.3 *To Raise Additional Support*

Another reason for disclosing performance information, especially outcomes, to the other external stakeholders such as philanthropic funders is to raise additional support. This view is illustrated in the following research evidence:

The majority of our income is very much from government contracts, but philanthropic groups are still very much a part of our journey because they give us that little bit of room to add value to contracts, do a little bit more,

provide better quality social services, better quality support [in the areas of] housing, mental health and others. (CEO, Charity B)

We have some incredible friends. Sadly we cannot list all of you here however I would like to thank all those who continue to make the work highlighted in this report possible. You truly are turning lives around with your support. (Annual Report 2014, Charity B)

The above evidence suggests that philanthropic funders are seen as partners that collaborate with Charity B to achieve its mission. Government funders provide most of the funding but also impose contractual requirements, consequently Charity B tries to engage with its philanthropic funders by disclosing performance information, such as the testimonies of beneficiaries that demonstrate its outcomes in its annual reports. The disclosure of its information may indicate that philanthropic funding is generally applied to service areas, such as the mental health service, which facilitate Charity B's mission accomplishment. By viewing disclosed performance information such as a beneficiary's life changing story, the audiences of the annual reports, such as philanthropic funders and volunteers, could identify Charity B's mission, its services and the activities delivered to accomplish its achievements. This may contribute to additional resources flowing into the charity. This finding is consistent with that of Merchant, Ford and Sargeant (2010) who found that storytelling was used by US NFPs to raise additional funds. The next section identifies perceived problems in reporting to the other external stakeholders.

8.4.4 *Problems Perceived by the Charities*

Section 8.4.2 identified that storytelling is used to disclose performance information via the reporting mechanisms of websites and annual reports. The following interviewed evaluator, who prepared third-party evaluation reports for Charity B's projects, indicated that stories cannot be properly prepared without establishing a trust relationship with beneficiaries, which requires considerable time and effort:

I think [storytelling] is a really impactful way of illustrating your outcomes. You get the story and you get to see the person, so we need to have two ways of capturing, we need to capture hearts, we also need to capture minds...but it needs to be done properly. This took weeks and weeks and weeks of sitting down and getting them to tell their stories. And you really need to have good relationships with people that you are working with. (Evaluator 2, Charity B)

Another interviewee also shared a view that Charity B must be cautious when employing the storytelling technique, since negative consequences may result for the beneficiaries who tell their stories:

Social workers and counsellors do not necessarily want to share the stories of their work because they want to protect their beneficiaries. For example in foster care, when children's lives are turned around, you cannot have that splashed all over the front page of the Herald⁵⁴ because you have got to protect the children, you cannot let other people know who they are. We have the issue at the homeless services too, where there was a person who stood up and had his story told in one of our publications. Because he had spoken up and talked and was identified, he was beaten up on the street by his fellow street people. So there is all sorts of things like that you have got to be very careful about. (Financial manager, Charity B)

The interview data suggests that the staff members of Charity B are reluctant to share the stories of their beneficiaries. The problems of time constraints and the difficulties in capturing the beneficiaries' life-changing stories adds to Chen's (2013) study that identified storytelling as an informal mechanism for discharging accountability. The contribution of this study is that it finds that storytelling is incorporated into formal mechanisms of annual reports and websites, to disclose performance information of the charities, rather than being used as a separate mechanism. As acknowledged by Chen (2013), this finding may be largely due to the problems identified above.

8.4.5 *Section Summary*

This section has discussed the practices of the case study charities in reporting to their other external stakeholders including beneficiaries, volunteers and philanthropic funders. Both charities disclosed background, financial and performance information to these stakeholders through the reporting mechanisms of grant application and report-back forms, (audited) financial statements, accessing additional evaluation support, annual reports, websites, newsletters and media releases. The reasons given for disclosing the voluntary information are mainly that both charities are trying to discharge accountability to their other external stakeholders and to raise their organizational profile and credibility. Charity B also aims to raise additional support from philanthropic funders. Nonetheless, difficulties in telling beneficiaries' stories are identified as a problem of the storytelling approach to disclosing performance information.

8.5 **Disclosures to Internal Stakeholders**

Section 2.5.1.5 identified that there has been limited research regarding charities' disclosures to internal stakeholders, such as the board of trustees, paid staff including managers, and volunteers. This section discusses the case study charities' reporting

⁵⁴ The New Zealand Herald is the main newspaper in Auckland

practices to their internal stakeholders. Disclosures to volunteers are not considered in this section since neither charity is reliant on volunteer contributions to deliver services and activities, as noted in Section 5.5. As such, the internal stakeholders that form the focus of in this section include the board of trustees (board members) and paid staff (managers and staff members) of the charities.

The following interviewee identified that both charities disclose information to their internal stakeholders that may not be available to the external stakeholders discussed in the previous sections.

We tend to keep our long term [policy development] work very much internally focused, and not tell the world that we are going to change it, but just get along with changing it (CEO, Charity A).

In order to further investigate the internal accountability practices of the charities, the remaining sections firstly discuss the disclosed information, followed by the reporting mechanisms used to disclose the information, the reasons for disclosing and using the mechanisms, and perceived problems involved in the charities' reporting practices to their internal stakeholders.

8.5.1 *Disclosed Information*

The following interviewees suggested that the disclosed information includes performance information such as outcome measures adopted by the charities.

We have changed the reporting template in the last 12 months and it is evolving as we go but we are trying to connect that format to a results based accountability format. So we have grouped our questions that each service manager has to report on across the various strands of their business. So whether it be finance or HR or operations or risk management or whatever, they have to provide some data on each of those. We are trying to get managers into a mind-set of reporting on a monthly basis to those three broad areas. (General Manager, Charity B)

We have our internal reporting process. I do a monthly report to my General Manager and that is a templated model that all of us as Service Managers use, that has some very quantitative data and qualitative data explaining how it is that we got to where we are. (Early Childhood Education Service Manager, Charity B)

The measured outcomes [from the ORS/SRS] go to the practice leaders, she/he can see how their team is doing and they go to the individual clinicians. (Director of Clinical Services, Charity A)

This interview data indicates that both charities disclose performance information, such as outputs and outcomes, to their internal stakeholders including the board, managers and staff members. Charity A used the ORS/SRS to measure its counselling outcomes, which are disclosed to the practice leaders, who are the managers of each region, and to staff members, who provide direct counselling services to beneficiaries.

As noted in Section 7.4, Charity B adopted an outcome measurement mechanism RBA to measure outcomes in its services and activities. Although problems are identified in the measurement practices that hinder the implementation of the mechanism (see Section 7.4.4), Charity B incorporates the RBA framework into its reporting template, and each service manager is required to disclose performance information on a monthly basis according to the three broad areas of *how much? how well? and is anyone better off?* While the RBA framework is used for internal reporting purposes, this reporting practice is also consistent with the government funders' needs for performance information as discussed in Section 6.4.3.2.

The reason given for incorporating the RBA framework into Charity B's internal reporting template is similar to the reason for adopting this outcome measurement mechanism. As discussed in Section 7.4.2.4, the RBA is a favoured mechanism to measure outcomes in the eyes of government funders. In order to gain funding opportunities, Charity B tries to align itself with the existing and potential government funders' strategies and priorities. In addition, the interviewed General Manager intends to create a mind-set of reporting performance information under the RBA framework within the organization. The internal performance information reporting practices, thus, become a taken-for-granted belief and a shared understanding that is imposed by the general manager and internalized by the service managers through monthly internal reporting. Hence, both general manager and service managers of Charity B are actively engaged in institutional work to reproduce taken-for-granted beliefs (Lawrence & Suddaby, 2006) about the need to report performance information to internal stakeholders. The next section discusses the reporting mechanisms used to disclose performance information.

8.5.2 *Reporting Mechanisms*

Figure 8-22 below demonstrates the reporting mechanisms used by both charities to disclose information within the organizations.

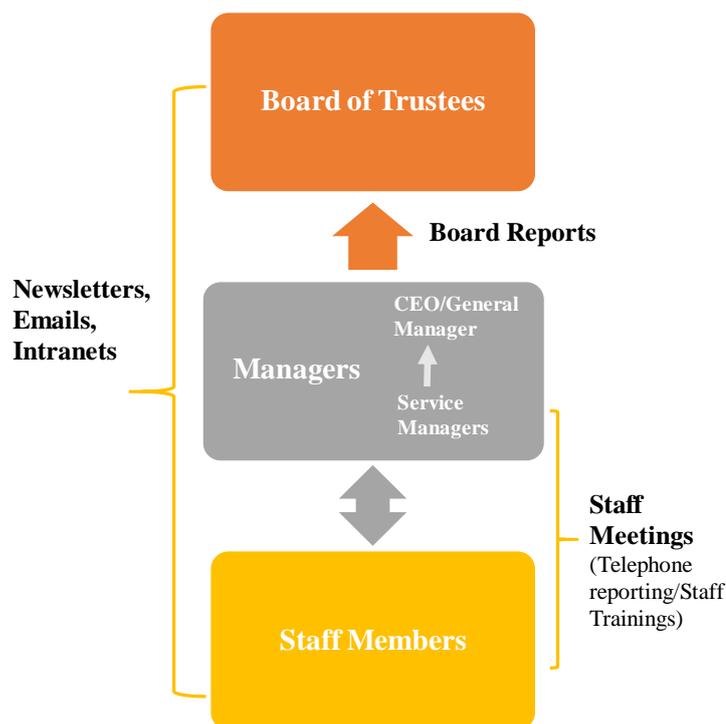


Figure 8-22: Disclosures to internal stakeholders

8.5.2.1 *Board Reports*

The following interviewees identified that both charities use reports to their board of trustees to disclose mainly performance information:

There are about 140 questions the service managers have to answer. For example, number of clients that received no support for the month, number of clients referred that were accepted, face to face contact hours...the services managers complete [these questions] each month. Then the General Manager uses these information, summarises and adds his comments to it. And that becomes his report to the Board. (Financial Manager, Charity B)

Outputs and outcomes are a means for the Board of the organisation to measure the effectiveness of the chief executive and the management of the organisation to see if they have achieved certain outputs. (Board Member, Charity A)

Each service manager writes a report for every Board meeting. For example, [the Director of Public Health] prepares a report on how his public health projects are going. (Director of Business, Charity A)

This interview data suggests that service managers prepare reports to the CEO or General Manager reporting the performance of their service areas using mainly information on outputs and outcomes. After reviewing these reports, the General Manager of Charity B and CEO of Charity A use the reporting mechanism of board reports to disclose

performance information to the Board of trustees. Such internal reporting practices discharge accountability to the boards, and allows the boards to monitor and review the performance of the charities.

8.5.2.2 *Staff Meetings*

In addition to the reporting mechanism of board reports that pass between managers and the board (see Figure 8-22 above); staff meetings are identified as another mechanism for disclosing performance information, either between managers and staff members, or between service managers, as suggested by the following interviewees:

Implementing an outcome measure is one of those things that requires considerable time and effort upfront...we talked with the counsellors about [ORS/SRS] in our staff meetings and different forums, to kind of give them some information about this. (Director of Clinical Services, Charity A)

There is the internal reporting where we are able to have discussions and it is interactive. In our team leader meetings which are monthly we talk about stories and events, and contracts and things that we are working on and how that connects with other people's work. It is great because you can put your hand up and say this has really fallen over, I do not know what I am doing but I thought it would work really well and it is not. We have got several processes for new initiatives so that we can make team decisions. I like that, because it means that we have made some collective decisions and it helps us advocate for what we believe in. (Early Childhood Service Manager, Charity B)

The interview data indicates that staff meetings or team leaders' meetings enable communication and discussion of performance information between different service areas and among staff members and service managers. The performance information includes details from outcome measurement mechanisms, such as adopting and implementing the ORS/SRS in the case of Charity A, and any issues that occurred during the service delivery. The staff meetings also provide an opportunity for the internal stakeholders of the charities to discuss any issues and make collective decisions. Nonetheless, there is a special variation to the staff meetings in Charity B, as suggested by the interviewee below:

A lot of reporting is done by telephone because the nature of the [homecare] work is they are in all these houses out in Auckland doing work, we cannot see them and we rely on them to call us and tell us what is happening. The support workers are trained and part of their training is about reporting. It is included in what is called the Code of Professional Conduct which says the expectation is that you report. (Homecare Manager, Charity B)

This interview data indicates that telephone reporting between the support workers and the service manager of homecare services is used to disclose performance information, owing to the nature of the homecare services in Charity B. Through training with respect to the appropriate reporting practices, the normative understanding of performance reporting is infused into routinized organizational practices. As such, the staff meetings, including telephone reporting, allowed managers and staff members to reinforce common normative beliefs, such as the importance of measuring outcomes, which then became the staff members' day to day routines and taken-for-granted beliefs (Lawrence & Suddaby, 2006; Scott, 2008).

8.5.2.3 *Staff Newsletters, Emails and Intranet*

In addition, Figure 8-22 also indicates that both charities adopt other mechanisms, such as staff newsletters, internal emails and the intranet, to disclose performance information to all three types of the internal stakeholders. The following quotes illustrate the use of these other reporting mechanisms:

Internal communication is part of my role. I am responsible for providing staff with information. We do that in a formal way with the Friday Flash which is a fortnightly staff newsletter. Informally maybe through emails or if necessary it is important to let people know things straightaway by having [face to face] conversations. The Board also receives a copy of staff newsletters. (Marketing Manager, Charity A)

We are just starting to look at an intranet for internal purposes on the cloud. We have been working on this for only 10 days, but it has the potential to actually have an impact on changing the way we work. It is for sharing information, a bit like Facebook in style. We are trying to load all our policies that relate to families and children, you can click on here and it will just give you 13 [policies] that relate to families and children. Here we have got the stories for staff to tell us about what is happening and going on...we have shown what we have done so far to several staff and managers and they all go away thinking I could use it for this, this and this. That is very unusual to get people inspired like that. (Financial Manager, Charity B)

Both charities share information across the organizations by exploring the potential of Information Technology, such as emails and intranet, to support internal communications and improve transparency and accountability. This notion supports Ebrahim (2010)'s idea of internal accountability, which found that membership organizations have a responsibility to their members. This study uses the concept of internal accountability to explain the conscious intentionality of the charities' internal stakeholders through which managers shape charitable missions and performance by disclosing performance information through various mechanisms continuously. The next section explains the

reasons given for disclosing performance information to internal stakeholders and for using the reporting mechanisms.

8.5.3 *Reasons for Disclosing and Using the Mechanisms*

Two reasons for disclosing information to internal stakeholders and using the reporting mechanisms are identified in this section.

8.5.3.1 *To Facilitate Organizational Learning and Improve Performance*

The following interviewees suggested that reasons for disclosing performance information to their internal stakeholders include the facilitation of internal organizational learning and the improvement of performance:

I think from a community development philosophy you need to share your knowledge, share your learning, share what you did not do well. So it is sharing the good, the bad, and the ugly so that you are seeing the greater picture then if you can learn from our mistakes or if you can learn from what we did well, then you are ultimately contributing to the social good. (Community Development worker, Charity B)

We make sure that each person that is in our employment is learning and growing in the right direction...does their professional development match with where they needed to grow? They really were not doing so well in bi-cultural and cultural. We sent them on this course, we do it again next year, have they improved? No they have not improved, well we need to rethink it. Or yes they have improved, great, now what else can we grow? (National Operations Director, Charity A)

This interview data suggests that both charities engage in some form of internal accountability. As mentioned by the interviewee of Charity B, from sharing each other's learning experiences, including mistakes made, internal stakeholders are encouraged to have interactive discussions and internal communications among managers, and between staff members and managers. The shared experiences then become normative foundations, which are infused into the charities' day-to-day routines and organizational practices, through reporting mechanisms such as staff meetings and newsletters. The internal accountability is, thus, discharged by disclosing performance information to internal stakeholders and by using the reporting mechanisms to enable accountability between actors. This suggests the embedding and routinizing form of institutional work (Lawrence & Suddaby, 2006). It also indicates conscious intentionality (Lawrence et al., 2009) exhibited by the actors (managers and staff members) within both charities to improve organizational learning and performance. For example, the managers of Charity

A constantly monitor its staff members' professional development. This is reflected in the Charity A's funding contract as follows:

Employees will have access to continuing education to support maintenance of professional registration and enhancement of service delivery/clinical practice, and to ensure practice is safe and reflects knowledge of recent developments in service delivery. (Charity A's contractual funding agreement, 2010-2013, section C13.2, p.28)

This documentary evidence suggests that staff members in Charity A are required to be equipped with continuous educational training and supervision. This is consistent with the normative foundations infused by the government funders discussed in Section 6.4.3.4. The pressures Charity A experiences could be categorized as a combination of normative and coercive isomorphic forces (DiMaggio & Powell, 1983), which constrain Charity A to report on the standards of performance measurement and reporting required by the government funder. Any progress in staff members' professional development can also be discussed in the staff meetings between staff members and their managers, to determine future areas of development for providing better services and activities. This supports the findings of Christensen and Ebrahim (2006), who considered that staff meetings were foundational for staff members to remain accountable to each other for their actions, as well as to ensure better responsiveness to clients' expectations. However, this study considers a wider range of internal accountability, in which the reporting practices are not only between staff members, but also between staff members and managers, between managers, and between managers and the board of Trustees.

8.5.3.2 *To Demonstrate Internal Accountability*

Given that Charity B originates from a religious organization and its CEO is the superintendent of the religious organization (see Section 5.5.2), a normative understanding is likely to be infused in the organization, as suggested by the interviewed CEO:

The unique thing about the religious organization is its ability to hold onto the tradition, ethos and the theological values. It is that guardian role that holds the whole organisation. (CEO, Charity B)

This interview data shows that there are normative underpinnings of Charity B. These values can be understood as a myth, which relates to the long history of Charity B, dating back to the 1850s (see Section 5.5.2.1). The interviewed CEO is a key actor who aims to sustain the myth, and then influences the practices and behaviours of other actors (other

managers and staff members) within the organization. The disclosures to internal stakeholders, and the efforts in preparing reports and organizing staff meetings, are ways of preserving the normative underpinnings of Charity B. This mythologizing work (Lawrence & Suddaby, 2006) emphasising internal accountability reporting demonstrates internal accountability to internal stakeholders. Regulators, funders and other external stakeholders do not stipulate the internal accountability reporting practices, thus, they are unrelated to the external forces that came from these stakeholders. Instead, they are based on Charity B's religious values and its intentionality to demonstrate internal accountability, and these are spread throughout by the day-to-day work (Lawrence et al., 2011) of managers and staff members in an effort to accomplish the charity's charitable purpose and mission.

In summary, the reasons given for disclosing performance information to internal stakeholders are: to facilitate internal organizational learning and improve performance of the charities, and to demonstrate internal accountability. The next section identifies perceived problems involved in these internal reporting practices.

8.5.4 *Problems Perceived by the Charities*

The previous section discussed charities A and B's reasons for disclosing to their internal stakeholders and using their reporting mechanisms. This section identifies two perceived problems with their reporting practices.

8.5.4.1 *Unsophisticated Reporting Template*

Section 8.5.1 identified that Charity B has recently changed its internal reporting template to disclose performance information. However, the following interviewee believes that the reporting template is not sophisticated, even after the change.

It is not sophisticated enough to summarise data and talk about trends and so on. I mean we could work with the Access people to develop that functionality but it costs thousands of dollars. (General Manager, Charity B)

Charity B intends to gradually improve its reporting template, rather than incur additional costs to improve it immediately, highlighting a problem of resource constraints in the internal reporting practices. Buckmaster (1999) identified that limited funding and staff expertise are common problems that restrict performance measurement, and this study finds such problems are also evident in reporting to internal stakeholders.

8.5.4.2 *Lack of Monitoring in Telephone Reporting*

Section 8.5.2 identified that telephone reporting is used to disclose performance information between support workers and the manager of the homecare services. However, problems are acknowledged in this internal reporting practice:

It is not scheduled as such that every day at 4 o'clock you ring. It is that when you see something you ring in and tell your case manager. It is an expectation. (Homecare Manager, Charity B)

If it is a two-worker client, they [the support workers] do not both need to report, so they will decide which one reports...but as to how often I cannot really say because it depends on the client and it depends how the client's feeling on the day. Normally if everything goes quite smoothly and you do not get many calls in during the day, then you know that is a good day. (Homecare Service Support Worker, Charity B)

This interview data suggests that the telephone reporting is only an expectation rather than a requirement for disclosing performance information. Although it is understandable that support workers cannot attend routine staff meetings, and telephone reporting is a necessary reporting approach, such flexibility may diminish the internal reporting practices between staff members and managers, as there is a lack of any monitoring function to ensure the completeness of the reporting practices. In addition, as mentioned by the interviewed support worker, the staff members themselves can decide which one will report, or whether or not to report. This indicates a lack of monitoring for some of the information reported and, eventually, a possible reduction in the accuracy of performance information in the homecare services. Moreover, unlike the routine of staff meetings that provide opportunities for staff members to communicate with each other, telephone reporting occurs between the service manager and individual support worker only, and does not facilitate a shared learning experience.

8.5.5 *Section Summary*

Overall this section has analysed the internal reporting practices of the case study charities. Both charities disclosed performance information to their internal stakeholders including the Board of Trustees, managers and staff members. The reporting mechanisms used include board reports, staff meetings, and other mechanisms involving Information Technology such as staff newsletters, emails and intranet. Such internal reporting practices aimed to facilitate organizational learning and improve performance, and to demonstrate internal accountability. However, an unsophisticated reporting template and

a lack of monitoring in telephone reporting were also identified in the internal reporting practices.

8.6 Chapter Summary

This chapter has addressed the first research question for this study, i.e., ‘what are the performance measurement and reporting practices of New Zealand charities?’ From the perspectives of the charities, the ‘performance reporting practices’ aspect was critically analysed. Four categories of disclosures were critically analysed: disclosures to regulators, disclosures to government funders, disclosures to other external stakeholders, and disclosures to internal stakeholders. Within each category, the disclosed information, the reporting mechanisms, the reasons for disclosing and using the mechanisms, and problems perceived by the charities with these reporting practices were identified. The next and final chapter concludes this study by summarising the key findings, discussing the implications of the findings, and identifying contributions and limitations of this study.

Chapter 9: Discussion and Conclusion

9.1 Introduction

This study has examined New Zealand charities' performance measurement and reporting practices, and the extent to which these practices address the information needs of key stakeholders. In response to a call to consider how both performance measurement and reporting practices allow charities to discharge their accountability obligations to their stakeholders (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003), this study has addressed a research gap in the literature (identified in Chapter 2), using NIS concepts of institutional isomorphism, decoupling and institutional work. As noted in Chapter 4, forty-six semi-structured interviews were conducted in order to explore the perceptions of 25 internal stakeholders, including board members, managers and staff members of the case study charities, and 21 external stakeholders, including government funders, philanthropic funders, beneficiaries and volunteers. The interview data was triangulated with documentary evidence to draw convincing and reliable findings.

This final chapter is structured as follows. Section 9.2 discusses the key findings of this study with respect to the information needs of key stakeholders, charity performance measurement practices, and charity performance reporting practices. The new insights into the existing literature that this study provides are also recognized in this section. Section 9.3 summaries the key research findings, and answers the two research questions identified in Chapter 1. This chapter also reflects on the study by comparing the key findings in the areas of information, mechanisms, NIS theoretical concepts, and identified problems. Based on this reflection, Section 9.4 highlights the contributions of the study to the existing literature, theory and practice, considers the research's limitations, and suggests directions for future research. Section 9.5 makes concluding remarks.

9.2 Discussing the Key Findings

This section discusses the key findings to highlight how they support, extend, or contradict the existing literature on the information needs of key charity stakeholders as well as that on the performance measurement and reporting practices of charities.

9.2.1 *Information Needs of Key Stakeholders*

This study has identified that the key stakeholders in the New Zealand charity sector (regulators, government funders and philanthropic funders) perceived a clear need for all

three types of information from charities: background, financial and performance information. This study also found that regulators and funders use various enforcement mechanisms, not only to ensure the provision of the required information, but also to promote and cultivate appropriate performance reporting behaviours in the sector. The information on stakeholders' expectations and requirements, and their enforcement mechanisms, are contrasted with findings in the extant literature.

9.2.1.1 *The Expected Information*

Table 9-1 provides a summary of the information expected by the regulators, government funders and philanthropic funders, and indicates which background, financial and performance information (including information on outputs and outcomes) is expected.

Key Stakeholders	The Expected Information			
	Background	Financial	Performance	
			Outputs	Outcomes
Regulators	✓	✓	✗	✗
			(for periods beginning on or after 1st April 2015)	
Government Funders	✗	✓	✓	(require the short term outcomes but also expect the long term outcomes)
Philanthropic Funders	✓	✓	✓	(require the intended outcomes but also expect the unintended outcomes)

Table 9-1: The expected information

As shown in Table 9-1, high expectations of stakeholders for the provision of information, especially financial and performance information, were identified in this study. This supports Connolly and Hyndman's (2013a, 2013b) research that investigated the information needs of individual donors in England and Wales. However, this study also extends the prior literature by considering the information needs of a wider group of stakeholders that includes regulators, government funders and philanthropic funders, where philanthropic funders included grant-making NFPs as well as individual donors. In addition, stakeholders' expectations regarding performance information were further

analysed in terms of output and outcome information. This study identified that disclosures on short-term and intended outcomes were required, but funders only expected (but did not require) disclosures on long-term and unintended outcomes (see Table 9-1 above). Also, regulators expect some charities to provide output and outcome information for periods beginning on or after 1st April 2015, but the remaining charities are not currently required to disclose this performance information. The findings of this study, thus, add to Connolly and Hyndman’s (2013a, 2013b) study, which did not consider the information needs of regulators, government funders, and philanthropic funders other than individual donors. The next section discusses the enforcement mechanisms utilised by these key stakeholders.

9.2.1.2 Reporting Enforcement Mechanisms

This study identified that key stakeholders used various enforcement mechanisms to either enforce provision of the expected information or promote and cultivate appropriate performance-reporting behaviours in order to meet their information needs better. A summary of these enforcement mechanisms is presented in Table 9-2.

Key Stakeholders	The Enforcement Mechanisms			
	Background	Financial	Performance	
			Outputs	Outcomes
Regulators	Annual Return		N/A	
	Statement of Service Performance (for periods beginning on or after 1st April 2015)			
Government Funders	N/A	Audited Financial Statement; Budget Reporting Template	Database	N/A
			International Resident Assessment Instrument; Narrative Report	
Philanthropic Funders	N/A	(Audited) Financial Statement and "Money Back" Penalty	Results-Based Accountability; Site Visit; Workshops and Additional Evaluation Funds;	
			Grant Application and Report Back Forms	

Table 9-2: The reporting enforcement mechanisms

Table 9-2 indicates that Annual Return and Statement of Service Performance (SSP) were two mechanisms used by regulators to ensure the provision of the expected information by New Zealand charities. As detailed in Chapter 6, Annual Return limited charities to providing only background, financial and input information, but the new reporting

standards require charities under Tiers 3 and 4 to complete an SSP for periods beginning on or after the 1st April 2015, by which time all three types of information (including outputs and/or outcomes) must be provided. Yet charities under Tiers 1 and 2 are currently not required to complete an SSP⁵⁵. The mechanisms used to enforce New Zealand charities' disclosure of their background and financial information were different to those used by the charities in England and Wales investigated by Connolly and Hyndman (2003, 2004). The Annual Report was identified as a statutory document that requires background and financial information from charities in England and Wales in order to meet the information needs of the Charity Commission. However, this study identifies that the Annual Return and SSP are enforcement mechanisms used by New Zealand regulators to meet their expectations for this information, which adds to the prior literature. In addition, Hyndman and McMahon (2010) highlighted that recommendations on charity performance reporting have been progressively added to the UK SORP. As identified in Chapter 2, the recently released 2015 SORP also emphasizes the provision of performance information. Although both the UK SORP and NZ SSP provide a framework that enables charities to tell their stories and explain what they achieve, the SORP has evolved through five iterations over the past 27 years, whereas the SSP is effective for periods beginning on or after 1st April 2015. This indicates that the New Zealand charity regulations, and especially their emphasis on performance information and reporting, are still at an early stage compared to those of England and Wales.

It appears that charity international regulations, including performance reporting standards or guidelines, have not converged globally. This may be due to the lack of a converged set of international charity reporting standards available for charities to use worldwide in order to discharge their accountability obligations to key stakeholders. Addressing the aspect of financial reporting, Crawford, Morgan, Cordery and Breen (2014) identified there is a need for developing international financial reporting standards for the NFP sector across the globe. This reporting standards convergence issue is also applicable to charity performance reporting. This issue is perhaps even more crucial for performance reporting, considering the charitable purpose and mission-driven nature of the charity sector. This study identified that performance measurement and reporting practices are both important aspects of how a charity discharges its accountability

⁵⁵ The New Zealand Accounting Standards Board is currently developing standards on Service Performance Reporting for Tiers 1 and 2 charities, and is intending to issue a proposed standard for comment by early 2016.

obligations. It is believed to be the first to combine these two aspects in order to shed new light on charity performance measurement and reporting issues. The findings of this study, thus, have the potential to inform future discussion of convergence and globalisation of charity regulation.

Table 9-2 also suggests that both government and philanthropic funders recognized the financial statement as a mechanism for enforcing and verifying charities' financial information. In particular, government funders required their funded charities to provide an audited financial statement, while the use of audits was not identified as a requirement of philanthropic funders. Instead, philanthropic funders used the 'money back' penalty to hold their funded charities to account. The grant application and report-back forms were also mechanisms used by philanthropic funders, not only to enforce the provision of all three types of information, but also as the major criteria used in selecting and assessing a charity's performance when deciding which charities to support. This finding contrasts with Williams and Moxham's (2009) study, which found that donors to Dutch charities did not use performance information in selecting charities to support. This highlights the fact that, although philanthropic funders, including individual donors, in New Zealand and the Netherlands may both perceive performance information as important, they differ in using this information.

As discussed in Chapters 7 and 8, the government funders of charities A and B also used mechanisms, including a budget reporting template, International Resident Assessment Instrument (InterRAI) and narrative report to ensure the charities disclose financial and performance information according to their contractual requirements. The government funder of Charity A also required the charity to develop databases in order to measure outputs of its counselling services. Moreover, as shown in Table 9-2, both government and philanthropic funders required the use of Results-Based Accountability (RBA) and site visits to ensure the provision of appropriate performance information. The use of site visits by the funders as an external monitoring mechanism to ensure compliance supports Carman (2009). However, Carman's (2009) study of US NFPs, including charities and their funders, identified that evaluators were hired by some government funders to conduct periodic site visits. Hence, this New Zealand study differs from the previous literature, as both government and philanthropic funders conducted site visits themselves to ascertain additional performance information that might not be captured in the routine performance reporting. Moreover, both government and philanthropic funders also used

mechanisms, such as workshops and evaluation funding, to cultivate appropriate performance reporting behaviours in the New Zealand charity sector.

Overall, this section has discussed the key findings of this study with respect to the information needs of key stakeholders, including regulators, government and philanthropic funders. The expected information and enforcement mechanisms were analysed, and the contributions of this study to the literature were highlighted. The next section compares the key findings regarding the studied charities' performance measurement practices with those in the extant literature.

9.2.2 Performance Measurement Practices in the Charities

This section discusses the measurement practices of the case study charities and the extent to which such practices address the information needs of stakeholders. Both charities measured not only financial and performance information designed to meet the information needs of their government funders, but also additional financial and performance information for internal governance purposes. This is because the internal stakeholder group were also revealed as an important consideration in charities' performance measurement practices. The information and measurement mechanisms used by the charities are analysed in this section with extant literature.

9.2.2.1 The Measured Information

Table 9-3 identifies that both the studied charities measured financial and performance information not only to meet their government funders' information needs in securing funding (\$), but also to improve the efficiency and effectiveness of their organization's performance in accomplishing their charitable missions (♡)⁵⁶.

⁵⁶ This symbol is used to reflect the 'heart' of the organization's purpose (see Section 7.4.4.4).

The Case Study Charities	The Measured Information					
	Financial		Performance			
			Outputs		Outcomes	
	S	♡	S	♡	S	♡
Charity A	✓	✓	✓	✓	✗	✓
Charity B	✓	✓	✓	✓	✓	✓

Table 9-3: The measured information

As illustrated in Table 9-3, financial information such as contract income, and budget versus actual expenditure was measured to meet the government funders' information needs, but additional financial information such as fundraising and administration costs was also measured. Since funders of the case study charities did not require the additional measured financial information, the charities are less likely to disclose this information to their funders. This supports Connolly and Hyndman (2013a) who identified that many charities were hesitant to disclose their administration costs ratio (administrative cost/total expenditure). However, this study identified that while the administration costs might not be disclosed to the funders of the studied charities, this financial performance aspect is measured by the charities. The measurement aspect of administration costs identified in this study, thus, adds to this prior literature. The studied New Zealand charities' measurement practice of reporting their fundraising and administration costs also extend to the view shared by Connolly, Hyndman and McConville (2013) that funders expect information on financial performance, particularly regarding fundraising and administration costs, to assess charities' efficiency. However, this New Zealand study has found that fundraising and administration costs were measured by the case study charities, not in response to their funders' information needs, but mainly for the charities' internal purpose of improving organizational efficiency and financial sustainability.

Table 9-3 also acknowledges that, while both charities measured outputs to meet their government funders' information needs, their outcome measurement practices were largely different. Unlike Charity B, which measured its outcomes in the homecare

services as required by its government funders, Charity A measured outcomes in its counselling services and public health activities without the influence of its government funder’s mandates. The measurement mechanisms used by the charities to measure their financial and performance information are discussed in the next section.

9.2.2.2 Measurement Mechanisms

As detailed in Table 9-4 below, both charities used various mechanisms to measure their performance.

The Case Study Charities	The Measurement Mechanisms					
	Financial		Performance			
			Outputs		Outcomes	
	S	♡	S	♡	S	♡
Charity A	Accounting Packages (Xero & MS Dynamics GP); Cost Centres; Budget Report Template		Clinical and Public Health Databases		N/A	Outcome Rating Scale and Session Rating Scale; Interactive Drawing Therapy; Surveys
Charity B			N/A	Access Database	N/A	Results-Based Accountability, Client-Directed Outcome-Informed
			International Resident Assessment Instrument			

Table 9-4: The measurement mechanisms

Both charities assigned their income and costs to different cost centres as a means of measuring the financial performance of different service projects. Financial performance was also measured by using accounting packages, such as Xero and Microsoft Dynamics GP, and a budget-reporting template, as indicated in Table 9-4 above. Moreover, Charity A was required by its government funder to develop databases in order to measure outputs from its counselling services and public health activities, whereas Charity B adopted the International Resident Assessment Instrument (InterRAI) imposed by its government funders to measure both outputs and outcomes in its homecare services. This finding supports the finding of Moxham and Boaden (2007) that NFPs, including charities, in the Manchester area of the UK are subject to their government funders’ requirements to measure outputs only. However, this New Zealand study has further identified that

government funders compel their contracted charities to adopt not only measurement mechanisms such as InterRAI, but also to develop their own systems to measure outputs.

Table 9-4 also highlights that a number of mechanisms were used by both charities to measure outcomes. This study found that Charity A adopted and implemented outcome measurement mechanisms, such as the Outcome Rating Scale, the Session Rating Scale (ORS/SRS) and Interactive Drawing Therapy (IDT), in its counselling services, as well as surveys in its public health activities. However, coercive forces from its government funder did not influence such outcome measurement practices. Rather, a combination of mimetic (copying a mechanism verified in the US) and normative pressures (constructing normative networks) influenced the adoption of the outcome measurement mechanisms. This finding contrast with several previous studies (MacIndoe & Barman, 2013; Moxham & Boaden, 2007; Thomson, 2010) that argue for funders' mandates as the driving force behind the measurement of charities' outcomes. Moreover, the mimetic adoption of measurement mechanisms evident in this New Zealand study supports Eckerd and Moulton (2011), who find that NFPs, including charities, are likely to adopt evaluation practices based on their perceptions of what other organizations are adopting. However, the recognition of normative forces arising from the normative networks constructed by Charity A and other organizations adds to Eckerd and Moulton's (2011) study as a further reason for adopting outcome measurement mechanisms in the charity sector.

In addition, this study also found that the willingness of staff members to measure outcomes plays a critical role in the implementation of the outcome measurement mechanisms, thus supporting the previous literature (MacIndoe & Barman, 2013; Zimmermann & Stevens, 2006). The case of Charity B further acknowledged that the support and cooperation of staff members was critical in implementing its outcome measurement mechanisms. For example, Table 9-4 shows that Charity B adopted a number of outcome measurement mechanisms, such as the RBA and CDOI, but that they were not fully implemented. This was mainly due to problems of staff resistance and resource constraints, which echoes the findings of other researchers, who include resistance from internal stakeholders who treat outcome measurement as a resource drain and a distraction (Carman & Fredericks, 2008). Capacity issues, including the increased workload required to measure outcomes adequately, may also hinder implementation of outcomes measurement (Zimmermann & Stevens, 2006). The next section discusses the performance reporting practices in the charities in terms of the extant literature.

9.2.3 *Performance Reporting Practices in the Charities*

This section focuses on the charities' practices in reporting to their stakeholders and the extent to which such practices address the information needs of key stakeholders. This study supports the extant literature on the identification of the salient stakeholders that charities are accountable to (Connolly & Dhanani, 2009; Dhanani, 2009; Hyndman & McDonnell, 2009). This prior literature suggests that regulators and funders are perceived by managers of charities to be key stakeholders with high saliency, and their information requirements and expectations are more likely to be prioritized. Other stakeholders, such as beneficiaries, volunteers and internal stakeholders are perceived to have relatively lower saliency, so their information needs are less likely to be prioritized. In order to understand performance reporting practices by the case study charities, this study considers all salient stakeholders discussed in Chapter 6, including key stakeholders (regulators, government funders and philanthropic funders), and other stakeholders including beneficiaries, volunteers and internal stakeholders. The salient stakeholders of the case study charities were classified into four categories (see Table 9-5 below), and both charities disclosed information to their salient stakeholders. The following section discusses the disclosed information and the reporting mechanisms used by the charities, and compares these findings to the existing literature.

9.2.3.1 *The Disclosed Information*

As demonstrated in Table 9-5, the salient stakeholders that the charities are accountable to include *external* stakeholders such as regulators, government funders, and other external stakeholders (including philanthropic funders, beneficiaries and volunteers), as well as *internal* stakeholders such as the Board of Trustees, managers and staff members.

The Case Study Charities	Accountability To Whom	The Disclosed Information			
		Background	Financial	Performance	
				Outputs	Outcomes
Charity A	Regulators	✓	✓	✗	✗
	Government Funders	✗	✓	✓	✓
	Other External Stakeholders	✓	✓	✓	✓
	Internal Stakeholders	?	?	✓	✓
Charity B	Regulators	✓	✓	✓	✓
	Government Funders	✗	✓	✓	✓
	Other External Stakeholders	✓	✓	✓	✓
	Internal Stakeholders	?	?	✓	✓

Table 9-5: The disclosed information

Table 9-5 shows that the case study charities disclosed similar information to their stakeholders. For example, background information was disclosed to regulators and other external stakeholders, financial information was disclosed to all external stakeholders, and performance information was mostly disclosed to all stakeholder groups. It is reasonable to assume that internal stakeholders, such as managers of the charities, prepared background and financial information to be reported to external stakeholders, thus, they have access to this information. This study identified that both charities disclosed performance information, including output and outcome information, to their internal stakeholders that may not be available to the external stakeholders. Hence, the disclosure of performance information holds the charities accountable to their internal stakeholders, and whether disclosure of background and financial information discharges a similar internal accountability currently, remains questionable.

Despite the fact that regulators did not require performance information prior to periods beginning on or after the 1st April 2015, Charity B disclosed performance information in an effort to gain legitimacy from other stakeholders, such as potential funders and volunteers, who may access the Charities Register. The reporting practice of disclosing

additional information is an intentional action undertaken by the charity to raise support. Hyndman and McDonnell (2009) highlighted that government regulation could be a way of addressing the problem of information asymmetry between the internal and external stakeholders of charities. The practice of reporting additional information to regulators identified in this study, could be another way of addressing the problem of information asymmetry, thus adding to Hyndman and McDonnell's suggestion (2009). Moreover, the disclosure of financial information to the other external stakeholders supports Connolly and Hyndman (2013b), who identify the audited financial statements as the most frequently disclosed information type for England and Wales charities. However, this study found that the disclosed financial information was mainly in the form of an overview or summary, rather than the complete audited financial statements.

The observations on the charities' practices in reporting to a wide range of stakeholders supports Cordery, Baskerville and Porter (2010). Their study of NFP primary health organizations in New Zealand found that some of their studied organizations discharged accountability to a range of stakeholders, including the primary health organizations' funders, General Practice providers, other organizations working in the wider health sector, patients and communities. This study extends this literature by further considering the accountability of the case study charities to their internal stakeholders. Through examining internal accountability (Ebrahim, 2010) in the context of New Zealand charities, this study identified that both charities have "conscious intentionality" (Lawrence et al., 2009) in disclosing performance information to their Board of trustees, managers and staff members. The reporting mechanisms used by the charities are discussed and compared to those found in the extant literature in the next section.

9.2.3.2 Reporting Mechanisms

Table 9-6 identifies a number of reporting mechanisms used by both of the studied charities to disclose background, financial and performance information (including outputs and outcomes) to their stakeholders. Although some reporting mechanisms are similar among the case study charities, differences also existed, especially for the disclosures to regulators and government funders.

The Case Study Charities	Accountability To Whom	The Reporting Mechanisms			
		Background	Financial	Performance	
				Outputs	Outcomes
Charity A	Regulators	Annual Returns, Audited Financial Statements		N/A	
		Websites; Newsletters and Media Releases			
	Government Funders	N/A	Budget Reporting Template; Audited Financial Statements	Narrative Reports; Cooperated with Site Visits	
	Other External Stakeholders	Grant Application and Report Back Forms; Annual Reports; Websites; Newsletters; Media Releases			
		N/A	(Audited) Financial Statements	N/A	
Internal Stakeholders	N/A		Board Reports; Staff Meetings; Newsletters; Emails; Intranets		
Charity B	Regulators	Annual Returns; Audited Financial Statements; Annual Reports; Websites; Newsletters; and Media Releases			
	Government Funders	N/A	Audited Financial Statements	Narrative reports; International Resident Assessment Instrument; Informal Disclosures	
	Other External Stakeholders	Grant Application and Report Back Forms; Annual Reports; Websites; Newsletters; Media Releases			
		N/A	(Audited) Financial Statements	Accessed Additional Evaluation Support	
	Internal Stakeholders	N/A		Board Reports; Staff Meetings; Newsletters; Emails; Intranets	

Table 9-6: The reporting mechanisms

As indicated in Table 9-6, the mechanism of Annual Returns, required by the regulator (DIA-CS), was used by the charities to disclose background and financial information. The charities also disclosed additional financial information in the reporting mechanism of audited financial statements, and Charity B used annual reports to disclose its performance information while filing the Annual Returns. Moreover, both charities used other reporting mechanisms such as websites, newsletters, and media releases to disclose additional information that regulators could access. These disclosures of additional financial and performance information are not required by the regulators, but are aimed at gaining legitimacy in the eyes of potential donors and volunteers.

A number of reporting mechanisms such as a budget-reporting template and audited financial statements were used by the charities to disclose financial information, and narrative reports, cooperated with site visits and InterRAI were used to disclose performance information to their government funders. Such reporting practices were in accordance with their contractual requirements. The use of narrative reports confirms Connolly, Hyndman and McConville's (2013) suggestion that monitoring reports

including narrative reports might be required by government funders to disclose the funded charities' progress in terms of outcomes.

As indicated in Table 9-6, both charities disclosed all three types of information to their other external stakeholders through the reporting mechanisms of grant application and report-back forms, (audited) financial statements, accessing additional evaluation support, annual reports, websites, newsletters and media releases. This is similar to findings from other research (Connolly & Dhanani, 2009; Connolly & Hyndman, 2013b; Saxton & Guo, 2011). The reporting practice in the annual reports identified in this study is similar to the story-based approach of the annual review identified by Connolly and Dhanani (2009). However, the annual review, which is voluntary in England and Wales, is not a common voluntary disclosure mechanism in New Zealand, and the annual report is not a statutory requirement but a voluntary reporting mechanism in New Zealand.

With respect to internal accountability practices, both of the studied charities used the reporting mechanisms of board reports, staff meetings, and other mechanisms that involve information technology (such as staff newsletters, emails and intranets) to disclose performance information. The identification of staff meetings as a reporting mechanism supports Christensen and Ebrahim (2006), who found that staff meetings are a fundamental factor in staff members remaining accountable to each other for their actions, as well as in ensuring better responsiveness to clients' expectations. However, this study identified that the staff meetings were between staff members and their managers, rather than among staff members only, and were used to discuss performance information and to improve organizational performance.

The key contributions of this study to the existing literature with respect to the performance reporting practices of NFPs, including charities, are in two areas. First, the use of informal disclosures was identified in the case of Charity B as a means of gaining trust from its government funders, and this adds a dimension to the government funder/charity accountability relationship that has not been noted in the prior charities literature. Such a trust-enhancing accountability supports Cordery, Baskerville and Porter's (2010) study that also found a trusting relationship between funder and provider, but the mechanism of the informal disclosure identified in this study is new to the prior literature. Second, this study also found that both charities consciously disclosed performance information to their internal stakeholders as a means of discharging internal accountability.

This section has discussed the key findings of this study to highlight how they support, extend or contrast with the existing literature in the areas of charities' key stakeholders' information needs, and of performance measurement and reporting practices in charities. The next section summarises the key research findings to answer the research questions of this study.

9.3 Answering the Research Questions

Chapter 1 highlighted two research questions that this study set out to answer. The first investigated the performance measurement and reporting practices of charities. This research question was addressed in Chapters 7 and 8 in which the performance measurement and reporting practices of the case study charities were critically analysed from the perspectives of the charities. In Chapter 7, the measured information, the measurement mechanisms, the reasons for measuring and using the mechanisms, and problems perceived by the charities with these measurement practices were identified. Similarly, the disclosed information, the reporting mechanisms, the reasons for disclosing and using the mechanisms, and problems perceived by the charities with these reporting practices were investigated in Chapter 8.

The second research question examined the information needs of key stakeholders, and the extent to which the performance measurement and reporting practices of the charities address these information needs. This question was explored in Chapters 6, 7 and 8. Chapter 6 specifically examined the information needs of key stakeholders, in particular their expectations and requirements for three types of information, namely background, financial and performance information. The expected and required information, the reasons for these expectations and requirements, the enforcement mechanisms used and perceived problems from the stakeholders themselves, were investigated from the perspectives of key stakeholders. Moreover, Chapters 7 and 8 recognized the extent to which the performance measurement and reporting practices of the charities address the key stakeholders' information needs.

9.3.1 *Research Question One*

The first research question the study addressed was 'What are the performance measurement and reporting practices of New Zealand charities?'

This study found that both the studied charities measured financial and performance information, including outputs and outcomes, by employing various measurement

mechanisms. Their practices in measuring performance information were mainly in line with the information needs of their government funders. However, a high degree of “conscious intentionality” (Lawrence et al., 2009) was evident in both charities’ decisions to purposely measure additional financial performance and outputs, with an intention to evaluate the efficiency of their service performance. In addition, the charities also adopted a number of outcome measurement mechanisms. Charity A implemented mechanisms under a combination of normative and mimetic pressures, while Charity B did not fully implement some outcome mechanisms, such as RBA and CDOI. Problems perceived by the charities with these outcome measurement practices included resource constraints and staff resistance, dishonest feedback from beneficiaries, misunderstanding the funding contract, and misalignments between the contractual requirements and missions.

This study also found that the charities disclosed information to their regulators, government funders, other external stakeholders (including philanthropic funders, beneficiaries and volunteers), and internal stakeholders, such as the Board of Trustees, managers and staff members. Various reporting mechanisms were used by the charities to disclose background, financial and performance information. Regulators and government funders enforced some reporting mechanisms, such as Annual Returns (filed in the charities register) and audited financial statements, while the charities also voluntarily adopted other reporting mechanisms. For example, Charity B used informal disclosures to gain the trust of its government funders, which revealed a new dimension to the government funder/charity accountability relationship that has not been discussed in the prior literature. The charities also used reporting mechanisms, such as staff meetings, to disclose performance information, including outputs and outcomes, to their internal stakeholders as a means of achieving internal accountability.

Overall, both of the studied charities not only conformed to external institutional pressures in measuring and reporting information to gain legitimacy in the eyes of their stakeholders, but also undertook various forms of institutional work aimed at preserving their charitable missions in the face of external accountability demands.

9.3.2 *Research Question Two*

The second research question addressed by this study was ‘How do the performance measurement and reporting practices of New Zealand charities address the information needs of key stakeholders?’

This study identified high expectations of regulators, philanthropic and government funders regarding all three types of information, namely background, financial and performance information. In order to ensure the provision of the required information, various reporting enforcement mechanisms were utilised by the stakeholders. For example, the Annual Return was an enforcement mechanism used by the regulator to ensure that charities provide background, financial and input information. Moreover, performance information on short term and intended outcomes was required by government funders, but philanthropic funders expected long term and unintended outcomes. Both government and philanthropic funders also actively engaged in forms of institutional work to promote and cultivate what they considered appropriate performance reporting behaviours in the New Zealand charity sector, as well as enforcing the provision of performance information that meets their information needs.

This study also found that both charities measured financial performance and outputs, and disclosed this information to meet the information needs of their stakeholders, particularly their government funders. With respect to outcome measurement, Charity B measured the outcomes of its homecare services by using the International Resident Assessment Instrument enforced by its government funders. Conversely, Charity A measured the outcomes of its counselling services and public health activities, but the outcome measurement practices were not undertaken to meet its funders and regulators' information needs. Rather, outcome measurement was seen as a means of ensuring the accomplishment of its charitable purpose and mission. With respect to performance reporting, both charities disclosed the required and expected information to their key stakeholders, and used reporting enforcement mechanisms imposed by these stakeholders. For example, a budget reporting template, audited financial statements and narrative reports were used to disclose background, financial and performance information, in accordance with their government funders' requirements. In sum, the measurement and reporting practices of the studied charities were aligned with the information needs of their stakeholders.

9.4 Reflecting on the Findings

The previous section summarised the key findings identified in this study to answer the research questions. This section reflects on the key findings by comparing and contrasting the information needs of key stakeholders, and the performance measurement and reporting practices of the charities designed to address research question two, and to

further highlight the contributions of this study to existing literature, theory and practice. It also considers the limitations of this study and identifies opportunities to conduct future research.

9.4.1 *Reflecting on the Information*

As illustrated in Table 9-7 below, the information expected by key stakeholders can be compared with the information measured and disclosed by the case study charities. For example, key stakeholders expected the background information and, while it involved no measurement, both charities disclosed the information to their stakeholders.

Key Stakeholders		The Case Study Charities	
The Expected Information		The Measured Information	The Disclosed Information
Regulators*	Background	N/A	✓
	Financial	✓	✓
	Outputs*	✓	✓
	Outcomes*	Charity B ✓ Charity A ✓	Charity B ✓ Charity A ✗
Government Funders	Financial	✓	✓
	Outputs	✓	✓
	Outcomes	Charity B ✓ Charity A ✓	Charity B ✓ Charity A ✓
Philanthropic Funders	Background	N/A	✓
	Financial	✓	✓
	Outputs	✓	✓
	Outcomes	Charity B ✓ Charity A ✓	✓

Table 9-7: The gaps between provision of and needs for the information⁵⁷

Although the provision of and needs for different types of information are largely aligned, gaps are apparent with respect to information on outcomes. The identification of gaps between the information disclosed and information needs supports Connolly and Hyndman's (2013b) recent study of UK fundraising charities' reporting practices and the

⁵⁷ As discussed in Section 9.2.1, the New Zealand Accounting Standards Board is currently developing standards on Service Performance Reporting for Tiers 1 and 2 charities, and is intending to issue a proposed standard for comment by early 2016. Hence, the symbol * indicates that New Zealand regulators currently do not require the case study charities (Tier 2 charities) to provide any information on outputs and outcomes.

information needs of their funders. However, this study further examined the measurement practices of charities, and distinguished the measurement and reporting of outputs and outcomes from performance information in general, which adds to the findings from Connolly and Hyndman's (2013b) study.

Table 9-7 shows that while Charity A adopted and implemented various outcome measurement mechanisms in its counselling services and public health activities, Charity B measured only outcomes in its homecare services and the other adopted outcome measurement mechanisms were identified as being not fully implemented (this is represented by using the symbol \checkmark in Table 9-7). However, Charity A did not disclose information on outcomes to the regulators and disclosed only limited outcome information for its public health activities via narrative reports to its government funders. This partial disclosure is also captured by the symbol \checkmark in Table 9-7. The gaps between the provision of, and needs for, information on outcomes were not due to Charity A's inability to measure and disclose such information. They are more likely to occur because of a misunderstanding with the funding contract, and Charity A's prioritizing the accomplishment of its charitable purpose and mission over fulfilling its contractual requirements. In addition, Charity A perceived that regulators did not require information on outcomes, so it was unnecessary to disclose this information. The differences between the outcome measurement and reporting practices, as well as the needs for outcome information identified in this study add to the outcomes measurement literature (Alexander et al., 2010; Barman & MacIndoe, 2012; Benjamin, 2012; Buckmaster, 1999; MacIndoe & Barman, 2013; Morley et al., 2001; Plantz et al., 1997; Thomson, 2010), which in general focuses on only the outcome measurement practices of NFPs, including charities, without considering the aspect of outcome reporting practices.

Whilst there have been previous studies investigating NFP performance measurement and reporting issues, the aspects of performance measurement and performance reporting have been examined separately in the past. This study is believed to be the first to examine both aspects together with consideration of the information needs of key stakeholders. It thus makes a significant contribution to the understanding of charity performance measurement and reporting issues.

9.4.2 Reflecting on the Mechanisms

The information needs of key stakeholders in New Zealand were examined in Chapter 6, to gain understanding of their expectations of charity accountability. The specific

requirements of the case study charities' government and philanthropic funders were also investigated in Chapters 7 and 8. Table 9-8 below compares the reporting enforcement mechanisms used by key stakeholders to compel charities to report appropriate information, and the reporting mechanisms used by the case study charities. Some enforced reporting mechanisms are currently applicable to the case study charities, and the others are applied to other charities in the New Zealand charity sector. Nonetheless, the studied charities voluntarily adopted mechanisms do not even currently apply to them. For example, Charity B adopted the result-based accountability, which was not required by its funders, to measure its outcomes. Moreover, both of the studied charities may also take up more mechanisms that are not currently required, in the future to enhance their performance reporting and accountability.

Key Stakeholders	The Expected Information	Reporting Enforcement Mechanisms		Reporting Mechanisms Used by the Case Study Charities
		Not Currently Applicable to the Case Study Charities	Currently Applicable to the Case Study Charities	
Regulators	Background	N/A	Annual Returns	Annual Returns
	Financial			Annual Returns; Audited Financial Statements
	Outputs	Statements of Service Performance (applicable for periods beginning on or after 1st April 2015)	N/A	Annual Reports; Websites; Newsletters; Media Releases
	Outcomes			
Government Funders	Financial	N/A	Audited Financial Statements; Budget Reporting Template	Audited Financial Statements; Budget Reporting Template
	Outputs	Results-Based Accountability; Workshops and Additional Evaluation Funds	International Resident Assessment Instrument; Site Visits; Narrative Reports	International Resident Assessment Instrument; Cooperated with Site Visits; Narrative Reports; Informal Disclosures
	Outcomes			
Philanthropic Funders	Background	N/A	Grant Application and Report Back Forms	Grant Application and Report Back Forms
	Financial	"Money Back" Penalty	Grant Application and Report Back Forms; (Audited) Financial Statements	Grant Application and Report Back Form; (Audited) Financial Statements; Annual Reports
	Outputs	Results-Based Accountability; Site Visits; Workshops	Grant Application and Report Back Forms; Additional Evaluation Funds	Grant Application and Report Back Forms; Accessed Additional Evaluation Support; Annual Reports; Websites; Newsletters; Media Releases
	Outcomes			

Table 9-8: Comparing the reporting enforcement and reporting mechanisms

Table 9-8 shows that the reporting enforcement mechanisms used by key stakeholders and the reporting mechanisms used by the case study charities largely aligned, but the charities voluntarily adopted additional mechanisms to disclose more information than required.

The regulators required charities to use the Annual Return in reporting background and financial information, but the studied charities used not only the Annual Return to ensure that the information needs of the regulators on background and financial information are met, but also additional reporting mechanisms, such as audited financial statements, to disclose further financial information. In addition, the statement of service performance imposed upon Tiers 3 and 4 charities to provide performance information is not currently applicable to the Tier 2 case study charities. Thus, the charities are currently not required to disclose any information on outputs and outcomes to their regulators. However, they used annual reports, websites, newsletters, and media releases as reporting mechanisms to disclose this performance information voluntarily.

In regard to government funders' enforced reporting mechanisms and those used by case study charities (see Table 9-8), both of the studied charities adopted the reporting enforcement mechanisms, such as audited financial statements, budget reporting template, InterRAI and narrative reports, to meet their government funders' information needs. Charity A also cooperated with its government funder's site visits to conduct service audits, and Charity B engaged in informal disclosures to gain trust from its government funders. Similarly, both of the studied charities used grant application and report-back forms to disclose background, financial and performance information, and employed (audited) financial statements as required by their philanthropic funders. They also adopted other mechanisms, including annual reports, websites, newsletters and media releases, and accessed additional evaluation support, to disclose information. Hence, the reporting mechanisms imposed by key stakeholders and used by the charities largely aligned, but the charities employed additional reporting mechanisms. This reveals the "conscious intentionality" (Lawrence et al., 2009) of the charities aimed at gaining legitimacy and trust from their key stakeholders. Drawing on the concept of institutional work, this study contributes to prior literature concerning forms of disclosure (Connolly & Dhanani, 2009; Connolly & Hyndman, 2013a, 2013b; Connolly et al., 2013). This prior literature has generally highlighted what charities should disclose in particular forms, but

this study has identified more reporting mechanisms that were adopted voluntarily by the studied charities to disclose additional financial and performance information.

As discussed in Section 9.2.2, this study identified a number of measurement mechanisms used by the case study charities, which are not included in Table 9-8. This is because key stakeholders did not explicitly require charities to adopt particular measurement mechanisms. The only exception is the InterRAI, as both a measurement and reporting mechanism that was imposed by the government funders of Charity B to enforce the provision of output and outcome information. Hence, no direct comparison can be made here. This highlights a lack of guidance on measurement practices in the New Zealand charity sector. For example, the outcome measurement mechanisms, which included the RBA, CDOI, ORS/SRS, IDT and Surveys, were not enforced by any external stakeholders but were voluntarily adopted and/or implemented by the charities in order to improve their performance and accomplish their charitable purpose and missions. This study highlights a concern that, in the absence of identifiable measurement mechanisms in the New Zealand charity sector, charities voluntarily measure outcomes via various mechanisms, but these outcome measures might not be consistent with the information needs of key stakeholders and the reporting practices of the charities. This concern is exacerbated for Tiers 3 and 4 charities that are less likely to consider voluntarily adopting these measurement mechanisms. As highlighted by Connolly and Dhanani (2009, p. 62), charities need to “measure performance internally before it can be reported externally”. Therefore, the findings of this study suggests that regulators and funders should focus more on charities’ measurement practices, including suggesting acceptable measurement mechanisms.

9.4.3 Reflecting on the NIS Theoretical Concepts

This section reflects on how the key NIS concepts such as institutional isomorphism and institutional work can be applied to understanding the charities’ performance measurement and reporting practices. Coercive isomorphism (DiMaggio & Powell, 1983) was identified as a dominant force in shaping the charities’ performance measurement and reporting practices, more so than the normative and mimetic isomorphism (DiMaggio & Powell, 1983) exerted by stakeholders to ensure that required information was provided. Such pressures influenced the charities’ measurement and (more particularly) the reporting practices to the regulators and funders, who held absolute power to coerce and punish charities that failed to meet their information needs.

This study also used the cultural-cognitive pillar of institutions (Scott, 2008) to explain what appeared to be a high level of trust in the New Zealand charity sector and its internal reporting practices related to performance information. The philanthropic funders' apparent trust supports Bekkers and Wiepking (2011), who acknowledged that trust derives from altruism: a well-identified motive for charitable giving. However, this study found that funders' trust was established via a process of due diligence such as reviewing various documents provided by the funded charities, and informal disclosures that affected positive channels of communication between Charity B and its funders.

Moreover, this study has gone beyond the usual standard application of NIS relating to three forms of institutional isomorphism. Drawing on recent developments in NIS with respect to institutional work, new insights were identified which thus contribute to theory on performance measurement and reporting practices related to NFPs, including charities. This study found that the studied charities not only conform to the external institutional pressures in measuring and reporting information to gain legitimacy in the eyes of stakeholders, they have also undertaken various institutional work aimed at accomplishing their charitable purposes and missions. Both government and philanthropic funders also actively engaged in forms of institutional work, such as policing, to promote and cultivate what they considered appropriate performance reporting behaviours in the New Zealand charity sector, as well as enforcing the provision of performance information that meets their information needs.

Table 9-9 indicates that the types and forms of institutional work evident in this study centred on the categories of creating and maintaining institutions.

Institutional Work	Types of institutional work	Forms of institutional work	Stakeholders and the case study charities
Creating Institutions	Changes in norms and belief systems	Constructing identities	Charity B
		Constructing normative networks	Charity A
	Alter abstract categorizations	Mimicry	Philanthropic funders
Maintaining Institutions	Ensuring adherence to rule systems	Policing	Government and philanthropic funders
	Reproducing existing norms and belief systems	Embedding and routinizing	Government and philanthropic funders; Charity A and B
		Valourizing and demonizing	Charity A
		Mythologizing	Charity B

Table 9-9: The types and forms of institutional work used in this study

As indicated in Table 9-9, this study identified two forms of institutional work undertaken by the case study charities aimed at creating institutions. These were constructing identities and constructing normative networks intended to change the existing norms and belief systems. For example, Charity B became involved in commercial activities (property investment activities) in order to achieve financial sustainability, and this provided a new identity of commercial responsibility to the institution, in addition to its existing social responsibility for achieving its charitable mission. This finding supports Carroll and Stater's (2009) study in which a diversified revenue portfolio for NFPs, including charities, was identified as a way to increase organizations' chances of survival. This study extends the prior literature by identifying that the commercial activities of Charity B not only improved its financial sustainability, but also contributed to its charitable mission. Moreover, the institutional work of mimicry was also evident in the philanthropic funders' mimicking of an outcome measurement mechanism promoted by the government funders to reduce uncertainty. This form of institutional work is similar to mimetic isomorphism, but the emphasis is on the intention and effort of the philanthropic funders, rather than the pressures or forces they exert on the charities.

Table 9-9 also highlights four forms of institutional work aimed at maintaining institutions. Both government and philanthropic funders used policing work, i.e. enforcement, auditing and monitoring, to ensure their funded charities provided

appropriate financial and performance information. In addition, the funders also actively infused the normative foundations of appropriate performance reporting practices (via the mechanism of workshops) into the funded charities' day-to-day performance measurement and reporting routines and practices. The institutional work of embedding and routinizing was undertaken by the funders to promote and cultivate appropriate performance reporting behaviours in the New Zealand charity sector. Embedding and routinizing forms of institutional work were also evident in the case study charities in their measuring of additional financial and non-financial performance, and their disclosing of performance information to internal stakeholders. Moreover, Charity A consciously engaged in valourizing and demonizing work such as disclosing information on its website regarding its policy development activities to demonstrate its authority in providing addiction services and to enhance its organizational profile and credibility. In addition, based on its religious values and beliefs, Charity B undertook the mythologizing work to infuse normative understandings, such as religious ethos and theological values in a form of charitable purpose and mission, to demonstrate internal accountability.

No institutional work aimed at disrupting institutions was identified in this study. Nonetheless, as noted in Section 7.4.4.3, Charity A has undertaken institutional work that prioritized its mission accomplishment activities over its contractual requirements, which resulted in a tarnished reputation in the eyes of its government funder, thus unintentionally disrupting the institution. A proposed funding cut by the funder of Charity A was an unintended consequence. This finding supports Carman (2009), who identified that personal relationships, reputation and trust are amongst a myriad of factors that funders use to make their funding decisions.

9.4.4 Reflecting on the Identified Problems

Through reflecting on the problems identified by the stakeholders and the case study charities with respect to measuring and reporting information (see Table 9-10), this section highlights some further contributions of this study to literature, theory and practice.

Stakeholders	Perceived Problems	The case study charities		
		Problems in Measuring	Problems in Reporting	
Regulators	call for more engagement from the regulators to infuse the appropriate performance measurement and reporting practices.	1) <i>Financial Measurement</i> - the going concern assumption and inaccurate allocations of cost centres; 2) <i>Output Measurement</i> - inaccurate and in effective output measures; 3) <i>Outcome Measurement</i> - resource constraints and staff resistances; dishonest feedback from beneficiaries; misunderstanding the funding contract (Charity A); misalignments between the contractual requirements and charitable missions.	discrepancy between the financial information provided in the Annual Returns and the Audited Financial Statements. (Charity B)	
Government Funders	the funding contracts are largely output-driven but government funders have strong needs for information on outcomes.		1) Inconsistency between the needs for information on outcomes and the absence of specifying outcome information as a contractual requirement; 2) time-consuming and onerous nature of narrative reporting; 3) unwillingness to report information (Charity A)	
Other external stakeholders	Philanthropic Funders		1) it is difficult to determine the performance information needs of beneficiaries; 2) narrative reporting is too time consuming; 3) philanthropic funders' trust could reduce the need to provide performance information.	It is difficult to capture the life-changing stories of beneficiaries.
	Beneficiaries			
	Volunteers			
Internal Stakeholders	N/A		1) resource constraints in developing a sophisticated internal reporting template; 2) lack of monitoring in telephone reporting	

Table 9-10: Problems identified by the stakeholders and the charities

Table 9-10 highlights three key problems that were identified by both stakeholders and the charities. The first problem is that the contractual funding agreement with government funders is largely output-driven, but both government funders and the charities have strong needs for information on outcomes. Section 7.4.4.4 critically analysed the relationships between the contractual requirements and the charities' outcome measurement practices, and inquired whether the charities attain their goals of accomplishing their charitable purpose and missions and securing funding. This study found misalignments between the contractual requirements of the government funders and the charities' distinctive charitable purpose and missions, and both types (policy-practice and means-ends) of decoupling were identified in the outcome measurement practices of the charities. This finding builds on the analysis of Bromley and Powell (2012), but also adds another dimension to their analysis that is the mission-driven nature of the charities' focus on achieving their charitable purpose.

The second problem was that it is difficult to capture the needs of beneficiaries and their life-changing stories. This finding is consistent with previous research (Connolly & Hyndman, 2013b; Connolly et al., 2009) and is identified as a useful focus for future research.

Further, consistent with previous research into the area of NFPs' performance measurement (Buckmaster, 1999; Carman & Fredericks, 2008; Zimmermann & Stevens, 2006), resource constraints were also identified as a problem in the measurement and reporting practices of the charities. Such constraints hindered the implementation of outcome measurement and the development of an internal reporting template. However, the prior literature focuses only on the measurement practices of NFPs, including charities, thus the resource constraints identified in the reporting practices of the case study charities add to the prior literature.

9.4.5 *Contribution to Practice*

This section discusses the contributions the findings of this study provide to practice. The following recommendations are made to two groups of salient stakeholders: regulators and funders, and internal stakeholders.

9.4.5.1 *Regulators and Funders*

As noted in Section 9.4.2, the reporting enforcement mechanisms imposed by key stakeholders (regulators and funders) and the reporting mechanisms used by the case study charities largely aligned, but there was a lack of guidance on the acceptable measurement mechanisms. This study identified that both performance measurement and performance reporting are important aspects of how a charity discharges its accountability obligations to its stakeholders. The lack of emphasis on the importance of measurement practices may lead to inefficient and ineffective performance reporting. There is a need for bridging the gaps between performance reporting and performance measurement practices. A better alignment of measuring and reporting performance information is required so that regulators and funders can adjust their priorities and information needs, and charities can better meet these stakeholders' information needs. It is thus important for both regulators and funders to strengthen their roles in pushing for more appropriate performance measurement and reporting practices in the New Zealand charity sector.

This study also found two problems relating to government contracting. One is output-based government contracting. While Chapter 6 noted that there was a shift from an

output-based to an outcome-based contracting, the existing contractual funding agreements were still largely outputs-driven (see Chapters 7 and 8). This inconsistency between the increasing needs for outcome measures by both charities and government funders, and the absence of outcome reporting requirements, limited charities' reporting on outcomes and restricted their ability to demonstrate accountability. The other problem related to narrative reports enforced by government and philanthropic funders, which perhaps are a starting point to require information on outcomes. However, both of the studied charities perceived the standardized narrative reporting templates as being time-consuming and onerous for reporting their outcome information. It would be useful for both government and philanthropic funders to revisit their funding contracts and narrative reporting templates, or to consider this problem when preparing new funding contracts. This study suggests that funders should consider allowing outcome reporting in a relatively flexible template, with a maximum word count.

9.4.5.2 *Internal Stakeholders*

The internal stakeholders of the studied charities perceived that resource constraints and staff resistance were two main problems that hindered their performance measurement and reporting practices. This study identified that many funders started to provide additional evaluation funds or support, and charities actively engaged in various commercial activities to improve their financial sustainability. However, it appears that the commercial income was used mainly to deliver additional services rather than to improve performance measurement and reporting practices. It would be useful for internal stakeholders (the boards and managers) to secure some evaluation funds (for carrying out training) to improve their staff members' understanding of the importance of performance measurement and reporting. This may also reduce the problem of staff resistance to measuring and reporting outcomes. As mentioned by an interviewee of Charity A, "some of them [staff members] did not like the idea [of measuring outcomes], but think it is great now". The process of outcome measurement can be difficult and time-consuming, and it is, therefore, important for internal stakeholders to understand the rationale and significance of measuring and reporting outcomes.

9.4.6 *Limitations and Future Research*

This section identifies limitations of this study and suggests areas for future research.

9.4.6.1 *Regulators and Funders*

This study is the first step towards examining both performance measurement and performance reporting practices experienced by the two New Zealand case study charities in discharging their accountability obligations. At the time of this study, the statement of service performance was introduced as a new reporting mechanism to enforce Tiers 3 and 4 charities to disclose their performance information, but the reporting standard for Tier 2 charities, where the case study charities are situated, is still under development. This highlights an area for future research to examine other charities in New Zealand, and charities in other countries, to draw additional critical analyses in order to further understand charity performance measurement and reporting issues. A new research project could identify any changes in the performance reporting practices of Tier 2 charities, including the case study charities, after the new reporting standards are fully developed and issued. Similarly further research could conduct on Tiers 3 and 4 charities' reporting practices and challenges in implementing the statement of service performance to meet the regulators' information needs.

The interviewed government and philanthropic funders demonstrated different expectations regarding the reporting enforcement mechanisms. However, some of the enforced mechanisms were different from the mechanisms required by the case study charities' funders. For example, two interviewed government funders emphasized the Results-Based Accountability framework as an essential mechanism for enforcing the reporting of performance information, but no government funder of the studied charities required this mechanism.

As discussed in Chapter 4, this study aimed to gain understandings of experiences and perceptions of actors within two charities and their stakeholders in the New Zealand charity sector. To explore the research questions and capture the richness of data, broader external stakeholders, including government and philanthropic funders are included and various documentary evidence was analysed, to identify the expectations of the case study charities' funders. While this choice of broader stakeholders provided rich data from which to draw convincing and reliable findings, future studies in this area may consider interviewing more government funders, or selecting only government funders of the charities, in order to draw direct comparisons.

Despite the fact that philanthropic funders were considered as important stakeholders to the both the studied charities, these stakeholders were perceived as less salient, or “other external stakeholders” (see Section 8.4) by the charities. This is because both charities were funded predominately by government funders and, consequently, the government funders’ information needs and enforced reporting mechanisms were more likely to be prioritized over the needs and reporting mechanisms of philanthropic funders. This highlights a potential new research area, where charities’ focus is reliant on philanthropic funding. In such circumstances, it would be useful to compare the expected information and reporting enforcement mechanisms imposed by philanthropic funders, and the disclosed information and reporting mechanisms used by the charities. Moreover, as identified in Section 9.2.1.2, the findings of this study contrast with Williams and Moxham’s (2009) study, and philanthropic funders are identified to have differing practices in using performance information in New Zealand and the Netherlands. This observation highlights a need to further examine why philanthropic funders in different countries might perceive the importance of performance information differently, and how this perception might influence their funding practices.

9.4.6.2 *Beneficiaries and Volunteers*

Four interviews were conducted to gain understandings from beneficiaries and volunteers. Although some insights were gained from the perspectives of these stakeholders on the studied charities’ service delivery processes and on some of their life-changing stories, the expected information and reporting mechanisms for these stakeholders have not been identified. This may be because the interviewed beneficiaries and volunteers were referred by internal stakeholders of the charities, and might feel obliged to tell ‘good stories’ of the charities and their staff members. This limitation of the study adds to the prior literature (Connolly & Hyndman, 2013b; Connolly et al., 2009) that also identified the difficulties in understating the needs of beneficiaries. This highlights an area for future research, to gain more understanding of the expected information from these less salient stakeholders, the reporting mechanisms they prefer, the reasons they expect such information, and any challenges from the perspectives of beneficiaries and volunteers.

9.4.6.3 *Internal Stakeholders*

Although this study interviewed 24 internal stakeholders, the focus was to understand the measurement and reporting practices of the case study charities, rather than to explore the

types of information they expect and perceive to be more important. As such, this study cannot draw a conclusion as to which disclosures to the internal stakeholders meet their information needs. A future research study in this area could consider this question when collecting data from the internal stakeholders.

9.5 Concluding Remarks

This study aimed to respond to calls to assess the performance measurement and reporting practices of charities in discharging accountability to their stakeholders (Connolly & Dhanani, 2009; Connolly & Hyndman, 2003). In doing so, this study investigated the performance measurement and reporting practices of two case study charities and sought the perspectives of the external stakeholders of charities in New Zealand. As noted in Chapter 2, the key stakeholders to whom charities are accountable are regulators, government and philanthropic funders. Hence, these stakeholders' information needs for background, financial and performance information were examined.

Drawing on the recent developments in NIS theory with respect to institutional work, this study contributes to theory on performance measurement and reporting in NFPs, including charities. This study found that charities not only conform to external institutional pressures by measuring and reporting information to gain legitimacy in the eyes of their stakeholders, they also undertake various forms of institutional work aimed at accomplishing their charitable missions. The funders also actively promoted and cultivated appropriate performance reporting behaviours in the New Zealand charity sector, in addition to enforcing the provision of the information required to meet their information needs. This study also contributes to practice, in particular via signalling to regulators and funders how they might bridge the gaps between reporting their performance information expectations and charities' measurement practices.

The contributions this study to the literature are mainly in three areas. First, this study supports and extends a number of prior studies on the information needs of stakeholders (Benjamin, 2010; Carman, 2009; Connolly & Hyndman, 2003, 2004, 2013a, 2013b). It also contrasts with Williams and Moxham's (2009) study in which the funders of Dutch charities did not use performance information in selecting a charity to donate to, thereby raising new research questions about the drivers of these different funder behaviours in different countries.

Second, the findings of this study support and extend several prior studies (Connolly & Hyndman, 2013a; Connolly et al., 2013; Eckerd & Moulton, 2011; MacIndoe & Barman, 2013; Moxham & Boaden, 2007; Zimmermann & Stevens, 2006) on the performance measurement practices of NFPs including charities. Prior research has indicated that the funders' mandates are the driving force behind the measurement and reporting of outcomes (MacIndoe & Barman, 2013; Moxham & Boaden, 2007; Thomson, 2010). However, this study identified a combination of mimetic and normative pressures influencing the adoption of outcome measurement mechanisms. Various problems were identified concerning the charities' outcome measurement practices, for which two types (policy-practice and means-ends) of decoupling were identified.

Third, the findings of this study support and extend some previous studies on the performance reporting practices of NFPs, including charities (Christensen & Ebrahim, 2006; Connolly & Dhanani, 2009; Connolly & Hyndman, 2003, 2013b; Carolyn Cordery et al., 2010; Ebrahim, 2010; Hyndman & McDonnell, 2009; Saxton & Guo, 2011). In particular, informal disclosures were identified as a means of gaining the trust of government funders, which suggests a dimension of the government funder/charity accountability relationship that has not been identified in the prior literature. Both charities also consciously disclosed performance information to their internal stakeholders as a means of discharging internal charity accountability. Disclosures to charities' internal stakeholders, including the Board of Trustees, managers and staff members, are an area that has not been well researched, thus the internal reporting practices identified in this study makes a useful contribution to the literature.

While this study has identified that the New Zealand charity regulations, especially their emphasis on performance information, are still at an early stage of development, the statement of service performance enforced by the DIA-CS is likely to trigger charities in New Zealand to start thinking about how best to measure and report their performance information. This study identified that performance measurement and reporting practices are both important aspects of how a charity discharges its accountability obligations. At this time of change, this study will provide useful insights to inform the performance measurement and reporting practices in New Zealand charities.

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Appendices

Appendix 1: NFP Activity Groups and Subgroups (Statistics New Zealand, 2006)

No.	Group	Subgroup	NFPs in New Zealand
1	Culture, sport and recreation	Culture and arts	Toy libraries
		Sports	Sports clubs
		Other recreation and social clubs	returned services associations
2	Education and research	Primary and Secondary education	Playcentre associations
			Christian school associations
		Tertiary education	NZ College of Physiotherapy Inc.
		Other education	English for Speakers of Other Languages
	Research	cancer research trusts	
3	Health	Hospitals and rehabilitation	Chelsea private hospital
		Nursing homes	Hospice trusts
		Mental health and crisis intervention	Mental Health Foundation
		Other health services	Royal NZ Plunket Society
4	Social services	Social services	YMCA
		Emergency and relief	Volunteer fire brigades
		Income support and maintenance	Salvation Army Family Store.
5	Environment	Environment	Forest and Bird Protection Societies
		Animal protection	Society for the Prevention of Cruelty to Animals
6	Development and housing	Economic, social and community development	Community centres
			Mandated iwi organisations
		Housing	NZ Housing Foundation
		Employment and training	Student Job Search.
7	Law, advocacy and politics	Civic and advocacy organisations	Advocacy Network Service
		Law and legal services	Victim support groups

		Political organisations	NZ National Party
8	Grant making, fundraising and voluntarism	Grant making foundations	Community trusts
		Other philanthropic intermediaries and voluntarism promotion	Volunteering centres
9	International	International activities	Oxfam
10	Religion	Religious congregations and associations	Bible chapels
11	Business and professional associations, unions	Business associations	Federated Farmers of NZ
		Professional associations	Institute of Chartered Accountants,
		Labour unions	NZ Meat Workers Union
12	Not elsewhere classified	residual category	School bus organisations

Appendix 2: The Interview Guide for Internal Stakeholders

The Interview Guide

INTERVIEWEE NUMBER: _____

DATE OF INTERVIEW: _____

1) CHARITY BACKGROUND

- Looking at your mission –how are you aiming to achieve the objectives?
- Is your charity facing any opportunities or challenges in the economic downturn? If so, how are you addressing them?

2) WHAT DO YOU MEASURE?

- What are your expected financial and non-financial performance information?
- What are your actual financial and non-financial performance information?
- Are the actual outputs and outcomes related to your mission and objectives?
If so, how?

3) WHY DO YOU MEASURE?

- Why your charity needs to recognize and measure this information?

4) HOW DO YOU MEASURE?

- What mechanisms are currently be used to measure financial and non-financial performance information?
- How do these mechanisms recognize and measure outputs and outcomes?
- Why do you select these mechanisms?
- Are there any issues and challenges in implementing these mechanisms? If so, what are they?
- Are these mechanisms assisting to report expected outputs and outcomes? If so, How?

5) DISCLOSURE OF FINANCIAL AND PERFORMANCE INFORAMTION

- Who do you consider as stakeholders for your charity, and why?
- Do you provide your stakeholders with any information? If so, what are they?
- Why do you disclose/make available outputs and outcomes to these stakeholders?

- How do you disclose your outputs and outcomes to the stakeholders?
- Do you think the disclosure of outputs and outcomes assists to demonstrate the value of charity? Why?
- Do you think the disclosed outputs and outcomes enough for stakeholders?
If so, why?

6) GOOD/ BAD EXPERIENCES?

- Are you happy with the current approaches? If yes/no, why?
- Are there any concerns?

Appendix 3: The Interview Guide for External Stakeholders

The Interview Guide

INTERVIEWEE NUMBER: _____

DATE OF INTERVIEW: _____

FUNDERS

- 1) How should charities recognize and measure their information?
- 2) How should charities disclose their information?
- 3) Are there enough recognition, measurement and disclosure of performance information?
- 4) How could they do better?

BENEFICIARIES

- 1) Do you think the counselling sessions helpful?
- 2) Have you derived benefits from the charity in terms of problem avoidance?
- 3) What technique is especially useful? Why?
- 4) Any suggestions?

VOLUNTEERS

- 1) Is there enough recognition and disclosure of performance information?
- 2) Is a charity achieving or not achieving the outcomes that matters to you? If so, why?
- 3) How could they do better?

ACADEMIC AND THIRD PARTY EVALUATORS

- 1) What are the approaches to recognize and measure performance information in research?
- 2) Which mechanisms are useful? Why?
- 3) How should charities recognize, measure and disclose their outputs and outcomes?
- 4) Are there any concerns?

Appendix 4: Invitation Letter



Invitation to participate in a research project

I am doing a research project which seeks to explore how New Zealand charities measure and disclose their outputs and outcomes. Successful completion of the research project will contribute to the completion of the Doctoral of Philosophy qualification.

I would like to invite you to participate in the research project which will involve a one-hour interview at a time and place that is convenient to you. Your advice on any aspect of outputs and outcomes recognition, measurement and disclosure will be appreciated. You are also welcomed to contact me at any time to seek further information or clarify any concern.

Yours sincerely,

Name of the researcher

Contact details

Participant Information Sheet



Date Information Sheet Produced:

01 August 2011

Project Title

Assessing approaches to reporting outputs and outcomes in New Zealand charities

An Invitation

You are invited to participate in a research project on the recognition, measurement and disclosure of charities' outputs and outcomes by assessing various approaches charities adopted and how they are reported in New Zealand charities.

This project is being undertaken by Cherrie Yang, a PhD candidate from the Faculty of Business and Law. Participation in the project will involve a 30-60 minute interview. Your participation in this project is completely voluntary and you may withdraw from the study at any time.

What is the purpose of this research?

The purpose of this research is to assess how New Zealand charities recognize, measure and disclose their outputs and outcomes. This will be achieved by assessing what approaches in terms of techniques and innovative tools charities are currently utilizing, how they have been implemented, why they have been selected and to whom and by what means are outputs and outcomes disclosed.

Cherrie Yang is also undertaking this research for her PhD thesis at Auckland University of Technology and she hopes to publish the findings at conferences and in academic and professional journals.

How was I identified and why am I being invited to participate in this research?

You have been invited to participate in this research as you are either currently supporting or employed by New Zealand charities, or previously benefited from the services.

The reason you are being invited to participate in this research is your responsibilities and influence both in matters relating to the recognition, measurement and disclosure of charities' outputs and outcomes and in the supply of information to the stakeholders of charities in New Zealand.

What will happen in this research?

You will be asked to sign a participation consent form and take part in an interview at a time and place that is convenient to you. The interview questions will focus on your perceptions on the recognition, measurement and disclosure of charities' outcomes and outputs. The interview will be recorded via audiotape and note-taking. This will be analysed by common themes.

What are the discomforts and risks?

Participants are not likely to experience any discomforts and risks since all interview questions are not sensitive in nature.

What are the benefits?

It is expected that participation in this project will help accounting researchers and practitioners to understand any issues that need to be addressed as to how New Zealand charities recognize, measure and disclose their outputs and outcomes.

How will my privacy be protected?

No identifying data will be used in the write-up of the results and your privacy will be fully protected.

What are the costs of participating in this research?

There are no monetary costs involved in the participation of this research and it is expected that participation in the interview will require no more than 60 minutes of your time.

What opportunity do I have to consider this invitation?

You are requested to consider and respond to this invitation within the next two weeks.

How do I agree to participate in this research?

If you agree to participate, please return the attached consent form. Please also advise me of the times that you are available for an interview and the place that you would prefer the interview to take place.

Will I receive feedback on the results of this research?

It is anticipated that a summary of the findings will be available within 24 months of completion of the project and copies of this will be made available if requested.

What do I do if I have concerns about this research?

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, Professor Keith Hooper, keith.hooper@aut.ac.nz, phone (09) 921 9999 ext. 5758.

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTEK, Dr Rosemary Godbold, rosemary.godbold@aut.ac.nz, 921 9999 ext 6902.

Whom do I contact for further information about this research?***Researcher Contact Details:***

The researcher's contact details are: Cherrie Yang, cherrie.yang@aut.ac.nz.

Project Supervisor Contact Details:

The co-supervisor's contact details for this project are: Professor Keith Hooper, keith.hooper@aut.ac.nz, phone (09) 921 9999 ext. 5758.

Approved by the Auckland University of Technology Ethics Committee on 30 November 2012, AUTEK Reference number 11/223.

Consent Form



Project title: **Assessing approaches to reporting outputs and outcomes in New Zealand charities**

Project Supervisor: **Professor Keith Hooper**

Researcher: **Cherrie Yang**

- I have read and understood the information provided about this research project in the Information Sheet dated 01 August 2011.
- I have had an opportunity to ask questions and to have them answered.
- I understand that notes will be taken during the interviews and that they will also be audio-taped and transcribed.
- I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.
- If I withdraw, I understand that all relevant information including tapes and transcripts, or parts thereof, will be destroyed.
- I agree to take part in this research.
- I wish to receive a copy of the report from the research (please tick one): Yes No

Participant's signature:

Participant's name:

Participant's Contact Details (if appropriate):

.....
.....
.....
.....

Date:

**Approved by the Auckland University of Technology Ethics Committee on 30 November 2012
AUTEK Reference number 11/223**

Note: The Participant should retain a copy of this form.

Appendix 7: Interview Schedule – Charities A and B

The case study charities	Stakeholders	Roles	Interview Schedule		
			Interviewee No.	Date	Duration of Interview
Charity A	Internal Stakeholders	Board Member	17	30/04/2012	0:17:32
		CEO	16	27/04/2012	0:34:37
		Director of Business	14	24/04/2012	1:08:35
		National Operations Director	12	20/04/2012	1:27:00
		Director of Public Health	10	18/04/2012	0:28:26
		Director of Clinical Services	7	12/04/2012	0:34:53
		Marketing Manager	8	16/04/2012	0:27:16
		Financial Manager	13	23/04/2012	0:40:35
		Director of Ethnic Services	1	11/04/2012	1:12:15
		Clinical Supervisor	4	11/04/2012	0:59:24
		Counsellor 1	2	11/04/2012	0:49:42
		Counsellor 2	9	17/04/2012	0:52:24
		Counsellor 3	15	27/04/2012	0:27:14
	External Stakeholders	Beneficiary 1	3	11/04/2012	0:52:18
		Beneficiary 2	18	6/03/2013	0:33:50
Volunteer 1		5	12/04/2012	0:33:03	
Volunteer 2		6	12/04/2012	0:22:49	
Academic		11	20/04/2012	0:45:44	
Charity B	Internal Stakeholders	CEO	22	17/12/2012	1:01:25
		General Manager	24	23/01/2013	0:59:27
		Financial Manager	20	9/01/2013	0:53:14
		Early Childhood Education Service Manager	23	14/01/2013	1:01:48
		Homeless Service Manager	26	1/02/2013	0:27:34
		Community Development Worker	27	8/02/2013	0:54:50
		Homecare Service Manager	25	31/01/2013	0:32:45
		Homecare Service Supervisor 1	28	18/02/2013	0:20:42
		Homecare Service Supervisor 2	29	18/02/2013	0:38:42
		Homecare Service Support Worker	30	18/02/2013	0:41:13
	External Stakeholders	Homecare Community Partner	21	17/12/2012	0:37:27
		General Manager of the Property Management Organization	19	11/12/2012	0:38:30
		Evaluator 1	45	1/07/2014	0:34:01
		Evaluator 2	46	1/07/2014	0:30:53

Appendix 8: Interview Schedule – Interviewed Funders

Interviewed Funders	Roles	Interview Schedule		
		Interviewee No.	Date	Duration of Interview
Philanthropic Funder 1	Grants Manager	33	25/02/2013	0:36:45
Philanthropic Funder 2	Community Development Manager	34	15/02/2013	0:45:02
Philanthropic Funder 3	Projects and Strategy Manager	35	15/03/2013	1:04:10
Philanthropic Funder 4	Grants and Marketing Manager	36	22/03/2013	1:02:06
Philanthropic Funder 5	Chief Executive Officer	37	23/04/2013	0:38:38
Philanthropic Funder 6	Grants and Project Manager	40	9/05/2014	1:15:47
Philanthropic Funder 7	Foundation Manager	41	15/05/2014	0:35:03
Philanthropic Funder 8	Community Manager	42	15/05/2014	0:36:00
Philanthropic Funder 9	Community Trust and CSR Manager	43	6/06/2014	0:49:01
Government Funder 1	Principal Policy Analyst (Community and Cultural Policy Region Wide Regional and Local Planning)	31	20/02/2013	0:47:22
Government Funder 2	Principal Policy Analyst (Region-wide Community Policy and Planning)	32	6/03/2013	note-taking
Government Funder 3	Family and Community Service Manager	38	5/08/2013	1:31:46
Government Funder 4	Family and Community Service Funding Advisor	39	28/08/2013	0:50:01
Government Funder 5	Family and Community Support Team Manager	44	17/06/2014	1:00:58

Appendix 9: Confidentiality Agreements

Confidentiality Agreement



Project title: **Assessing approaches to reporting outputs and outcomes in New Zealand charities**

Project Supervisor: **Professor Keith Hooper**

Researcher: **Cherrie Yang**

- I understand that all the material I will be asked to transcribe is confidential.
- I understand that the contents of the tapes or recordings can only be discussed with the researchers.
- I will not keep any copies of the transcripts nor allow third parties access to them.

Transcriber's signature:

Transcriber's name: Janet Templeman

Transcriber's Contact Details:

Email: fidgetydigits@xtra.co.nz

Phone: 09 410 1197

Mobile: 027 488 1197

Date: 16th Jan 2013

Project Supervisor's Contact Details:

Professor Keith Hooper

Email: keith.hooper@aut.ac.nz

Phone (09) 921 9999 ext. 5758

**Approved by the Auckland University of Technology Ethics Committee on 30 November 2012
AUTECE Reference number 11/223**

Confidentiality Agreement



Project title: **Assessing approaches to reporting outputs and outcomes in New Zealand charities**

Project Supervisor: **Professor Keith Hooper**

Researcher: **Cherrie Yang**

- I understand that all the material I will be asked to validate is confidential.
- I understand that the contents of the recordings can only be discussed with the researchers.

Signature: _____

Name: Gina Xu

Email: gina.xu@aut.ac.nz

Date: 30th Jan 2014

Project Supervisor's Contact Details:

Professor Keith Hooper

Email: keith.hooper@aut.ac.nz

Phone (09) 921 9999 ext. 5758

**Approved by the Auckland University of Technology Ethics Committee on 30 November 2012
AUTEK Reference number 11/223**

Appendix 10: Ethical Approval



MEMORANDUM

Auckland University of Technology Ethics Committee (AUTEC)

To: Keith Hooper
From: Dr Rosemary Godbold Executive Secretary, AUTEC
Date: 30 September 2011
Subject: Ethics Application Number 11/223 Achieving accountability in a New Zealand charity:
Assessing approaches to reporting outcomes and outputs.

Dear Keith

Thank you for providing written evidence as requested. I am pleased to advise that it satisfies the points raised by the Auckland University of Technology Ethics Committee (AUTEC) at their meeting on 22 August 2011 and I have approved your ethics application. This delegated approval is made in accordance with section 5.3.2.3 of AUTEC's *Applying for Ethics Approval: Guidelines and Procedures* and is subject to endorsement at AUTEC's meeting on 31 October 2011.

Your ethics application is approved for a period of three years until 30 September 2014.

I advise that as part of the ethics approval process, you are required to submit the following to AUTEC:

- A brief annual progress report using form EA2, which is available online through <http://www.aut.ac.nz/research/research-ethics/ethics>. When necessary this form may also be used to request an extension of the approval at least one month prior to its expiry on 30 September 2014;
- A brief report on the status of the project using form EA3, which is available online through <http://www.aut.ac.nz/research/research-ethics/ethics>. This report is to be submitted either when the approval expires on 30 September 2014 or on completion of the project, whichever comes sooner;

It is a condition of approval that AUTEC is notified of any adverse events or if the research does not commence. AUTEC approval needs to be sought for any alteration to the research, including any alteration of or addition to any documents that are provided to participants. You are reminded that, as applicant, you are responsible for ensuring that research undertaken under this approval occurs within the parameters outlined in the approved application.

Please note that AUTEC grants ethical approval only. If you require management approval from an institution or organisation for your research, then you will need to make the arrangements necessary to obtain this.

When communicating with us about this application, we ask that you use the application number and study title to enable us to provide you with prompt service. Should you have any further enquiries regarding this matter, you are welcome to contact Charles Grinter, Ethics Coordinator, by email at ethics@aut.ac.nz or by telephone on 921 9999 at extension 8860.

On behalf of AUTEC and myself, I wish you success with your research and look forward to reading about it in your reports.

Yours sincerely

Dr Rosemary Godbold
Executive Secretary
Auckland University of Technology Ethics Committee

Cc: Mengchen (Cherie) Yang cherie.yang@aut.ac.nz

Appendix 11: Ethical Approval Update



AUTEC
SECRETARIAT

6 November 2012

Keith Hooper
Faculty of Business and Law

Dear Keith

Re: 11/223 Achieving accountability in a New Zealand charity: Assessing approaches to reporting outcomes and outputs.

Thank you for your request for approval of amendments to your ethics application.

I have approved a minor amendment to your ethics application allowing additional participants to be recruited. It has also been noted that the research is upgrading from a Master of Philosophy to a Doctor of Philosophy.

I remind you that as part of the ethics approval process, you are required to submit the following to AUTEK:

- A brief annual progress report using form EA2, which is available online through <http://www.aut.ac.nz/research/research-ethics/ethics>. When necessary this form may also be used to request an extension of the approval at least one month prior to its expiry on 30 September 2014;
- A brief report on the status of the project using form EA3, which is available online through <http://www.aut.ac.nz/research/research-ethics/ethics>. This report is to be submitted either when the approval expires on 30 September 2014 or on completion of the project.

It is a condition of approval that AUTEK is notified of any adverse events or if the research does not commence. AUTEK approval needs to be sought for any alteration to the research, including any alteration of or addition to any documents that are provided to participants. You are responsible for ensuring that research undertaken under this approval occurs within the parameters outlined in the approved application.

AUTEK grants ethical approval only. If you require management approval from an institution or organisation for your research, then you will need to obtain this. If your research is undertaken within a jurisdiction outside New Zealand, you will need to make the arrangements necessary to meet the legal and ethical requirements that apply there.

To enable us to provide you with efficient service, please use the application number and study title in all correspondence with us. If you have any enquiries about this application, or anything else, please do contact us at ethics@aut.ac.nz.

All the very best with your research,

A handwritten signature in black ink, appearing to read 'Rosemary Godbold', written in a cursive style.

Dr Rosemary Godbold
Executive Secretary
Auckland University of Technology Ethics Committee

CC: Mengchen (Cherie) Yang cherie.yang@aut.ac.nz