An Investigation into the Funding Criteria Used by Funding Organisations in New Zealand

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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.

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Hedy Jiaying Huang

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Abstract

This research project aims to investigate the funding criteria adopted by funding organisations in New Zealand.

The qualitative research methodology and semi-structured interview method is adopted to investigate the critical pieces of information, both financial and non-financial, that is utilised by funding organisations in grant-making decisions.

The most important finding of this research project is that there is no strong pattern emerging as to how funding organisations determine how to allocate their funds. Outcomes and key people are important to funders but much of the financial information is less regarded and there is no consistent approach. To explain this lack of established criteria, it is noted from the literature and borne out by this research that many trustees and managers in NFP organisations often lack expertise in business, especially in accounting and management. Idealism and enthusiasm compensates for business skills. Thus, much of the funding organisations' allocations rely on instinctive feel for the projects proposed and the character of the applicants proposing them.

The Charities Commission may be able to help funding organisations refine their approach by introducing a standard guidance statement. To this end, the research findings of this study may be useful a reference. More explicitly, recommendations are made. The additional benefit to the NFP organisations seeking funds is these recommendations would indicate what would be more relevant information to grant-making decisions of funding organisations.

1. Chapter One: Introduction

The objective of the research project is to investigate the criteria used by the New Zealand funding organisations in grant-making decisions. Chapter One is an overall introduction to the research project, which consists of five sections. Section one provides a brief background information of the not-for-profit (NFP) sector in New Zealand. This is followed by the section two, which discusses some problems in the philanthropic funding in New Zealand. The third section provides an overview of previous studies. These two sections justify the rationale of this research. The objective of the research and research method are discussed in section four. Finally, the structure of the research project is outlined in the fifth section.

1.1. Background of the Not-for-Profit (NFP) Sector in New Zealand

The first charitable association in New Zealand was the Auckland Ladies' Benevolent Society, which was formed in the 1850s (Tennant, Sanders, O'Brien, & Castle, 2006). Over the decades, New Zealand's not-for-profit (NFP) sector has been growing. In 2008, Inland Revenue reported 98,000 registered non-profit entities that generated around NZ$1.5 billion tax revenue. The NFP sector workforce in New Zealand shares 9.6 percent of the economically active population. It is the seventh largest NFP sector workforce, which is ahead of the United States and Australia in terms of relative size of the workforce (Sanders, O'Brien, Tennant, Sokolowski, & Salamon, 2008). As at 31 March 2010, 24,814 charities have registered with the Charities Commission in New Zealand and 17,868 registered charities have filed annual returns for financial year ending between 1 April 2009 and 31 March 2010 (Charities Commission, 2010).

New Zealand's NFP sector is an enormous and important one. It consists of hundreds and hundreds of different organisations with a common interest in social and community benefits (Claridge, 2006; Fisher, 2006). The New Zealand government

funding only makes up to 25 percent of the overall revenue of the NFP sector, indicating it does not fund as much as needed. The level of the philanthropic funding in New Zealand is higher than the average (Sanders et al., 2008). It plays an important role in filling the gap between the government funding and funds required by the NFP sector. The New Zealand government has been acknowledging and encouraging the philanthropic giving by offering further tax incentives (Cullen & Dunne, 2006). Since April 2008, the limit on tax rebates for charitable donations has been removed (Inland Revenue, 2008).

1.2. Problems in Philanthropic Funding

The limited amount of philanthropic grants available in New Zealand makes grant seekers compete with each other in getting more resources, even though the grant seekers should not be competing with each other as all of them are working towards a better community. In the mean time, with a huge demand for grants from grant seekers, the funding organisations find it increasingly difficult to decide which organisation they should support. On the other hand, the grant seekers also get confused about what are the critical pieces of information to provide to get substantial financial support. Gill, the CEO of ASB Community Trust, suggests that "funders need to get clear on what part of the funding process they will fund and then send the right signals" (Feasey, 2007, p. 29).

Moreover, in response to the public concern about why 77 percent of the funds raised in 2008 was spent on operating expenses, KidsCan insisted that a large amount of the operating costs was covered by funding organisation grants rather than public donations (Beynen, 2009; McCracken, 2009; NZ Herald, 2009).

The question remains whether these funding organisations have made the grant-making decisions through analysing the KidsCan's 2008 financial report. If yes, would they make grants to the charity that only spent less than 20 percent of the funds on

delivering programmes? If not, what other criteria were used in their grant-making decisions? The Century Foundation, Infinity Foundation, Perry Foundation and the Lion Foundation could not justify the criteria they used for the grants made to four small trotting clubs that did not even have their own standard race tracks (Sunday Star Times, 2008). Funding organisations are held increasingly accountable for justifying their grant-making decisions and assuring the contributions will not be misused (Khumawala & Gordon, 1997). There are increasing public concerns about the lack of criteria and standards in grant-making decisions.

1.3. Overview of Previous Studies

Empirical studies have examined what types of common information are sought by the funders in the grant-making forms (Feasey, 2007); however, there are very few empirical studies on what types of information are actually useful to the funders while deciding on whom they would like to support. Even though a few financial measures are proposed by several studies (Anthony & Young, 2003; Cherny, Gordon, & Herson, 1992; Drtina, 1984; Greenlee & Trussel, 2000; Parsons, 2003; Tinkelman, 1998; Tuckman & Chang, 1991), there is little empirical evidence about the usefulness of these measures to funders in evaluating the performance of the fund seekers. On the other hand, the needs of non-financial reporting for NFP sector in New Zealand are currently under the spotlight (Ministry of Economic Development, 2009; NFPSAC, 2009). Therefore, a number of studies have proposed several possible techniques for non-financial reporting including the Statement of Performance (SSP) (Carson, 2010; NZICA, 2001, 2002, 2007a, 2007b; Scoringe, 2010) and the outcome reporting (Feasey, 2007; Flynne, Leo, & Addison, 2000; NFPSAC, 2009; Snively, 2010).

As mentioned above, there are many propositions on how to measure and report on the service performance of the NFP organizations; nevertheless, little empirical studies have been done on what specific types of information are significantly important to the funding organisations in grant decision-making processes. These funding organisations are one of the important user groups of the NFP financial reports. Their

information needs and decision-making processes should be investigated before developing financial reporting standards for the NFP sector in New Zealand.

1.4. Objective of the Research Project and Research Method

The objective of the research project is to investigate the criteria used by the New Zealand funding organisations in grant-making decisions. This research aims at filling this gap in the literature by conducting empirical research to investigate the criteria that the funding organisations use in awarding grants.

Therefore, the research question is, "What are the critical pieces of information, both financial and non-financial, that funding organisations utilise in their grant-making decisions?" Following sub-questions will be addressed in the research:

1. What are the grant decision-making processes?
2. Are financial statements important in the decisions grant-makers make? If so, what information from the financial reports is used? Why it is used?
3. Do grant-makers use any non-financial information in grant-making decisions? If so, what non-financial information is used? Why it is used?
4. Do grant-makers require grant-seekers to report back after they have utilised the grant received? If so, what information do grant-seekers require in the report back procedures? Why it is used?

The research project falls within the naturalistic paradigm. Qualitative interview data is collected using semi-structured interviews. This research project adopts a purposeful homogenous criterion sampling method to gather interview data from eight funding organisations. Interview participants are (1) key personnel who are involved in the grant decision-making processes; (2) CEO or Grants Managers of the funding organisations; and (3) board members of the funding organisations. Data collected through interviews are analysed and interpreted using a thematic analysis method.

The findings of the research project might assist the standard setters in developing appropriate NFP financial reporting standards and guidelines for making grants in New Zealand. Moreover, the grant seekers would have a much clearer idea about what sort of information the grant makers actually utilise in their grant decision-making processes. The additional contribution of this research project is to enrich the existing literature on philanthropic funding in New Zealand.

1.5. Structure of the Research Project

The structure of this research project is organised as follows. The next chapter, Chapter Two reviews literature relating to the grant making in the not-for-profit (NFP) sector in New Zealand. This review identifies a gap in the literature and the research question is introduced to address the gap. The research methodology and research method are then discussed in Chapter Three. The chapter fully acknowledges what has been done and how the research has been done in order to achieve the research objective. It also acknowledges the constraints and limitations the research faces. Findings from this research project are analysed and described in detail in Chapter Four. Chapter Five provides an interpretation and discussion of major implications derived from the findings. This is followed by a conclusion and recommendation as well as the contributions of this research project.

2. Chapter Two: Literature Review

2.1. Introduction

This chapter reviews literature relating to the grant making in the not-for-profit (NFP) sector in New Zealand. First, the NFP sector is defined and is clearly differentiated from the Public sector and profit-oriented sector in New Zealand. Second, the significance of the NFP sector in New Zealand is discussed in terms of its history, growth, contribution to the GDP, as well as standard classification of NFP organisations. The third section reviews how the NFP organisations are funded in New Zealand. Comparative statistics and figures are used to provide more insights into the differences and similarities between New Zealand NFP sector's revenue structure and other western countries. The fourth section defines philanthropic funding and the funding organisations, as well as highlights the significance of philanthropic funding in New Zealand. It then reviews a number of media releases which reveal some problems in the philanthropic funding. Fifth, previous study which examines the information sought by the funders in the grant-making applications is discussed. This is followed in the sixth section by a review of previous studies on the performance measurement in the NFP sector. Four main elements of performance measurement are defined with respect to the special features of the NFP sector. A number of financial measures that are proposed by previous studies are discussed and problems of the financial measures are also highlighted. The seventh section reviews the development of non-financial reporting in New Zealand, which includes two reporting techniques: the Statement of Service Performance (SSP) and the outcome reporting. Other non-financial information like voluntary inputs and key performance indicators (KPIs) are also discussed at the end of the section. The final section summarises the literature review and highlights the gap in the literature with regard to the funding organisations' criteria in making grants. This section justifies the research project by highlighting the gap in the literature and that the research should provide mutual benefits to both grant seekers and grant makers in the philanthropic funding field. Finally, the research questions are identified.

2.2. Definition of the Not-for-profit (NFP) Sector

According to the New Zealand equivalents to International Financial Reporting Standards (NZIFRSs), reporting entities in New Zealand are classified as profit-oriented entities and public benefit entities (PBEs). NZ IAS 1 AG2 defines the PBEs as,

> *...Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders* (NZICA, 2007a, p. 61).

PBEs exist in both the private not-for-profit (NFP) sector[1] and public not-for-profit (NFP) sector, including a wide range of entity types like charities, clubs, non-commercial public sector entities and so forth (NZICA, 2007a). There is no commonly agreed term to describe the NFP sector. A number of terms are frequently used, like non-profit, not-for-profit, voluntary, voluntary welfare, nongovernmental, community, independent sector and third or fourth sector (Tennant et al., 2006, p. 37). It is crucial to clarify the definition of the NFP sector at the initial stage of the research. The United Nations defines the NFP sector as having following features:

   i. *The entity has some institutional reality, which can be either formal or informal;*

   ii. *The entity does not exist primarily to accumulate profit, either directly or indirectly, and the entity does not primarily aim at achieving commercial objectives or gains;*

   iii. *The entity institutionally separates from government in terms of its management of operations and use of funds;*

   iv. *The entity can control its management and operations to a significant extent to be self-governing; and*

   v. *Non-compulsory memberships and contributions of time and money* (United Nations, 2003, pp. 17-20).

The NFP sector is different from the public sector in many ways. As shown in the Appendix 1, the Not-for-Profit Sector Advisory Committee (NFPSAC) summarises the major differences between the NFP sector, public sector and profit-oriented sector in

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[1] For the simplicity of reading, the "private NFP sector" is named as "NFP sector" in the rest of the research project

terms of eleven characteristics, including ownership, funding, motivations, size, governance, audit, dispersion of net income, dispersion of net assets if dissolved, taxable earnings, job creation, and volunteer labour inputs (NFPSAC, 2009, p. 17). Some of the major differences are explained below.

First, despite some common funding sources like revenues and loans, the public sector is funded through taxes, whereas the NFP sector receives funding through donations and grants. Another difference is related to the dispersion of net income. In the public sector, net income is dispersed to public coffers, whereas the NFP sector entities retain the net income for operations or asset development. Second, the governance is also very different in those two sectors. The public sector entities employ representatives who are accountable to parliament and have wider responsibilities to the public. In contrast, majority of the workers in the NFP organisations are volunteers. The portion of paid employees is very small. Apart from these major differences, both the public sector and the NFP sector share a common feature, which is different from the profit-oriented sector. The common feature is that both the public and the NFP sectors serve the general public and therefore non-financial reports are very important (NFPSAC, 2009).

2.3. The Significance of the NFP Sector in New Zealand

The first charitable association in New Zealand was the Auckland Ladies' Benevolent Society, which was formed in the 1850s (Tennant et al., 2006). Over the decades, New Zealand's NFP sector has been growing. For the year ended March 2004, New Zealand's NFP sector had NZ$9.8 billion total expenditure and this was translated into a net contribution to the GDP of approximately NZ$7.0 billion or 4.9 percent of the country's GDP (Sanders et al., 2008).

New Zealand's NFP sector is an enormous and important one. It consists of hundreds and hundreds of different organisations with a common interest in social and community benefits (Claridge, 2006; Fisher, 2006). The standard classification of NFP organisations in New Zealand is as shown in the Appendix. In 2008, Inland Revenue reported 98,000 registered non-profit entities that generated around NZ$1.5 billion tax revenue. Out of the 98,000 entities, only 12% have paid employees (Inland Revenue, 2009b). The NFP sector workforce in New Zealand shares 9.6 percent of the economically active population[2]. It is the seventh largest NFP sector workforce, ahead of the United States and Australia in terms of relative size of the NFP sector workforce (Sanders et al., 2008). As at 31 March 2010, 24,814 charities have registered with the Charities Commission in New Zealand and 17,868 registered charities have filed annual returns for financial year ending between 1 April 2009 and 31 March 2010 (Charities Commission, 2010).

2.4. How the NFP Organisations are Funded

NFP organisations receive contributions or revenue in a variety of forms and from diverse sources. Types of revenue may include "subscriptions, grants, subsidies, donations or koha, fees, raffle money, trading profits and proceeds from selling assets" (Inland Revenue, 2009a, p. 35). Sanders, et al. (2008, p. 17) have grouped these revenue streams according to three main sources: government, philanthropy and private fees for services. Such classification is different from that used by Statistics New Zealand in the *Non-profit Institutions Satellite Account*. Statistics New Zealand (2004) grouped government contracts with fee income, and grouped government grants with philanthropic contributions. To enable a clear focus on philanthropic funding, the revenues received through government should be separated from the revenues funded through philanthropy. Therefore, for the purpose of the research project, it is more appropriate to adopt the classifications of revenue streams defined by Sanders, et al. (2008) rather than Statistics New Zealand's (2004) classification.

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[2] Conceptually, this represents the NFP sector's share of a country's total available labor pool (i.e. all those available for work, whether currently employed or not). (Sanders et al., 2008, p. 8)

According to the classification of Sanders, et al (2008), the non-profit revenue structure in New Zealand in 2004 is shown in Figure 1. This structure is further specified by revenue source, which is illustrated in Table 1 with fees making up about 55 percent of revenues. Therefore, fees are the largest source of contributions in New Zealand's NFP organisations. Government grants and contracts constitute 25 percent of revenue and therefore are the second largest source of contributions. Lottery grants are included under this category. Such level of government support to the NFP sector in New Zealand is much lower than the other highly industrialised country groups as shown in Figure 2[3]. For instance, the Anglo-Saxon countries' average is 36 percent, and the Nordic average is 35 percent. Philanthropy[4] makes up 20 percent of revenue. It is the smallest source of contributions for New Zealand's NFP organisations. However, compared to the lower-than-average level of government support, the level of private philanthropic funding in New Zealand is much higher than the averages of all the highly industrialised country groups[5].

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[3] Such a lower-than-average percentage may due to conservative estimates and inability to distinguish some types of government funding with fees (Sanders et al., 2008).
[4] Include households, businesses, and grant-making foundations and charitable trusts
[5] The comparative figure may be distorted by the contributions from the statutory trusts which have a close relationship with the government (Sanders et al., 2008).

Figure 1 Non-profit revenue structure, New Zealand, 2004

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(Sanders et al., 2008, p. 17)

Table 1 Non-profit revenue structure by source, New Zealand, 2004

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(Sanders et al., 2008, p. 18)

Figure 2 Non-profit revenue structure, New Zealand vs. country groups, 2004

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(Sanders et al., 2008, p. 19)

2.5. Philanthropy and Funding Organisations

2.5.1.   Defining Philanthropic Funding and Its Revenue Sources

Since the government does not fund as much as needed, philanthropy places a very important role in New Zealand's NFP sector. The research adopts the scope of philanthropic funding defined by Slack and Leung-Wai (2007, p. 16), "philanthropy is the act of giving financial resources to a cause that is intended to improve general human well-being, and where the giver expects no direct reciprocation or financial gain in return." Such definition focuses on philanthropic giving of financial resources and therefore excludes volunteering and in-kind giving. As shown in Figure 3, philanthropic funding is derived from three major sources: trusts and foundations, personal, and businesses. Among these three sources, contribution from the trusts and foundations is significant, as it is approximately 58 percent of the overall funding.

Figure 3 Philanthropic Giving in New Zealand 2006

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(Slack & Leung-Wai, 2007, p. 8)

2.5.2. Defining Funding Organisations

Due to the significance of the contributions from these trusts and foundations, it is worth further investigating their giving models. As shown in Table 2, trusts and foundations are further classified into two main categories: voluntary and statutory. Voluntary trusts refer to those family and private trusts such as the Wayne Francis Charitable Trust, and the universities and other tertiary education institutions. Statutory trusts include community trusts, energy trusts, licensing trusts, gaming machine societies and Lottery Grants Board (Slack & Leung-Wai, 2007).

Table 2 Classification of sources of philanthropy

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(Slack & Leung-Wai, 2007, p. 17)

It is important to note that not all of these trusts and foundations make charitable grants to other organisations, instead, they may use revenue to subsidise their own activities, distribute to their beneficiaries, or offset their costs. Examples of such trusts and foundations include some educational trusts and energy trusts such as the County Power Consumer Trust (Slack & Leung-Wai, 2007).

These grant-making trusts and foundations are very different from individual donors and charities that deliver programmes to make a difference (like the KidsCan, Epilepsy NZ and Heart Children). Charities, as defined by Inland Revenue (2009a) and the Charities Commission (2005), are any organisations (either incorporated or not) that are either established exclusively for charitable purposes or to carry on charitable activities. In contrast, these trusts and foundations make grants to other organisations for various causes. Therefore, they are also known as funding organisations, funders or grant makers. Grants are defined as "any voluntary payment (or other transfer of property) in favour of a person of institution" made by funding organisations (Charities Commission, 2005, p. 68). Some grants are unconditional gifts, which is "a donation or payment made voluntarily to any non-profit body, where there is no identifiable direct benefit to the donor or the donor's family" (Inland Revenue, 2009a, p. 9). Other grants

could be subject to certain conditions. In such circumstances, grant makers may reclaim the grant or property if the conditions are not satisfied by the recipient (Charities Commission, 2005).

2.5.3. Significance of Philanthropic Funding in New Zealand

The New Zealand government funding only makes up to 25 percent of the overall revenue of the NFP sector (*refer section 2.4 Figure 1*), indicating it does not fund as much as needed. The level of the philanthropic funding in New Zealand is higher than the average (Sanders et al., 2008). It plays an important role in filling the gap between the government funding and funds required by the NFP sector. The New Zealand government has been acknowledging and encouraging the philanthropic giving by offering further tax incentives (Cullen & Dunne, 2006). Since April 2008, the limit on tax rebates for charitable donations has been removed. Previously, no matter how much an individual donated, tax refunds were restricted to $630. Now individuals can claim a tax rebate of one-third of every dollar they donate up to the amount of annual income. For businesses, companies can get a full reduction for charitable donations made as long as the net income is above the donated amount (Inland Revenue, 2008).

The limited amount of philanthropic grants available in New Zealand makes grant seekers compete with each other in getting more resources, even though the grant seekers should not be competing with each other as all of them are working towards a better community. In the mean time, with huge demand for grants from grant seekers, the funding organisations find it increasingly difficult to decide which organisation they should support. On the other hand, the grant seekers also get confused about what are the critical pieces of information to provide to get substantial financial support. Gill, the CEO of ASB Community Trust, suggests that "funders need to get clear on what part of the funding process they will fund and then send the right signals" (Feasey, 2007, p. 29).

2.5.4. Problems in the Philanthropic Funding in New Zealand

Even though the importance of financial information is widely recognised (Hooper, Sinclair, Hui, & Mataira, 2008; Parsons, 2007), a number of recent news have revealed that financial information is not always used. In many cases, funds might be granted without looking at the financial reports of the charities at all (NFPSAC, 2009). In response to the public concern about why 77 percent of the funds raised in 2008 was spent on operating expenses, the KidsCan insisted that a large amount of the operating costs was covered by the funding organisation grants rather than the public donations (Beynen, 2009; McCracken, 2009; NZ Herald, 2009).

The question remains whether these funding organisations have made the grant-making decisions through analysing the KidsCan's 2008 financial report. If yes, would they make grants to the charity that only spent less than 20 percent of the funds on delivering programmes? If not, what other criteria were used in their grant-making decisions? The Century Foundation, Infinity Foundation, Perry Foundation and the Lion Foundation could not justify the criteria they used for the grants made to four small trotting clubs that did not even have their own standard race tracks (Sunday Star Times, 2008). Funding organizations are held increasingly accountable for justifying their grant-making decisions and assuring the contributions will not be misused (Khumawala & Gordon, 1997). There are increasing public concern about the lack of criteria and standards in grant-making decisions.

2.6. Information Sought by the Funders in the Grant-making Application Forms

Previous study has investigated the financial information and non-financial information sought by the funders in the grant-making application form. Feasey (2007) examines 16 funders' application forms and reveals that the financial statements and audited

accounts are the common types of financial information which are sought by 70 percent of the funders. Even though the audited accounts are sought by the majority of the funders in the grant application forms, there have been debates around whether the audited accounts are reliable or not. An early study found that 76 percent of auditors in New Zealand did not identify non-compliance accounts (Newberry, 1992). A later study found problems with the quality of auditors. It found that more than one third of the studied sample had non-compliant accounts where unqualified opinions were issued by auditors who stated that they were specialised in NFP sector audit field (Palmer, Isaacs, & D'Silva, 2001).

In addition to the financial statements and audited accounts, 50 percent of the participating funders specifically require a budget, information about applied funding elsewhere, and other funding sources in their application forms. Apart from the financial information mentioned above, various types of non-financial information are also sought by 50 percent of the participating funders in their application forms. Purpose of organisation, national body affiliation, project description, project community benefit and legal status are the common types of non-financial information appear in the grant-making application forms (Feasey, 2007).

The funder sample researched in this study is representative because it involves many well-known community trusts and foundations including ASB Community Trust, JR McKenzie Trust, the Lion Foundations, the Tindall Foundation, Trust Waikato as well as some umbrella organisations like Philanthropy New Zealand. However, Feasey's (2007) study only looks at the types of information that the funding organisations seek in the grant application forms not what they find useful. Considering the grant-making process as an iceberg, the financial and non-financial information required in the grant application forms are the part of the iceberg above the water surface. Similar to the unknown part of the iceberg underneath the water, the critical pieces of information that funding organisations utilise in their actual grant decision-making processes are still little known in the literature.

2.7. Previous Studies on Performance Measurement

There are very few studies on the financial and non-financial information used by the funding organisations in grant-making decisions in New Zealand. However, a number of research studies on the appropriate performance measurement framework could be used to assess and report on organisational performance in NFP sector. This section explores the literature in performance measurement in the NFP sector. It starts with the definition of performance measurement, and then it is followed by a review of financial measures suggested by previous studies.

2.7.1. Definition of Performance Measurement

There are various ways of defining performance measurement in the NPF sector, Carson (2010) suggests using the American Balridge criteria to define performance measurement. Performance refers to the outputs and the outcomes of these outputs. They could be derived from organisational processes, and delivery of products and services. Most importantly, these outputs and outcomes can be expressed in both financial and non-financial terms. Performance is to be evaluated based on a set of measures. Measurement, as defined by Carson (2010, p. 32) is, "Numerical information that quantifies input, output and performance dimensions of processes, products, services, and the overall organisation (outcomes)". To summarise, a performance measurement system is a mechanism to provide guidance to an organisation in achieving its objectives (Buckmaster, 1999). Four main elements of performance measurement include inputs, activities or processes, outputs and outcomes (Buckmaster, 1999; Snively, 2010). The specific features of the performance measurement in the NFP sector are discussed below.

2.7.1.1. Inputs

Inputs refer to the resources utilised by the organisation to produce a service or programme (Anthony & Young, 2003; Buckmaster, 1999; Snively, 2010). Most of the inputs like money, staff, facilities, equipment and materials are quantified in the financial accounts of the NFP organisation. Brown and Purushothama (2005) state that many trustees and managers in NFP organisations are either voluntary or comparatively lowly paid. There is often a lack of expertise in business, especially in accounting and management. Idealism and enthusiasm exchange for business skills. However, these voluntary people are vital to the success and sustainability of the NFP organisations (Cordery, 2010; Fisher, 2010; Snively, 2010). Surprisingly, voluntary inputs are quite often excluded from the measurement (Fisher, 2010; Snively, 2010).

According to the Charities Commission (2010, p. 10), by 7 April 2010, 33 percent of New Zealanders aged ten years or over volunteered in the NFP sector (Fisher, 2010, p. 37). The grand total of the volunteer hours for the 2009 financial year is 1,212,505 hours (Charities Commission, 2010, p. 10). As shown in Figure 4, substantial volunteer inputs are embedded in following sectors: religious activities; health; arts, culture, and heritage; education, training, and research; sport and recreation; and social services.

Since the voluntary inputs are essential to the sustainability and success of the NFP organisations, Fisher (2010) argues that the value of the volunteers' inputs should be measured, valued and recorded in the financial reports, even though there are still a lot of debates around how to measure and record the voluntary inputs. Similarly, Snively (2010) suggests that a non-financial module covering the voluntary inputs could be built up to supplement the financial reporting.

Figure 4 Volunteer hours by sector

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(Charities Commission, 2010, p. 10)

2.7.1.2. Activities or Processes

Activities also refer to processes, which is defined as the programmes and services that are provided by the NFP organisation (Snively, 2010). Sometimes, activities may also include internal services like staff recruitment and training. These activities require inputs to accomplish an objective, for instance, providing counselling service to sick persons to enhance the healthy status of a local community (Buckmaster, 1999). As shown in Figure 5, apart from making grants, the key role of the NFP sector is to provide services (care or counselling); religious services; and advice or information or advocacy. These services are examples of activities and processes of the NFP organisations.

Figure 5 Services provided by charities

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(Charities Commission, 2010, p. 4)

2.7.1.3. Outputs

Outputs refer to the products and services that are a direct result of activities (Anthony & Young, 2003; Snively, 2010). Cherny, Gordon, and Herson (1992) argued that outputs related to services were quite often not quantifiable. However, Buckmaster (1999, p. 188) states that outputs are often measured in units or volume, for instance, "the number of meals served to aged persons or the number of alcoholics attending rehabilitation programmes". In the same vein, Snively (2010) states that many existing government contracts are based on the outputs as they are often measured in numerical terms like number of services or programmes delivered. Outputs are considered much easier to "count" than the outcomes. Interesting to note that, Cordery (2010) argues that the NFP organisations shall not only measure the voluntary inputs, but also measure the volunteers' outputs. Voluntary outputs particularly refer to the outputs made by the volunteers, for instance, the funds that are raised by them or chargeable services that are delivered by them.

2.7.1.4. Outcomes

Outcomes are defined as "the impacts on, or consequences for, the community resulting from the existence and operations of the reporting entity" (NZICA, 2002, p. 19). In other words, outcomes are the changes that take place or differences made by the organisations (Snively, 2010). Generally speaking, outcomes are expected to happen in more than a single year period and may progress towards accomplishing long-term outcomes (Carson, 2010). Improved health status of children and promoting sustainable economic development are examples of the outcomes (NZICA, 2002). Outcomes are sometimes mixed up with outputs. "Outputs are 'what' the entity delivers. Outcomes are 'why' the outputs are delivered." (NZICA, 2002, pp. 20, para 24.11) Even though both outcomes and outputs are the results of the activities provided by the NFP organisations, outcomes often refer to the results of multiple outputs (Snively, 2010).

As mentioned in the previous section, some funders, especially the government funders prefer measuring outputs to outcomes, particularly while it is difficult to measure the relationship between the programmes and the outcomes. The problem with measuring the outcomes is because sometimes it is difficult to separate the impact of one NFP organization from the others. For instance, the impact of a programme for zero to five-year-old children on reducing the possibility of teenage suicide or violence might be very difficult to measure. The change on the suicide or violence rate may be because of efforts from a number of NFP organizations as well as other factors (Feasey, 2007).

On the other hand, through interviewing individuals from 13 fundseekers operating in Great Auckland Region, Feasey (2007) determines that the NFP organisations seeking funds (i.e. fundseekers) generally believe that the funders are much more focused on compliance and policing than the outcomes while making grants. Even though good compliance does provide lots of protection over the fundseekers as well as the community as a whole, focusing on outcomes by funders is superior for three reasons. First, focusing on outcomes can better acknowledge the contribution and work done

by the fundseekers. Second, focusing on outcomes ensures the fundseekers focus on doing what they intend to do, in other words, focus on achieving their objectives (Feasey, 2007). Third, outcome measurement provides useful feedback on the service performance of the NFP organizations. Such feedback allows organisations to reflect on what they have done and what can be improved in the future. As a result, the NFP organizations can manage programmes more effectively in the future. Therefore, outcome measurement is a powerful tool to facilitate the organizational learning process (Buckmaster, 1999).

2.7.2.   Financial Measures for Performance

Previous studies suggest a number of financial measures that can be used by donors to evaluate the performance of the NFP organisations, including the ratio of inputs to outputs (Anthony & Young, 2003; Cherny et al., 1992; Drtina, 1984), price (Parsons, 2003; Tinkelman, 1998), fundraising ratio (Parsons, 2003). Tuckman and Chang (1991) also propose several measures to evaluate the financial stability of the NFP organisations. Most of the numerical information required to calculating these financial measures can be derived from the financial reports of the NFP organisations. Inland Revenue defines a donor as "a person, company or other organisation that gives money or property to another" (Inland Revenue, 2009a, p. 8). In the following section of the literature review, donors refer to a generic name for all types of stakeholders who make contributions, including individuals, corporate, and funding organisations.

2.7.2.1.   Ratio of Inputs to Outputs

Inputs refer to the resources spent to produce a service, while outputs refer to the services produced. The ratio demonstrates how costly an organisation is in provision of a service. Donors can compare this ratio across programmes, organisations and periods to have a better picture of efficiency of the organisation (Anthony & Young, 2003; Drtina, 1984). Cherny et al. (1992) argue that services (outputs) are quite often not quantifiable, which makes calculation of this ratio very difficult. However, many

existing government contracts are based on the outputs as they are often measured in numerical terms and therefore much easier to "count" (Snively, 2010).

2.7.2.2. Price

Price is a measure that is solely defined by the inputs. The equation of the "price" is as below:

Price = (1-t) / (1-f-a), where

t = marginal tax rate

f = fundraising expenditures as a percentage of total expenditures

a= administrative costs as a percentage of total expenditures (Parsons, 2003, p. 114)

The "price" measures the percentage of resources (inputs) that are spent on the programmes that are in accordance with NFP's objectives or missions. If an organisation has a lower "price", it is considered more efficient. A study, which was based on financial information from New York State regulatory filings, found out that individual donors' contributions are negatively related to the "price". Therefore, individual donors tend to donate more to organisations that spend less of the contributions on fundraising activities and overheads. In contrast, institutional donors (corporate and funding organisations) do not consider the "price" as a significant measure (Tinkelman, 1998).

2.7.2.3. Fundraising Ratio

The fundraising ratio is an alternative to the "price" measure that also focuses solely on inputs. It is calculated by dividing the fundraising expenses by total contributions. This ratio measures how much the NFP organisation spends in generating a certain level of contributions. In particular, it emphasises examining the efficiency of the fundraising activities rather than the efficiency of the operational activities of the NFP organisations. Watchdog agencies like the Council of Better Business Bureau's (CBBB) Wise Giving Alliance use this ratio in providing guidelines for performance evaluation of NFPs. However, the relationship between the fundraising ratio and the

contributions has not yet been examined by academic researchers (Parsons, 2003). Therefore, it is still unknown to us whether the funding organisations consider this ratio important in their grant-making decisions.

2.7.2.4. Measures of Financial Stability

Four ratios are proposed by Tuckman and Chang (1991) to measure the financial stability of the NFP organisations.

1. Adequacy of equity (a ratio of equity to total revenue);
2. Revenue concentration (range of revenue sources);
3. Level of administrative costs (a ratio of administrative expenses to total expenses); and
4. Operating margins (total revenue less total expenditure and then divided by total revenue).

Greenlee and Trussel (2000) investigated the significance of these ratios in terms of predicting financial vulnerability. They found that all ratios except adequacy of equity are significant factors. However, later research states that adequacy of equity and operating margin are also significant factors in predicting financial distress (Parsons, 2003). In summary, those four measures have been proved to be valuable in evaluating the performance of NFP organisations. However there is little empirical research on whether those measures are useful to funding organisations.

2.7.3. Problems with the Financial Measures

In the commercial sector, the primary objective of organisations is to maximise shareholders' wealth and make profits. Therefore, the financial accounts are useful in assessing the performance of the organisations in achieving the above objective. In contrast, the primary objectives of the NFP organisations are not to "accumulate profit, either directly or indirectly"; and the NFP organisations "do not primarily aim at achieving commercial objectives or gains" (Tennant et al., 2006, p. 37). The NFP organisations' objectives are "more about the service levels provided with the

resources available" (Carson, 2010, p. 32). These NFP organisations aim at improving the overall welfare of the community by delivery of outputs (NZICA, 2002, pp. 9, paragraph 3.3). The usefulness of financial measures is very limited in evaluating the output delivery and service performance of NFP organisations (Carson, 2010; NZICA, 2002, pp. 9, paragraph 3.3).

Therefore, supplementary disclosures of non-financial information are suggested as a means to report and evaluate organisational performance in the NFP sector (Cherny et al., 1992; Parsons, 2003). The next section discusses the development of the non-financial reporting in New Zealand. Two reporting techniques are reviewed, including the statement of service performance and the outcome reporting.

2.8. The Development of Non-financial Reporting in New Zealand

2.8.1. The Statement of Service Performance (SSP)

2.8.1.1. Aim of SSP

One of the effective reporting tools to assess the output delivery and service performance of NFP organisations is the statement of service performance (SSP)(Carson, 2010; Scoringe, 2010). As mentioned in section 2.7.3, financial measures provide very limited information on the output delivery and service performance of NFP organisations, which is significantly important in public and voluntary sectors. To address this problem, the SSP was introduced in mid-1980s. It was further developed to become a mandatory reporting requirement for most public sector entities when the central and local government financial management reforms happened in late 1980s (NZICA, 2002). New Zealand Equivalent to International Accounting Standard NZ IAS 1 Presentation of Financial Statements NZ138.2 states the aim of the SSP is to provide:

(a) Narrative and statistics on the entity's performance in supplying goods and services; and

(b) Information on the effects on the community of the entity's existence and operations

(NZICA, 2007a, p. 57)

2.8.1.2.   Disclosure of Information in SSP

Carson (2010) describes service performance as a term to describe the performance of an entity in achieving its objectives of delivering products and services. As stated in the NZ IAS 1 NZ138.4, service performance has three elements: inputs, outputs and outcomes. Each output disclosed in the SSP shall be measured in terms of quantity, quality, time, location and cost (NZICA, 2007a). Quantity refers to the quantity of outputs. As mentioned in section 2.7.1.3, Cordery (2010) suggests that the voluntary outputs shall also be included in the SSP. Quality, on the other hand, refers to the standard of outputs that are expected to be delivered. Time means the specified time period within which the outputs are to be delivered. Location is the physical site of delivery of outputs. Cost refers to the cost of inputs utilised to deliver outputs, ideally including direct, indirect and overhead costs (Carson, 2010).

For each output disclosed in a SSP, NZ IAS 1 NZ138.6 also requires a disclosure of the outcome(s) that the delivery of outputs is intended to achieve (NZICA, 2007a, p. 58). Therefore, an effective SSP not only should disclose quantitative information about outputs delivered, but also disclose the impacts or changes that the entity intends to make in the community, i.e. the outcomes. Previous studies argue that disclosure of numerical information about the quantity of services delivered can only provide limited insights to the service performance of the entity, reporting on the outcomes should be the focus of the SSP (Carson, 2010; Scoringe, 2010). Furthermore, NZ IAS 1 NZ138.7 states, "The SSP shall present both projected service performance and actual service performance" (NZICA, 2007a, p. 58). Therefore, both projected and actual outputs and outcomes should be disclosed in a SSP.

2.8.1.3. Reporting Entities

Both NZ IAS 1 NZ138.3 and FRS 2 paragraph 11.2 state that an entity not required by legislation to prepare a statement of service performance (SSP) is encouraged to include a SSP in its financial statements where:

(a) *The entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or*

(b) *The entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial statements.*

(NZICA, 2001, p. 65, 2007a, p. 58)

According to the above standards, NFP organisations are not obliged but encouraged to prepare a SSP. In fact, preparing a SSP might be beneficial for both the NFP organisation and its stakeholders. For instance, New Zealand Red Cross uses SSP as a reporting tool to communicate the outputs delivered and service performance to its stakeholders (Carson, 2010; Scoringe, 2010).

2.8.2. Outcome Reporting

In September 2009, the Ministry of Economic Development (MED) issued a discussion document to review the statutory framework for financial reporting. This discussion document puts the NFP financial reporting under spotlight (Ministry of Economic Development, 2009). The Accounting Standards Review Board (ASRB) and the Not-for-Profit Sector Advisory Committee (NFPSAC) respond to the discussion documents respectively.

The NFPSAC argues that the existing New Zealand International Financial Reporting Standards (NZ IFRS) is based on the international standards that are established for business organisations. Such standards cannot meet the specific needs of the stakeholders of the NFP organisations. NFP financial reporting should facilitate the communication of accountability between the NFP organizations and the stakeholders, as well as aid users of the financial reports in their decision-making (NFPSAC, 2009).

Taking into account the cost and benefit considerations, the NFPSAC recommends developing the standards based on the International Public Sector Accounting Standards (IPSAS) (NFPSAC, 2009). On the other hand, the ASRB proposes to develop the "NFP Application" of the IPSAS because there are some significant differences between the public sector and the NFP sector. Firstly, the users of the General Purpose Financial Report (GPFR) are different. Donors are a major user in the NFP sector, but ratepayers and taxpayers are the major stakeholders of the public sector. Moreover, the types of revenue, expenditure, assets and liabilities are different in the public sector and the NFP sector. For instance, fundraising costs are special types of expenses in the NFP sector (ASRB, 2009, pp. 40, paragraph.118).

The NFPSAC claims that the financial information like GPFR may have a relatively minor impact on the performance evaluation of the NFP organisations. The stakeholders may make some decisions without assessing the financial information provided under current NZ IFRS. The lack of attention on the non-financial reporting in New Zealand's NFP sector is highlighted in the NFPSAC's position paper. The NFPSAC proposes the use of non-financial reporting (outcome reporting) combined with robust financial reporting (NFPSAC, 2009). Similar to the proposition of Flynne, Leo, and Addison (2000), the NFPSAC agrees that the development of non-financial reporting standards for the NFP sector should involve advice from NFP sector organisations and their stakeholders (NFPSAC, 2009).

Furthermore, Feasey's (2007) research and scoping project recommends that accountability of the NFP organizations should focus on outcomes rather than compliance (Feasey, 2007). In the same vein, Snively (2010) states that the NFP sector could be advanced through developing and reporting non-financial measures of the accomplishment of results-based outcomes. Results-based outcomes refer to "the changes that occur or the difference that is made for an NFP's 'public'"(Snively, 2010, p. 34). Such an outcome approach shall include indicators of effectiveness of the NFP organizations. Therefore, by applying the outcome approach, the NFP organizations

should have the knowledge to report on "what difference does the organization make" (Snively, 2010, p. 34).

2.8.3. Other Important Information to be Included in the Non-financial Reporting

2.8.3.1. Voluntary Inputs

As mentioned in section 2.7.1.1, the voluntary inputs are vital to the success and sustainability of the NFP organizations but they are quite often excluded in the financial reports (Cordery, 2010; Fisher, 2010; Snively, 2010). Sanders et al. (2008) states the importance of the voluntary inputs by showing the fact that out of the overall 200,605 full-time equivalent (FTE) employment in the NFP sector, 133,799 FTEs are volunteers, which takes approximately 67 percent of the overall employment in the sector. Therefore, to provide a full picture of the performance of the NFP organizations, Snively (2010) suggests that the volunteer working hours and estimated value that volunteers create, as well as other voluntary inputs like donations and in-kind gifts should be included in the non-financial reporting.

2.8.3.2. Key Performance Indicators

Parmenter (2009, p. 4) defines key performance indicators (KPIs) as "a set of measures focusing on those aspects of organizational performance that are the most critical for the current and future success of the organization". KPIs refer to a set of key indicators that are critical to evaluating and reporting performance of the NFP organizations. Such indicators are argued to be particularly helpful in assessing the non-financial performance of the organizations (Carson, 2010). According to Parmenter (2009), KPIs are characterised as mainly non-financial measures, which are measurable and actionable. Adequate KPIs could have a significant impact on the performance of the organizations as they encourage appropriate behaviors and actions. Carson (2010) argues that the quality of service delivered by the NFP organisations is not easily quantifiable. Therefore, it is suggested that KPIs should go beyond numbers and

include "words, graphs, pictures and even video clips" to assess and report performance of the NFP organizations (Carson, 2010, p. 33).

2.9. Conclusion and Research Questions

This chapter has provided a background of the philanthropic funding in the not-for-profit (NFP) sector in New Zealand. A number of key terms are clearly defined, including the NFP sector, donors, funding organisations (grant makers or funders), and NFP organisations (grant seekers or fund seekers). It can be noticed that empirical studies have examined what types of common information are sought by the funders in the grant-making forms; however, there are very few empirical studies on what types of information are actually useful to the funders while deciding on whom they would like to support. A thorough review of literatures in performance measurement provides insights into how to assess and evaluate service performance of the NFP organisations. Even though a few financial measures are proposed by several studies, there is little empirical evidence about the usefulness of these measures to funders in evaluating the performance of the fund seekers. On the other hand, the needs of non-financial reporting for NFP sector in New Zealand are currently under the spotlight. Therefore, the chapter reviews several possible techniques for non-financial reporting that are proposed by a number of studies including the Statement of Performance (SSP) and the outcome reporting. In addition to these reporting techniques, other information that could be included in the non-financial reporting like voluntary inputs and key performance indicators (KPIs) are also discussed.

It is important to note that there are lots of propositions on how to measure and report on the service performance of the NFP organizations; nevertheless, little empirical studies have been done on what specific types of information are significantly important to the funding organisations in grant decision-making processes. These funding organizations are one of the important user groups of the NFP financial reports. Their information needs and decision-making processes should be

investigated before developing financial reporting standards for the NFP sector in New Zealand.

The proposed research project aims at filling this gap in the literature by conducting empirical research to investigate the criteria that the funding organisations use in awarding grants. The findings of the research project might assist the standard setters in developing appropriate NFP financial reporting standards in New Zealand. Moreover, the grant seekers would have a much clearer idea about what sort of information the grant makers actually utilise in their grant decision-making processes.

Therefore, the research question is, "What are the critical pieces of information, both financial and non-financial, that funding organisations utilise in their grant-making decisions?" Following sub-questions will be addressed in the research:

1. What are the grant decision-making processes?
2. Are financial statements important in the decisions grant-makers make? If so, what information from the financial reports is used? Why it is used?
3. Do grant-makers use any non-financial information in grant-making decisions? If so, what non-financial information is used? Why it is used?
4. Do grant-makers require grant-seekers to report back after they have utilised the grant received? If so, what information do grant-seekers require in the report back procedures? Why it is used?

3. Chapter Three: Research Methodology and Method

3.1. Introduction

This research project is an investigation into the funding criteria used by funding organisations in New Zealand's NFP sector. This chapter firstly discusses why the qualitative methodology and the consequent naturalistic paradigm is adopted. It then reviews the data collection method and processes. In this section, it firstly justifies why a semi-structured interview approach is appropriate for the research project by discussing both advantages and disadvantages of various approaches. A detailed description of the interview processes is followed. The interview processes starts from pre-planning to conducting interviews and then is finished off with the process of recording the interviews. This section explains how the participants are selected by using an appropriate sampling method, how the researcher approached target participants, how the interviews were conducted, as well as approaches used to record interviews. Third, the chapter discusses how the data is analysed into thematic information. Finally, data is evaluated against four criteria: credibility, transferability, dependability and confirmability.

3.2. Methodology

The gaps indentified from the literature review (*refer Chapter 2*) focus on what are the critical pieces of financial and non-financial information that influence the grant-making decisions of funding organisations in New Zealand. In other words, how the grant-making decisions are made? What information they use for making such decisions and why they use these types of information? This falls within the tradition of qualitative methodology. By applying the qualitative methodology, researchers produce descriptive data that is related to the meanings people assign to things happen in their lives, in other words, why people do things in the way they do (Taylor & Bogdan, 1998b). The following section of this Chapter will look at the research

questions and consider the appropriateness of these questions to qualitative methodology.

3.2.1.   Research Question

The objective of the research project is to find out what are the critical pieces of financial and non-financial information that influence the grant-making decisions of funding organisations in New Zealand's NFP sector. Therefore, the key research question (*refer Chapter 2*) is "What are the critical pieces of information, both financial and non-financial, that funding organisations utilise in their grant-making decisions?" Following sub-questions will be addressed in the research:

1.   What are the grant decision-making processes?

2.   Are financial statements important in the decisions grant-makers make? If so, what information from the financial reports is used? Why it is used?

3.   Do grant-makers use any non-financial information in grant-making decisions? If so, what non-financial information is used? Why it is used?

4.   Do grant-makers require grant-seekers to report back after they have utilised the grant received? If so, what information do grant-seekers require in the report back procedures? Why it is used?

3.2.2.   Naturalistic Inquiry

Lincoln and Guba (1985) state that qualitative research follows the naturalistic paradigm, which is in opposition to the positivist paradigm. In the same vein, Patton (2002) agrees that when the qualitative research is conducted in real-world context and the researchers do not try to influence the phenomenon of interests, the qualitative research designs are naturalistic. Lincoln and Guba (1985, p. 37) identify five basic axioms on naturalistic inquiry:

1.   Nature of reality

2.   The relationship of knower to known

3. The possibility of generalisation

4. The possibility of causal linkages

5. The role of values in inquiry

The five axioms are briefly discussed as follows. First, in naturalist paradigm, there are "multiple, constructed and holistic" realities as opposed to the positivist paradigm in which there is only one reality. Reality could be seen at objective level, perceived level, constructed level or created level (Lincoln & Guba, 1985, p. 37).

Second, both the knower and known are "interactive and inseparable" (Lincoln & Guba, 1985, p. 37). Relationships and relationship building are the essence of the naturalist paradigm. Third, Lincoln and Guba (1985, p. 37) believes that "only time- and context-bound idiographic statements are possible" in naturalistic paradigm. As opposed to positivist paradigm, no findings that are statistically generalised to other settings are expected in naturalistic paradigm (Lincoln & Guba, 1985, p. 37; Patton, 2002). Generalisation in qualitative research is often criticised as impossible due to the restricted scope of the study (Bryman & Bell, 2007). However, Lincoln and Guba (1985, p. 316) argue that qualitative research could provide the "data base" or "thick description" to enable someone interested in transferability to make a judgement on whether transfer is possible.

Fourth, in terms of causal linkages, Lincoln and Guba (1985, p. 37) argue that it is "impossible to distinguish causes from effects" because each organisation is influencing others and is influenced by others simultaneously. Finally, Lincoln and Guba (1985) believes that values of researchers are inherent in a naturalistic inquiry. What matters the most is whether the researchers are aware of their value system while making judgement.

3.2.3.   Justifications on Why This Research Project Falls within the Naturalistic Paradigm

Taking account of the above five axioms, this research project falls within the naturalistic paradigm because of following reasons. First, given the fact that the NFP sector is diverse and complex in terms of services provided, religions and beliefs, sizes, high involvement of people and so forth (*refer Chapter 2*), there are more likely to be multiple realities in NFP sector. The positivist paradigm believes in single reality which is unlikely to be the case in the research project. Since grant decision-making involves various opinions and perceptions of different people, perceived reality is considered relevant for this research project. Perception is defined by Lincoln and Guba (1985, p. 37) as "a partial, incomplete view of something that is nevertheless real and capable of different interpretation when seen from different viewpoints".

Second, the relationship is important in the NFP sector. Most of the interviewees asked whether the researcher had a connection with a particularly important umbrella organisation and whether the CEO of that organisation was aware of the research. Since the researcher is a Master student, one interviewee asked the names of the supervisor and moderator and found the moderator's name quite familiar within the sector. It seems that the interviewee was trying to find some link or connection between the researcher and the interviewee.

Third, the objective of the research project is consistent with the naturalist paradigm where findings are not to be statistically generalised. Fourth, funders, fund seekers, researchers and standard setters (*refer Chapter 2, including Ministry of Economic Development, Accounting Standard RB, and NPSAC*) are influenced by each other in NFP sector. The researcher tries to shape the funding criteria that the funding organisations use, which could be affected by fund seekers, researchers, and standard setters and vice versa. Lastly, the researcher values both the singular view (Llewellyn & Northcott, 2007) and the common view while interpreting and analysing the data. Both

of them are important to naturalistic inquiry as they provide different dimensions of realities.

3.3. Data Collection

For the purpose of the research project, qualitative interview data were collected using semi-structured interviews.

Several obstacles make participant observation impractical in the research project. Firstly, it could be difficult to get permission to enter into confidential board meetings in which final grant-making decisions are made (Bryman & Bell, 2007). Secondly, the research project is to be completed within six months and therefore there are time constraints for participant observation. Compared with what would be achieved in participant observation, researchers can use interviews to study a reasonable number of objects in a relatively short period.

Moreover, interviewing enables researchers to interact with participants and understand their experiences and perceptions (Bryman & Bell, 2007; Taylor & Bogdan, 1998a). In addition to the above advantages, interviews allow the researcher to obtain a more accurate and clearer overall picture of an interviewee's point of view. Interviewees are not constrained in a questionnaire which only offers very limited options to tick (Taylor & Bogdan, 1998b). Therefore, a qualitative interview technique is considered the most appropriate.

Compared with structured interview and unstructured interview techniques, a semi-structured interview technique not only entails a certain degree of structure by having an interview guide (*refer Appendix 3*), but also allows flexibility in exploring topics of particular interest to participants or the researcher (Bryman & Bell, 2007; Taylor & Bogdan, 1998b). Another advantage of semi-structure interview is that key interview

questions are consistent to ensure comparability of responses which in turn assists data analysis (Patton, 2002).

Nevertheless, there are a few weaknesses in this interview approach. First, the standardised wordings and terminologies used in the interview questions might limit the naturalness of answers (Patton, 2002). After completing the first interview, the researcher noticed that most of the interviewees were not accounting experts and they might find some technical accounting words difficult to understand. To address this weakness, the researcher slightly modified the questions by providing alternatives to technical accounting words. Also, the researcher explained the terminologies in plain words during the interview to make interviewee feel more comfortable while answering questions.

The second weakness in this approach is interviews can be very time consuming from the researcher's perspective (Robson, 1993). The researcher believes that the cost of time is worthwhile because rich data can be collected. From the participants' point of view, they might also find such an approach difficult as they have to organise a one-hour interview in their busy schedule. This issue was addressed properly by sending formal invitation letters and following up by phone call and emails. The potential participant was invited to choose a time and place which was convenient to him or her. (*refer 3.3.1.3*).

During and after the interviews, researcher was able to approach the interviewees to request examination of some documents which are not publicly available. For instance, seeking information from NFP organisation's completed application, the panel book which normally is submitted to the Board of Trustee for final decision-making, the check list used in assessing the NFP organisations, as well as exemplar progress report provided by recipient of the grant. Interviewees provided these documents to the researcher either to reinforce the responses they made during the interviews or to clarify on some aspects. On the other hand, by looking into these documents, the

researcher was able to gain more insights into the grant-making processes in a real context.

In addition to formal semi-structured interview, follow-up emails and phone calls were made to six interviewees. Some unclear aspects and responses were clarified by interviewees, and some additional information was given.

3.3.1. Planning the Interviews

To prepare for an interview, the first step is to know who could provide the qualitative data the researcher really needs. Second, the researcher needs to decide on how to select, or sample, these potential participants (Ghauri & Gronhaug, 2005).

3.3.1.1. Interview Participants

For this research project, potential participants would be: (1) key personnel who are involved in the grant decision-making processes; (2) CEO or Grants Managers of the funding organisations; and (3) board members of the funding organisations.

3.3.1.2. Sampling Methods

3.3.1.2.1. Purposeful Homogenous Criterion Sampling Method

Probability and non-probability sampling are two major sampling methods. Probability sampling is used when the research participants have a probability of being chosen as sample subjects (Sekaran, 2003). Non-probability sampling is used when the research participants have no probability of being selected as sample subjects (Sekaran, 2003).

Purposeful sampling is one type of non-probability sampling. As opposed to convenience sampling where participants are more readily available, purposeful sampling obtain information from specific target groups (Sekaran, 2003). Patton (2002) considers that qualitative inquiry usually focuses in depth on small samples that are

selected purposefully. Purposeful sampling selects information-rich cases to yield in-depth understanding rather than generalisation of empirical findings.

Patton (2002) states there are many different types of purposeful sampling including: (1) extreme or deviant case sampling, (2) intensity sampling, (3) maximum variation (heterogeneity) sampling, (4) homogeneous sampling, (5) typical case sampling, (6) critical case sampling, (7) snowball or chain sampling, (8) criterion sampling, and (9) theory-based sampling. For the purpose of this research project, a purposeful homogenous criterion sampling of the funding organisations in New Zealand is adopted. Details of the sampling process are explained as follows.

3.3.1.2.2. Sampling Process

The population is identified as all the funding organisations listed as full members on the website of Philanthropy New Zealand (Philanthropy New Zealand, 2009b). Therefore, the population is ninety-seven funding organisations. The criteria for full membership consists of all grant-making trusts, foundations and statutory trustee companies in New Zealand which have an annual distribution of $20,000 or more (Philanthropy New Zealand, 2009a), therefore it is considered an exhaustive list of all New Zealand funding organisations which are capable of making considerable amount of grants every year.

Firstly, by crosschecking with members' registration details on the website of the New Zealand Charities Commission, the activities each member mainly supports can be identified. Second, fifty-two members are excluded from the study because they are either not registered on the New Zealand Charities Commission, or they are individual donors or service providers that do not make grants to not-for-profit organisations. As a result, fourty-five funding organisations are selected by excluding the fifty-two members from the population. Third, the forty-five funding organisations are classified according to the John Hopkins's category of activities in the New Zealand NFP sector (*refer Appendix 2*) (Statistics New Zealand, 2006; Tennant et al., 2006).

Fourth, the forty-five funding organisations are ranked in terms of the range of activities they fund for. The researcher would like to select funding organisations that support a wide range of activities as target participants. Reasons for such selection criterion are justified as follows. The research project aims at investigating the funding criteria used by funding organisations to decide which NFP organisations they want to support. It is reasonable to assume that funding organisations that support a wide range of activities normally experience complex decision-making processes in awarding grants. Therefore, they would require various types of information from applicants to aid in making the decisions. The research findings would provide a wealth of information to applicants if these funding organisations are selected as target participants.

For the purpose of this research project, it is reasonable to expect a funding organisation as supporting a wide range of activities if it funds for at least half of the categories of activities, i.e. funds for at least five out of ten categories of activities. As a result, ideally twenty-seven funding organisations would be selected as target participants.

However, the research project is a six-month Master dissertation which is constrained by both time and funds. It is not possible for the researcher to travel around New Zealand to interview participants within the six-month timeframe. Therefore, out of the fifteen funding organisations based in Auckland, the researcher chose thirteen of them that support more than four categories of activities. To add another dimension to the sample and avoid solely focusing on groups based in Auckland, the researcher also selected another funding organisation that is based in Wellington. Therefore, the researcher finally selected fourteen funding organisations as potential participants.

3.3.1.2.3. Reflection on Sampling Process

During the analysis after the interviews, the researcher found out that one participating funding organisation actually is a donor-centred foundation that make distributions to particular faculties or departments of a University. Most of the time, this funding organisation makes grants according to restricted purposes set by the donors. Therefore, it does not have its own funding criteria as it needs to obey what has been set by the donors. The researcher had to remove this interview data from the analysis as it is not relevant to the research project.

The researcher reflects on this incident carefully. This incident occurred because the researcher relied on the information provided by the Charities Commission with regard to the main activities of the funding organisations, i.e. make grants to other organisations. The researcher should have looked into its website to check its main activities, rather than relying on the registration detail on the website of the Charities Commission. However, sometimes it is quite difficult to get access to the organisations that have no websites, or the links to their websites are not available on the Charities Commission's website. In this case, the foundation's website is within the website of the University, which makes it difficult to search for.

3.3.1.3. Approaching participants

Since there has been no contact between the researcher and any of the funding organisations prior to the commencement of the research, the researcher checked the registration details of the selected funding organisations and derived the contact details of their key personnel from either the website of the Charities Commission or the website of the funding organisations. Formal invitation letters with AUT letterhead were then sent out to the selected target participants (*refer Appendix 4*). Along with the invitation letter, the researcher explained the purpose of the research and described the type of information that the research is concerned with by attaching the Information Sheet (*refer Appendix 5*). The researcher asked if the potential participants would be willing to participate in the research project and be interviewed for not more than one hour (Ghauri & Gronhaug, 2005). In the invitation letter, the researcher also

asked for the name of other possible participant if the target participant was not able to do the interview.

The researcher made phone calls to potential participants in a week after invitation letters were sent out to remind them about the invitation letter and answer any enquiry. When the target participant was not reached via phone call, the researcher sent out email to politely invite the participant again. Ahren (2004) comments that the negotiation of access for interviews needs luck and subtlety. Through this way, the researcher was able to gather interviewees.

Four of the target participants agreed to join the research project straightway after clarifying some concerns about the research project and the relationships. Some of them asked whether the CEO of Philanthropy New Zealand was aware of this research project, some asked for names of the researcher's supervisors (*refer 3.2.3*). The remaining four target participants were not able to do an interview due to busy schedules, however they referred the invitation to other key personnel in the organisations.

Out of the fourteen target participants approached, six target participants either did not respond or were not willing to participate in the research. Finally, eight participants confirmed that they would like to participate in the research project.

3.3.2. Conducting Interviews

Since there was one interviewee whose organisation was located in Wellington, one interview was conducted by phone call. The other seven interviews were conducted face-to-face either at the interviewee's office or a place the interviewee chose.

While conducting the interviews, the researcher was aware of some conventions to make sure the interviews run smoothly. This could allow the researcher to gather all possible information that is needed for the purpose of the research whilst at the same time the interviewees could feel comfortable during the interviews (Taylor & Bogdan, 1998b).

3.3.2.1. Introduction and Small Talk

It is critical to start the interview with an appropriate introduction and small talk that can make interviewees feel comfortable. They would be more willing to talk openly in a relaxed and comfortable atmosphere (Ghauri & Gronhaug, 2005; Moll, Major, & Hoque, 2006; Taylor & Bogdan, 1998b). However, the interviewees might feel too comfortable to talk too long about topics that are not relevant to the research project. On the other hand, Bedard and Gendron (2004) argues that the risk of response bias could be reduced if the interviewees are more willing to freely respond to questions. Therefore, it is important to keep interviewees talking freely. At the same time, it is researcher's responsibility to get the interviewees back to the interview topics politely and courteously (Taylor & Bogdan, 1998b).

The researcher found it useful to make small talk before talking about the research questions. For example, one interviewee worked at home and therefore invited the researcher to have interview there. The interviewee was very nice and made Chinese tea as well as some snack food. The researcher started the conversation by talking about interviewee's lovely cat, the origin of Chinese tea, as well as asking about how the private trust started thirty years ago. In another more formal case, the researcher started with the history of the funding organisation which was known through searching on its website. Through this way, the interviewee was very pleased to see that the researcher was well prepared for the interview. The researcher also utilised the small talk to confirm the sectors the funding organisations support.

At the start of the interview, consent form (*refer Appendix 6*) was also provided to the interviewee. A hard copy of information sheet was also supplied (a soft copy of information sheet was sent to the interviewee by email prior to the interview). Interviewee had time to read through and asked questions about any unclear aspects. The researcher carefully explained the details in the information sheet by highlighting the objective of the research, asking for permission to record the interview, and also emphasising the interviewee's right to refuse to respond to any questions (Bedard & Gendron, 2004).

3.3.2.2. Establish Credibility

It is important to make sure the interview is free from bias. Sekaran (2003) defines bias as errors in the data gathered. Bias may occur in following situations: (1) when proper trust is not established between the interviewee and the interviewer, (2) when responses are misinterpreted, (3) when the interviewer unintentionally shows certain encouraging or discouraging gestures or facial expressions with regard to interviewee's responses.

To reduce bias, it is vital to establish credibility (Sekaran, 2003). Bedard and Gendron (2004) agree that the validity of data could be enhanced if interviewees consider interviewer credible or trustworthy. Sekaran (2003) suggests that establishing a rapport with the interviewees could encourage them to respond more freely from bias. Once interviewees do not have concerns about the research and its consequences, they would be able to give more informative and honest answers. By starting with small talk and full explanation of the research purpose (*refer 3.3.2.1*) as well as assuring confidentiality (*refer 3.3.2.3*), the researcher could establish trust with the interviewees.

3.3.2.3. Assure Confidentiality

As mentioned in previous section, assuring confidentiality about sources of the information provided in the interviews could also assist in gathering honest responses

from the interviewees (Ghauri & Gronhaug, 2005; Sekaran, 2003). Before starting the interview questions, all interviewees were assured that anonymity is maintained. No organisation or person is identified by name.

Nevertheless, confidentiality also has the negative side. As mentioned in the introductory paragraphs of section 3.3, many interviewees showed the researcher some publicly unavailable documents to confirm their responses. These documents are confidential and therefore are not included in the research. The researcher conformed to the interviewees' requirements that the information is not disclosed.

3.3.2.4. Searching Questions

Taylor and Bogdan (1998b) suggest that qualitative researchers start their interview with vaguely defined research questions. Once interviewees' responses indicate that these questions are relevant and meaningful, the research could deepen the questions by asking "why" interviewees use particular financial and non-financial information to assess NFP organisations and make grant-making decisions.

Another important aspect is the researcher should clarify what interviewees have said (Taylor & Bogdan, 1998b). The researcher should keep on probing until the researcher is sure the exact meaning of interviewees' responses (Robson, 1993). The researcher achieved this by rephrasing interviewee's responses regarding some key issues, and asking for examples for some unclear concepts (Marginson, 2004). Most of the interviewees were able to clarify or explain some ideas by giving specific examples. On occasion, if the researcher mistakenly rephrased the interviewee's viewpoints, the interviewee corrected them and clarified them immediately.

3.3.3.   Recording the Interviews

The interview needs to be recorded to enhance validity. A number of ways were used in this research project: digital recorder, transcriptions, and interview notes taken during the interview.

3.3.3.1.   Digital Tape Recorder

Seven semi-structured interviews were recorded by a digital tape recorder because interviewees were comfortable with the conversation being recorded. A digital tape recorder was utilised because the researcher does not need to stop to change tapes during the conversation (Taylor & Bogdan, 1998b). Unfortunately, according to Hayes and Mattimoe (2004), interviewees in the NFP sector are not normally comfortable with tape recording. Therefore they do not like their interviews to be tape recorded.

This occurred in the research project as there was one interviewee who was reluctant to be tape recorded. The interviewee was glad to participate in the research project and suggested meeting in a coffee shop. The researcher politely emailed back asking whether they could have the interview at a quiet place so that interview could be clearly recorded. The interviewee did not respond to the request. The researcher made a phone call and politely asked whether there was anything that the interviewee did not feel comfortable with. Fortunately, the researcher was clearly told that the interviewee was reluctant for the interview to be recorded. Finally, it was agreed that the interview would be noted down rather than recorded.

Another special case was the interview conducted via phone call. A speaker was connected with the telephone so that voice could be enlarged. In this way, the researcher could tape record the entire conversation without any problem.

The researcher is aware that the interviewees might be reluctant to respond to sensitive questions while the tape recorder is on (Ghauri & Gronhaug, 2005; Hayes &

Mattimoe, 2004). However, this is not the case for this research project because there were no sensitive questions asked during the interviews. The participants were given the interview questions prior to the interview so they agreed to have the interview recorded without any concern.

The researcher also noticed the fact that the interviewees continued to provide information after the tape recorder was turned off (Bedard & Gendron, 2004). This happened in several interviews and the researcher found it important to note the information down.

3.3.3.2.   Transcription

Interviews were immediately transcribed by the researcher after each interview was completed. With a fresh memory, the researcher could easily recall the details of the conversation to ensure the nuances are accurately transcribed (Bedard & Gendron, 2004; O'Sullivan & O'Dwyer, 2009).

3.3.3.3.   Interview Notes

Notes were taken in all of the eight interviews, even though seven of them were also tape recorded. The researcher found notes quite useful because the researcher could use the interview guide to "tick off" questions and add follow-up questions (Bedard & Gendron, 2004). Furthermore, the researcher took notes in bullet points to see to what extent the interviewee had answered the questions. If the answer did not make sense, the researcher could probe into the questions. Notes could also be a backup if the tape recorder fails. Finally, when the interviewee had a lengthy talk about irrelevant topics or jumped from one topic to another, the researcher could refer to the notes and politely get them back to the main topics.

3.4. Data Analysis

For the purpose of this research project, thematic analysis is adopted in analysing the qualitative data. Thematic analysis is "a method for identifying, analysing and reporting patterns (themes) within data" (Braun & Clarke, 2006, p. 79). It is about identifying and coding relevant concepts, and then capturing themes from the collected data. Thematic analysis is a flexible research tool that can provide a rich, complex and detailed description of data (Braun & Clarke, 2006).

Concepts and themes can be derived through either an inductive method, a deductive method or a combination of both. In the inductive approach, themes are suggested by data. This approach can ensure themes are significantly linked to data collected. On the other hand, the deductive approach uses predetermined categories deduced from theory or prior studies. Previous studies (*refer Chapter 2*) suggest a number of financial measures for assessing service performance of NFP organisations. Furthermore, some non-financial information which could be included in non-financial reporting is also proposed by a few studies (*refer Chapter 2*). It is useful to take account of these concepts deduced from previous studies. Through this way, the researcher can ensure themes are relevant to the research questions. Therefore, to conduct a thematic analysis that is both relevant to the research question and fits the data, the combined method is considered appropriate for the research project (Braun & Clarke, 2006).

The thematic analysis follows phases and criteria suggested by Braun and Clarke (2006). Firstly, data collected from eight interviews is transcribed at an appropriate level of detail and accuracy and then data is read repetitively to make the researcher familiar with data. As mentioned in section 3.3.1.2.3 Reflection on Sampling Process, the interview data collected from one particular participate was removed from analysis as it is not relevant to the research project. As a result, only the data collected from seven interviews are analysed further.

Secondly, the researcher systematically, thoroughly, and comprehensively pools the data into relevant codes (*refer Appendix 7*). Thirdly, the researcher will group codes to a higher level of concepts and themes. It is critical to ensure themes are cross-checked with the originial data. These themes should not be vague, instead, they should be distinctive and consistent. Fourthly, the themes could be reviewed by constructing a thematic map. Fifthly, the researcher continuously refines and shapes each theme. Finally, a convincing and well-structured analysis report is produced (Braun & Clarke, 2006).

Throughout the phases, it is important to ensure the collected data have been well interpreted and analysed rather than simply paraphrased. Data interpretation is the most important aspect of data analysis. At this stage, the research moves from description to interpretation (Taylor & Bogdan, 1998b). A mismatch between analysis and data often happens and it is critical to check for consistency (Braun & Clarke, 2006). Most importantly, to ensure quality of thematic analysis, the researcher made a detailed timeframe and allocated sufficient time to complete all phases of the analysis.

3.5. Data Evaluation

It is critical to evaluate data in qualitative research because qualitative research findings are likely to be criticised as being unreliable, generally untrustworthy and invalid. Patton (2002) suggests that trustworthiness is not only concerned with the research findings but also the data collection and analysis.

Since the data evaluation of validity and reliability is deduced from positivist studies, it is not suitable for qualitative studies which believe there are multiple realities (Chua, 1986). Lincoln and Guba (1985) proposed a set of criteria in examining the trustworthiness of qualitative research: credibility, transferability, dependability and confirmability (Robson, 1993).

3.5.1.   Credibility

Credibility refers to whether the reality being examined is appropriately represented. It is the qualitative equivalent to the "internal validity" in quantitative research. The objective of credibility is to ensure the findings are a valid construction of reality (Lillis, 2006; Lincoln & Guba, 1985; Robson, 1993).

Credibility of the findings and interpretations can be enhanced by triangulation. Triangulation of various sources of data could help the researcher to achieve credible results (Lillis, 2006; Taylor & Bogdan, 1998b). Talyor and Bogdan (1998a) suggest researchers should study multiple sources of data to cross check interview participants' statements. As mentioned in section 3.4, the researcher was able to examine some confidential documents which are not publicly available. These documents were used to verify the statements made by the interviewees. Even though these documents cannot be included in the final report, they are meaningful in enhancing credibility of the findings.

3.5.2.   Transferability

Transferability is a matter of generalisation beyond the specific research context. Generalisation in qualitative research is often criticised as impossible due to the restricted scope of the study (Bryman & Bell, 2007). However, Lincoln and Guba (1985, p. 316) argue that qualitative research could provide the "data base" or "thick description" to enable someone interested in transferability to make a judgement on whether transfer is possible. This research project is constrained by time and funds, therefore is unlikely to allow transferability. Nevertheless, the researcher describes the background of each participating funding organisations in detail, and also provides "thick description" with the data. Through this way, the research findings might aid other researchers who are interested in transferability to judge on the possibility of transfer.

3.5.3.   Dependability

Ghauri and Gronhaug (2005) consider dependability as how reliable the interpretation is made from the interviewee's perspective. Lincoln and Guba (1985) suggest that a demonstration of the credibility is sufficient to establish the dependability of the research. As mentioned in section 3.5.1, credibility is enhanced by triangulation. In addition, the researcher conducted a crosscheck of interview data to detect any possible inquirer bias. For instance, is there any incidence that the researcher interrupted the interviewee so that interviewee could not make a complete statement (Lincoln & Guba, 1985). No such incidence is found.

3.5.4.   Confirmability

Confirmability refers to the extent to which the description is true or logical (Ghauri & Gronhaug, 2005). In other words, the description of data is true and is not distorted or made up by the researcher. The researcher carefully refers findings to specific interviewees by using a significant amount of direct quotes.

3.6. Conclusion

This chapter provides an overview of the research methodology and research method adopted in the research project and justifies why such methodology and method is considered appropriate. The researcher is aware of a number of key issues noted by many authors regarding research method and addresses these issues carefully in the research. In particular, the entire interview processes is explained with a great amount of detail. The chapter fully acknowledges what has been done and how the research has been done in order to achieve the research objective. It also acknowledges the constraints and limitations the research faces. Analysis of findings is presented in the next chapter, Chapter Four.

4. Chapter Four: Analysis of Findings

4.1. Introduction

The analysis is drawn on empirical interview data collected from the grant-making decision makers of seven funding organisations. The organisation of this chapter is introduced as follows: the first section is a synopsis of the background of the seven funding organisations. It is followed by an analysis of empirical findings that is grouped into four themes: grant application and decision-making processes, financial information, non-financial information, and report back procedures. The final section is a summary of key findings.

4.2. Background

An overview of the background of the seven funding organisations which participated in the empirical research allows a comparison among them. The comparison is based on five features: types of foundations, NFP sectors supported, income sources, grant size and public accountability. Such a comparison is a starting point for the analysis on the grant-making criteria of the funding organisations. The background of each funding organisation is outlined below and it is followed by a comparative analysis of their features.

Funding organisation A is a private independent trust which has three trustees. The trust has a history of over thirty years and has been donating 'household giving' of thousands of dollars to charitable organisations in a wide range of NFP sectors in New Zealand. In the meantime, A also has made a few major grants in 'six figures'. The interviewee is the major trustee who makes most of the grant decisions. Trust income is generated from the investment in the capital market. As a private trust, A does not need to report to any external stakeholder.

Funding organisation B is an independent, non-religious, non-political volunteer-based organisation which has been servicing the community for thirty-four years. It focuses on supporting small to medium sized New Zealand human welfare charities registered with the Charities Commission. The interviewee is the Chief Executive Officer of the organisation. B makes grants for on-going operational expenses ranging between $2,000 and $10,000. It passes on at least 90 percent of funds raised from workplace giving to charitable organisations. It also administers donations on behalf of individuals, trusts, corporate donors and foundations. Funding organisation B makes grants with more detailed accountability and publishes the grant recipient details in its annual report.

Funding organisation C is a regional community trust which was formed in 1980s. It used to be a big funder for buildings and is now shifting to support the wider community in ten different NFP sectors in Auckland and Northland regions. The interviewee is the Grants Manager of the organisation. The trust's funds are derived through well-managed equity investment in the capital market. C has a quicker application process for grants up to $50,000. Grants over this amount are considered significant and are assessed through a far more rigorous assessment process. The trust is publicly accountable and subject to the regulations under Community Trust Act 1999. It publishes a list of grant recipients in its annual report. Government still has the right to appoint trustees even though it does not have ownership to the trust any longer.

Funding organisation D is a private independent family foundation which was established in 1990s. It supports five major NFP sectors nationally. The interviewee is the Project and Strategy Manager of the organisation. Grant applications below $10,000 are quite often approved by either the funding managers or the foundation staff. The foundation itself normally deals with grant applications over $10,000. A grant application for $1 million will be considered very significant and unusual. D prefers to be called as 'donator' as it uses its own money to support whatever it believes is worthwhile.

Funding organisation E is a private independent trust and has been engaging in building stronger communities for seventy years. The interviewee is the Executive Director of the organisation. The trust used to be one of the largest private grant-makers in New Zealand but now its relative contribution to the community is dwarfed by the growing amount of contributions from other funding organisations like family trusts, gaming trusts, regional community trusts and so forth. E reviewed its funding strategy and is implementing a new grant-giving approach from 2010. Previously its normal grant size ranged from around $3,000 to $12,000 and it has made a couple of significant multi-year grants up to $70,000. From 2010, it would expect to give fewer but larger grants of around $40,000 to $50,000 per year for multiple years. E has also reviewed its support areas for next five years and decided to focus on disadvantaged children and their families as well as Maori development.

Funding organisation F is a gaming trust which has been supporting community-based organisations in a wide range of NFP sectors (including sports, education, health, community, art, heritage and culture) for over 20 years. Gaming trusts are governed by the Department of Internal Affairs (DIA) under the Gaming Act 2003. Therefore it is publicly accountable and subject to audit and inspection by the DIA. It publishes a list of grant recipients and declined applicants on its website. Allocation of funds is limited to the revenue raised from the venues in each local area and 90 percent of the funds raised in a local council area are returned directly to the local community. The interviewee is the Grants General Manager of the organisation. The trust has a Net Proceeds Committee (NPC) for grants up to $10,000, $25,000, and $50,000 respectively. The board of trustees will make decisions on major grants over $50,000.

Funding organisation G supports education and youth development in New Zealand. The interviewee is the Chairman of the organisation. The trust evolves from a long-standing corporate trust and has become a private independent trust since 2001. Due to the changes in its nature and governance, its annual grant-making has also been reduced by two-thirds, from $1.5 million to $500,000. It normally considers $5,000 as a small grant and $50,000 as a major grant. In early 2010, a major grant of $80,000 was

made. Despite the limited amount of funds available, G recognises that, as a private trust, it has latitude and flexibility in grant-making.

Table 3 Comparison of the seven funding organisations

Funding organisation	Types	NFP sectors supported	Grant size	Income sources	Public Accountability
A	Private, independent trust	Within NZ: A wide range	Average grant: thousands of dollars Unusual major grant: in six figures	Equity Investment	No
B	Independent volunteer based organisation	Within NZ: Human welfare	Small: $2,000 Major: $10,000	Raised from community (Act as a conduit)	Yes Publish grant list
C	Regional Community Trust	Within NZ: A wide range	Threshold of major grant: $50,000	Equity Investment	Yes Publish grant list
D	Private independent family foundation	Within NZ: Five major sectors	Delegate authority for grant below $10,000	Equity Investment	No
E	Private Independent trust	Within NZ: Disadvantaged children and their families, Maori development	Average grant size: $40,000-50,000 per year on continuous base	Equity Investment	No
F	Gaming Trust	Within NZ: A wide range (Must be charitable purposes specified by DIA)	Three levels of grants are made by NPC. Board of Trustees will make decision on major grants over $50,000	Revenue is raised from the gaming machines running in venues in local areas	Yes Also subject to DIA's audit and inspection Publish grant and declined list
G	Private independent trust	Within NZ: Education and youth development	Small: $5,000 Major: $50,000	Equity Investment	No

As shown in Table 3, four out of the seven funding organisations are private independent trusts. They are aware of the fact that they do not have public accountability. In contrast, the other three funding organisations recognise they have public accountability to the wider community and they publish the grant recipients

either in annual reports or on the website. In particular, organisation F also publishes declined applicants. In terms of supported NFP sectors, all of the seven funding organisations studied in the research programme support activities within New Zealand. Three of them support a wide range of NFP sectors. The remaining four funding organisations focus on some specific sectors like education, social services, and Maori development. Even though the grant sizes vary from one to the other organisations, the size of a small grant is below $10,000. For organisation B and D, anything over $10,000 would be considered as a major grant. Organisation E makes an average grant of $50,000, which is the approximate threshold of a major grant for organisation A, C, F, and G. The last perspective is the income source of the funding organisations. The source of funds of most of the organisations are equity investment except that B raises funds from community and F raises funds from gaming machines running in venues in local areas. In conclusion, the private independent trusts (A, D, E, and G) raise funds from their own investment and do not have public accountability. On the other hand, organisation B, C and F have public accountability due to their distinctive nature and source of funds.

4.3. Theme One: Grant Application and Decision-making Processes

4.3.1.   Grant Application Approaches

Two grant application approaches are adopted by the participated funding organisations: re-active and pro-active approaches. Re-active approach means the NFP organisations take the initiative to apply for a grant. In contrast, pro-active approach means the funding organisations identify the NFP organisations that they are interested in and take the initiative to contact with the NFP organisations. The major difference between the two approaches is who takes the initiative in the application processes. Ultimately, the NFP organisations need to go through certain application processes regardless of the approaches used by the funding organisations. However, unlike many of the grant applicants that are declined at the early stage of the

application processes, most of the NFP organisations that are invited to apply will be considered by the Board of Trustees.

Among the seven participated funding organisations, two organisations (D and G) adopt both approaches, and the five other organisations (A, B, C, E, and F) adopt either re-active or pro-active approach. Research findings related to the two grant application approaches are described as follows.

4.3.1.1. Re-active Approach

Six out of the seven participating funding organisations adopt a re-active approach. All of the six organisations (B, C, D, E, F and G) use application forms. Five of the six organisations use formal application forms, whereas organisation G uses an informal application form. G requires applicants to write a letter according to its requirements to provide basic information.

4.3.1.2. Pro-active Approach

Three out of the seven participating funding organisations adopt a pro-active approach. These three funding organisations (A, D and G) are private independent trusts. In particular, D and G currently adopt both re-active and pro-active approaches. Organisation A does not require an application form because A is a 'very personal' foundation. The trustees are familiar with the voluntary sector and therefore can make choices on the organisations and sectors they want to help. The Trustee of the funding organisation A justifies the use of a pro-active approach as follows:

> *Both I and certainly one of the other trustees are closely in touch with the voluntary sector. We are aware of what is going on there...I am fairly very familiar with the whole voluntary sector and so I can make choices on what sector I want to support...On the whole our trustees adopt a pro-active rather than a reactive role in our grant-making. We research the donees and do not invite applications. This minimises operating costs and is in keeping with the size and objectives of the fund* (Trustee of the funding organisation A).

In contrast, organisation D and G still require the applicants to go through certain application processes. D has a formal application form, whereas G uses an informal application form as mentioned above.

The Manager of funding organisation D describes the use of the pro-active approach as a method of "generating applications whereby the foundation is interested in some particular initiative". Quite often, as mentioned by the Manager, the funding organisation D requires formal applications for administration purposes. Applicants' details will be linked into D's database for following purposes: confirming contact details, grants book-keeping or budgeting, and collection of intended outcomes for future reporting processes. Organisation G believes a pro-active approach will be its focus in the future even though G will remain with the re-active approach for some time. As Chairman of the funding organisation G said:

> Rather than sending applications at hoc, we will say to them that "look, I think you fit our criteria. I think we want to help you." We still go through that [application processes], but rather than doing that for everybody applies to us, we will only do that for people that we identify being really worthy for trustee's consideration (Chairman of the funding organisation G).

Funding organisation G does not want to make applicants to spend a big amount of time on something that has no purpose and meaning because they do not fit in criteria. Therefore G prefers a pro-active approach whereby the trust could take the initiative to identify the organisations that are worthwhile to support.

4.3.2. Administration Work

All of the private independent trusts (A, D, E, and G) that participated in the research study want to minimise the level of administration work in the application processes for both themselves and applicants. As the Trustee for the funding organisation A said, "I don't want to create a lot of work". A similar statement was made by the Chairman of the funding organisation G, "our mindset is, don't send us a lot of information". In the same vein, the funding organisation D agrees, "We try to get the administration

down to the minimum for both the applicants and for us… Foundation wants to be lean and fast [in application and assessment processes] and feels that makes it more likely to be effective". The Executive Director of the funding organisation E also believes that "for both the previous system and 2010 system, there is a real desire to minimise waste or unnecessary work for applicants, and also for our own interest to filter out appropriate applications at early stage". In contrast, the three other funding organisations (B, C and F) do not have concerns regarding the administration work.

4.3.3.　　Grant Decision-making Processes

Funding Organisation A has the most straight-forward decision-making processes. The major trustee normally makes the grant decisions for regular and small-sized grants. The trust is 'very personal' because it consists of only three trustees and does not employ any staff members. Therefore, the grant decision-making is always done in a less formal way. All the major grants are made after discussion among three trustees in an informal trustee meeting. As described by the Trustee of the funding organisation A, "we meet together, you know, Sunday evening we come together in one of their houses, and we are like a family get in touch for decades. We don't make decision casually, but the meetings are less formal".

Despite A, the six other funding organisations have several stages in the decision-making processes. Three of them (B, E, and G) adopt a generic application process regardless of the size of the grant. In contrast, the other three (C, D, and F) use different application processes for different size of the grant. Findings related to their application processes are stated below.

4.3.3.1.　　Funding Organisations that Adopt a Generic Application Process

Funding organisation B makes grants ranged from $2,000 to $10,000. The size of grant is considered small compared with others. Therefore it is reasonable to adopt a

general process for all of the grant applications. All the applications are firstly assessed by staff members against certain basic criteria. Applications that pass the staff assessment are sent to regional volunteers. Two volunteers then arrange a visit to the applicant organisation and make a report and recommendation on the applicant. The Chief Executive Officer of the funding organisation B explains why and how it uses "regional evaluation volunteers" to do assessment on the NFP organisations,

> *Local people know best about the local charities, therefore we arrange at least two people to visit the charity and see their financial statements, buildings, daily operations, outcomes, how many people have been helped, financial reserves, portion of employees and volunteers…to make sure the process is accountable and transparent, the decisions have to be made by both "heart and head". Heart is about knowing what is happening here, what are the outcomes of the charity. Head is about knowing the charity is financially healthy. Normally we will have one person with the "heart" and another person with the "head" to visit the charity* (The Chief Executive Officer of the funding organisation B).

Reports are discussed at the Board of Trustees meeting where the final decisions are made.

Before 2010, the majority of the grants made by funding organisation E ranged from $3,000 to $12,000, and therefore E adopted an application process very similar to B. The only difference between B's current system and E's old system was E delegated authority of grant decision-making to regional volunteer committees. The Board of Trustee only made decisions on a very few major grants. With regards to how the regional volunteers work while assessing the NFP organisations, the Executive Director mentioned that these volunteers would not evaluate each potential grantee using the same template, i.e. criteria. The Executive Director explains that,

> *We are dealing with people here, people who are volunteers, people who have passions, skills and knowledge and expertises, so we are not always 100 percent consistent. We do not always have our discussions about each potential grantee using the same template. [There is] a little bit inconsistent, and that is okay with me* (The Executive Director of the funding organisation E).

From 2010, E works on a new grant-making system. The Board of Trustees decide to make fewer but larger grants of an average size of $40,000 to $50,000. As a result, regional volunteer committees continue to do the assessments and to produce reports; however they cannot make grant decisions any longer. The Board of Trustees is the decision-maker for all grant applications. In addition to the similarities in application process, both B and E heavily rely on the inputs from volunteers in the application process.

Similar to B and E, funding organisation G has staff members to assess applications against some basic criteria at the early stage of decision-making processes. However, G relies on the Chairman rather than volunteers to do detailed assessment on the applicants and make recommendation report to the Board of Trustees.

4.3.3.2. Funding Organisations that Adopt Different Application Processes for Different Size of Grant

Funding organisation C sets different application processes for grant applications below and above $50,000. For grants up to $50,000, it has a quicker application process which may take three to four months. Similar to B, E, and G, all applications are quickly screened by staff members. C relies on its grant advisors to make assessment on the applicants and produce reports to the Panel. The Panel looks at assessment reports in-depth and prepares a Panel Book to the Board of Trustees. The full Board looks at the Panel Book and makes final decisions. For grants over $50,000, C has a far more rigorous assessment process. First, applicants need to fill in an "Expression of Interest" form. Second, once they are invited to submit full applications, they need to submit a plan and other documents. The decision-making process may take up to one year. In addition, C is going to have a much quicker process for grant applications below $10,000. It will have a more simplified application form to be used in the processes. As the Grants Manager said, "The trust is trying to be more responsive. If the group is only asking for $10,000, we will make the process quicker rather than waiting for about 3 to 4 months for a decision".

Funding organisation D and F delegate a certain level of grant-making authority to people other than the Board of Trustees. D directs grant applications that ask for lower than $10,000 to its funding managers. In organisation F, there are three levels of Net Proceed Committees (NPCs) which are responsible for different level of grants: $10,000, $25,000 and $50,000. Any grant applications requesting over $50,000 will be decided by the Board of Trustees. Both D and F rely on their staff members to do screening of applications and detailed assessment. Staff members need to produce reports and recommendations to the NPCs or the Board of Trustees for final decision-making.

4.3.4.   Summary of Theme One

In summary, except for funding organisation A, the six other organisations share some common features in grant decision-making processes. First, all of them have administrative staff members to log applications into a database and do quick screening at the early stage of the processes. Second, the applicants which pass the screening stage are then assessed in detail by either volunteers (in B and E) or staff members (C uses grant advisors, D uses managers, and G uses Chairman to do assessment and produce report). At last, reports and recommendations are either made to the Board of Trustees for grant decision-making or used by people with delegated authority to approve grant requests.

Moreover, the four private independent trusts are keen to reduce the amount of administrative work by simplifying the application processes. Whereas the three other funding organisations are not concerned about the amount of administrative work as they focus more on compliance and public accountability. Thus they might consider complicated application processes inevitable.

4.4. Theme Two: Financial Information

All of the seven participating funding organisations consider financial information important in their grant decision-making processes; however they recognise that financial information is only of limited use and they would never want to make grant decisions exclusively based on the financial information of a NFP organisation. According to the Grant Manager of the funding organisation C, "they [financials] are important but, in different sectors they do not have much importance, they are not keys… If they are not [good at financial aspects], they may still get funded". In the same vein, the Executive Director of the funding organisation E agrees that:

> *How important it is, well using a scale of 1 to 5: 1 is not important at all, and 5 is very important. Financial information may sit at 3. To me, it is not the most important thing… Sometimes, organisation can be effective if they are financially weak* (Executive Director of the funding organisation E).

Empirical study has been done to investigate the principles of using financial information in grant decision-making processes. Then, this study goes further to explore the types of financial information which are actually used by the seven funding organisations in their grant-making decisions. In particular, the study investigates to what extent the financial information is analysed and assessed; and what are the assessment criteria. Research findings are presented as follows.

4.4.1.　Principles of Using Financial Information

Financial information is required by all of the seven participating funding organisations for three main principles. A common principle, which is agreed by all of the seven participants, is that financial information can provide an overview of whether the operation of the NFP organisation is efficient, and could be an indicator of whether the organisation is viable, sustainable, financially healthy and well-governed. As the Grants Manager of the funding organisation C said:

> What is important about financials is they give us a picture of the organisation in terms of their sustainability and what the issues are outside the project. You cannot have a

project without an organisation. We look at financials to see if the operation of the organisation is in good and sustainable position (Grants Manager of the funding organisation C).

A similar statement was made by the Executive Director of the funding organisation E, "It is another indicator of whether the organisation is well managed and governed". In the same vein, the Chief Executive Officer of the funding organisation B agrees, "[We use] financial information to examine whether it is healthy. How efficient or financially healthy are their organisations".

The second principle which is agreed by four of the seven funding organisations (C, E, F, and G) is that financial information can be used to test the needs of the organisation. As the Executive Director of the funding organisation E said, "Financial information is a way of determining whether an organisation is so rich that our money is not going to make much difference to it". In the same vein, the Chairman of the funding organisation G agrees, "We are deliberate about that [financial information]. [For] two reasons, one is to establish whether they really have a need [for funds] or not. Secondly, it is to establish that they have actually got the financial control in place".

The last principle is to avoid duplicate funding with the government and other funders for the same programme or initiative. This is agreed by three of the seven funding organisations (B, C and F). They want the applying charities to be transparent on the other funding groups including the government they have approached for the same programme or initiative. There are two reasons behind this principle. First, as the Grants Manager of the funding organisation C said, "This is to ensure that our funding is not duplicating what the government is funding...it ensures that we are not fulfilling areas that should be covered by government contracts". Second, the three funding organisations want to prevent the NFP organisations from "double-dipping". Double-dipping means the NFP organisation uses different funds for the same costs. Supposing the NFP organisation needs a new van, it should not apply funds for the full cost of the van from more than one funder. Because it may end up receiving twice the amount of the funds as it should be.

4.4.2.   Financial Accounts

All of the seven funding organisations use up-to-date financial accounts in grant decision-making processes. Funding organisation A is not concerned about audited accounts due to its "very personal" nature mentioned in the background section. In contrast, the six other funding organisations (B, C, D, E, F, and G) require financial accounts to be audited by an independent qualified accountant. Out of the six funding organisations, B and D make audited accounts mandatory for all applicants. In contrast, the four other funding organisations (C, E, F, and G) only make audited accounts compulsory for major grant applications. They allow certain amount of latitude on NFP organisations that only apply for a small-sized grant. In particular, funding organisation C is currently reviewing audited account criteria. It may have a "tier-approach" so that a NFP organisation which applies for a certain amount or less may not need to provide the audited accounts.

Reasons behind the flexible audited accounts criteria are then explored. First, these four funding organisations think it is not worthwhile for the applying NFP organisations to get their accounts audited if they are only applying for a small amount of grant. In addition to the concern about the costs of an audit, funding organisations C and E also recognise the debates on whether an audit does actually provide assurance on the financial status of a NFP organisation. As the Executive Director of the funding organisation E said:

> *I am aware of an audited report is not a guarantee of what is going on. It is just what the auditor can do at that time. It tends to give people a sense of comfort but I am not sure about the guarantee* (Executive Director of the funding organisation E).

Similarly, the Grants Manager of the funding organisation C agrees,

> *The audit is around us ensuring that the group has appropriate financial structure in place. Now, there are debates on whether an audit does actually provide that. We totally acknowledge ourselves about that debate…yes if they say it is unqualified opinion and so forth [and] then at least they give us some degree of, a high degree of certainty* (Grants Manager of the funding organisation C).

4.4.3.   Budgets

Four of the seven funding organisations (B, D, E, and F) use budgets in their grant decision-making processes. Budgets, as described by the Executive Director of the funding organisation E, are "the financial part of their [NFP organisations] plan". The four funding organisations would like to see the sources of income and different categories of expenditures forecasted for the coming year if it is a one-off grant. A multi-year budget would be required if it is a multi-year grant.

Reasons behind the budgets criteria are investigated. First, from the view point of the funding organisations, the NFP organisations should be capable of planning for the future. As the Chief Executive Officer of the funding organisation B said, "The applying charity is expected to have the ability to budget itself for the coming year". Second, the funding organisations would like to know the realistic costs for the programme from the budgets to make sure the NFP organisations are applying for the funds that they really need. In particular, funding organisation F requires cost breakdown and two competitive quotes for each item from different suppliers. As mentioned in the background section, F is a gaming trust under the regulation of the Department of Internal Affair (DIA). The DIA requires that competitive quotes must be supplied.

4.4.4.   Sustainability Plan

The funding organisation D, in particular, requires the multi-year grant applicants to provide a sustainability plan. None of the six other funding organisations have such criteria. The Project and Strategy Manager of the funding organisation D justifies the reasons for the criteria by using an example of social service initiative:

> *We would be looking for an opportunity to offer them support over three years. During which time we would expect them to work towards means to sustain it beyond the three years. For instance, we might make a donation of incrementally reduced by one third each year. So we would expect that sustainability plan to show a means by which they would generate income from other sources. By the end of three years they are*

able to generate the 100 percent from other sources. There is no point to support an

organisation that looks like to fall over; it is just a waste of money and resources

(Project and Strategy Manager of the funding organisation D).

The above statement re-emphasises the common purpose of using the financial information in grant decision-making processes. All of the participating funding organisations are concerned about viability and sustainability of the applying charities. This is the major purpose for needing the financial information. Especially, funding organisation D reinforces this purpose by requiring a sustainability plan for multi-year grant applicants.

4.4.5. Analysis and Assessment on Financial Information

None of the seven funding organisations conduct rigorous and scientific analysis on the financial information provided by the applicants. In particular, the funding organisation A never has any degree of financial analysis because the trustee wants to keep work simple. As mentioned previously, A is a "very personal" foundation with no accountants and analysts. Therefore the trustee does not want to engage in things that might increase the workload.

The six other funding organisations (B, C, D, E, F, and G) do some degree of analysis and assessment by looking at a number of specific financial figures in the accounts. The Chief Executive Officer of the funding organisation B said, "There are no scientific methods to calculate financial ratios, but the regional evaluators will look at the accounts and examine whether they are healthy". In the same vein, the Grants Manager of the funding organisation C agrees that, "There is a degree of analysis but as advisors we have been very clear that we are not auditors. There is only so much assessment that can be done". Because the funding organisation C is a regional community trust, it has accountants and Chief Financial Officer who might provide their professional advice to the grant advisors. It also runs a peer review process so

that grant advisors can test each other's recommendations on the financial accounts of the applicants.

As a part of the assessment processes, the funding organisation E asks the regional volunteers to fill out some of the key financial figures in a box. E believes that it is a way of summarising an organisation's financial situation. On the other hand, the funding organisation F compares financial accounts for the recent two years and looks for significant changes in the figures. F would ask the applicants to explain the abnormal figures in the accounts. Quite often, proof of the explanation is not required.

As mentioned above, the funding organisation B, C, D, E, F, and G do some degree of analysis and assessment by looking at a number of specific financial figures in the accounts. The specific items are: expenditures (further broken down into three categories of administration expenses, programme delivery expenses, and fundraising expenses), income, other sources of funds, operating capital, investment, financial reserves and assets. According to the principles of using financial information, assessment criteria on financial information are classified into four categories: efficient operation and good governance, viability and sustainability, needs for funds, and duplicate funding with the other funders and the government. Findings related to the assessment criteria are presented below.

4.4.5.1. Efficient Operation and Good Governance

All of the six funding organisations mentioned above look into the expenditures of the applying charities to make a judgement on their operation and governance status. In particular, they are interested in three types of expenditures: administration expenses, programme delivery expenses, and fundraising expenses.

4.4.5.1.1. Administration Expenses

The funding organisation C and F look at salary expenses to testify whether there is a clear separation of the governance and operation of the NFP organisation. They want to make sure trustees of the NFP organisation are not receiving salaries; otherwise there is a conflict of interest. As the Grants Manager of the funding organisation C said,

> *We don't get too much into details around the expenses but we would raise questions of salary, rent or some exceptional costs. It allows us to question the governance a bit more. Financial information reflects whether trustees have been paid therefore we can see a clear separation of governance and operation.* (Grants Manager of the funding organisation C)

In the same vein, the Grants General Manager of the funding organisation F agrees that, "Yes we look at salary costs to see a separation of the governance and operation. You know, trustees should not be paid".

The funding organisation D agrees that the administration expenses would be relevant to assess the operation position of the NFP organisation. It looks at either too high or too low figures because it believes that "administration expenses vary from organisation to organisation". In contrast, the Chairman of the funding organisation G said, "We want to see [that] they [the NFP organisations] are relatively lean in their head office administration costs".

4.4.5.1.2. Programme Delivery Expenses

The funding organisation B, E and G consider the percentage of resources that spent on delivery of programme would be relevant for grant decision-making. As the Chairman of the funding organisation G said, "The other measure is how much money is actually going into programme delivery". However, they also recognise that for quite a range of different NFP organisations, the percentage could vary from organisation to organisation. In addition, the NFP organisations quite often do not categorise expenses. The Executive Director of the funding organisation E states that, "They [the NFP organisations] might just put down salaries and you do not know how much is for the delivery of programme and how much is for administration".

4.4.5.1.3. Fundraising Expenses

Except for the funding organisation A and B, the other funding organisations are not concerned about the fundraising expenses. In particular, the funding organisation C states that it does not fund for a NFP organisation that has fundraising activities. The reason that the funding organisations A and B are concerned about fundraising expenses may be because the trustee of the funding organisation A has been doing fundraising for thirty years, and the funding organisation B raises funds from the community. Even though the funding organisation A does not do analysis or assessment on the financial information, the trustee does provide opinions on a reasonable percentage of the fundraising expenses, "the reasonable fundraising cost would be below 10 percent of what has been raised for capital campaign". But for the different purpose of campaign for operational funds, "it should be an average of below 25 percent for campaign for operating funds". In contrast, the Chief Executive Officer of the funding organisation B has a much looser criterion that a reasonable ratio of fundraising expenses would be 30 to 50 percent of what has been raised.

4.4.5.2. Viability and Sustainability

The six participating funding organisations (B, C, D, E, F, and G) agree that they examine the viability and sustainability of the NFP organisations by looking at their income streams, other sources of funds, investment or financial reserves, and operating capital.

4.4.5.2.1. Income Streams and Other Sources of Funds

The six funding organisations agree that for a NFP organisation to be viable and sustainable, it should have a variety of income streams. Therefore, the first financial indicator for the viability and sustainability of a NFP organisation is income streams and other sources of funds. Sources of income mentioned by the six funding organisations include other funders, the government as well as local funding support. They believe that dependence on one particular funding organisation makes the NFP

organisation vulnerable. As the Project and Strategy Manager of the funding organisation D said,

> *We would like to do things in partnership with other [funding] organisations because we feel they [the NFP organisations] are more likely to work in the long-term and to be sustained. For instance, if we jointly fund something with two or three funders, it shows a broader interest in the initiative and great likely that others are coming on board in the future... I think any business is vulnerable as income is coming from a limited number of sources (The Project and Strategy Manager of the funding organisation D).*

Similarly, the Chairman of the funding organisation G agrees,

> *...We do not want dependence. So we want to see that they [the NFP organisations] have a variety of income streams. They are not dependent on us if they have government funding and private sector funding. They need to have a spread of support...We much prefer ones which sort of got community connection. Local trusts are the most effective ones because they can also get local funding. I want to see evidence of local funding support (The Chairman of the funding organisation G).*

4.4.5.2.2. Investment or Financial Reserves

Five of the six funding organisations mentioned above (B, C, D, E, and F) agree that the investment or financial reserves is the second financial indicator for the viability and sustainability of a NFP organisation. They understand that many NFP organisations have financial reserves or investments which are kept for "rainy days" when the income goes down due to an economic downturn or other unforeseen events. Depending on the size and nature of the NFP organisation, a certain level of investment or financial reserve is considered appropriate. As the Project and Strategy Manager of the funding organisation D said, "It depends on what the organisation is. Not very many have investments. Especially the social services [organisations] do not have much to invest, although we encourage them to invest to be sustainable". Similarly, the Executive Director of the funding organisation E agrees,

> *...If they have any reserve that is kept for a special purpose, for example, builds a building, they tell us about that. [We want to know] if they have got 3-month reserves or 2-year reserves? If it is more than a couple of years, we will be thinking, compared*

with most of the organisations, they have got quite good buffer there (The Executive Director of the funding organisation E).

In the same vein, the funding organisation F allows the NFP organisations to have reserves except they are unhappy to see excessive amount of reserves that are not attached to any particular project or capital work.

4.4.5.2.3. Operating Capital

Four of the six funding organisations mentioned above (C, E, F, and G) believe that the operating capital is the third financial indicator which can be used to test the viability and sustainability of a NFP organisation. As the Grants Manager of the funding organisation C said, "...The analysis is around, in terms of the organisation's operating capital, how viable the organisation is. We can see from their accounts that they have running capital to operate for at least one to three years". Even though the four funding organisations agree that having a sufficient level of operating capital is important for a NFP organisation to be viable and sustainable, they may still support the ones that are running without enough capital if the programme or initiative is worthwhile. This assessment criterion reinforces the statement made by all of the seven participating funding organisations regarding the importance of the financial information in grant decision-making. They consider financial information important but only of limited use. They may still support the NFP organisation even though it is financially weak. The Chairman of the funding organisation G strengthens the statement by saying that,

> *A lots of trusts run too lean and do not have enough capital...I suppose this is often a reason that we are giving money to them. If they are worthwhile, and we recognise they are tight, I am not saying we will not support them. This is just a measure we are taking into consideration* (The Chairman of the funding organisation G).

4.4.5.3. Needs for Funds

Out of the six funding organisations that do a certain degree of financial analysis on the financial information, four of them (C, D, F, and G) look at assets, in particular cash assets as well as investments in order to test the needs for funds. They do not want to

support a NFP organisation that has lots of spare money that is not attached to any specific future project or capital work. As the Grants Manager of the funding organisation C said, "We need to test the need of the organisation, say if they have a large amount of investment in their portfolio, then we need to say 'hey do we fund or not'". In the same vein, the Chairman of the funding organisation G agrees that, "We do not want to give to somebody who has got enormous cash". Similarly, the Grants General Manager of the funding organisation F said,

> *If they [the NFP organisations] have lots of cash assets, we want to know what those might be ticked for. Because sometimes they are building up for a building fund or they have got the equipment replacement programme. If the assets are sitting there as spare money, we will be asking the question why don't you use that money rather than applying to us?* (The Grants General Manager of the funding organisation F)

4.4.5.4. Duplicate Funding with Other Funders and the Government

Three funding organisations B, C and F check out the other funders the NFP organisations have approached as well as the NFP organisations' government contracts. They require the NFP organisations to be transparent on the other funders and the government funding they have approached for the same programme or initiative.

As mentioned in the section 4.2, these three funding organisations recognise that they have public accountability and therefore publish the names of the grant recipients to the public. It might be appropriate to deduce that they are much more concerned about the transparency of the grant-making and grant-seeking processes than the other four private independent trusts. In addition to asking for the other funders and the government funding the NFP organisations have approached, the funding organisation F shares a database with the majority of the gaming trusts on which the information of all the grant recipients are available. In this way, the applying NFP organisations may not be able to hide about other gaming trusts they have approached for the same programme. Similarly, the Chief Executive Officer of the funding organisation B said,

We require the applying charities to be transparent on this. It is to make sure these charities are not double dipping. Many funding organisations are now publishing the names of the charities that have been granted therefore it is difficult for charities to hide (The Chief Executive Officer of the funding organisation B).

However, these three funding organisations are willing to support the NFP organisations that the other funders are also supporting as long as the grants are not for the same costs, i.e. double-dipping (see section 4.4.1 for explanation of double-dipping). As mentioned in the section 4.4.4 Viability and Sustainability, six of the seven funding organisations would like to see funding support from more than one source. They would like to see that the NFP organisations have a variety of income streams and therefore are likely to be viable and sustainable.

4.4.6.   Summary of Theme Two

In summary, there are no specific rules in assessing the financial figures. Most of the assessments criteria are "principle-based". The funding organisations are aware of the fact that NFP organisations vary from one to another in terms of size and operational activities. Many of the NFP organisations are not comparable.

Moreover, they recognise that financial information only provides a limited amount of information about the organisation. As the Grant Manager of the funding organisation C said, "It is not black and white thing and sometimes project totally outweighs those things [financials] and trustees want to get behind that". Therefore, rather than imposing specific rules, it is considered to be more appropriate to apply a set of principles while assessing the financial information. Main principles are categorised as: efficient operation and good governance, viability and sustainability, needs for funds, and duplicate funding.

Financial information utilised by all or some of the funding organisations in grant decision-making processes include: audited or non-audited financial accounts, budgets,

sustainability plan, expenditures (administration, programme delivery and fundraising expenses), income streams and other sources of funds, investment or financial reserves, operating capital, and cash assets.

The six funding organisations (B, C, D, E, F, and G) rely on their staff or volunteers to make their judgement on whether the financial figures are appropriate and reasonable for a NFP organisation which has a certain level of turnover and operates in a particular NFP sector.

4.5. Theme Three: Non-financial Information

All of the seven participating funding organisations recognise the importance of non-financial information in the grant-decision making processes. In particular, when a NFP organisation is financially weak or has just started so has no track record, the non-financial information would certainly influence the grant-making decisions. According to their policies, the funding organisations B, C, and F do not support new initiatives. However, the funding organisation F might occasionally support start-up or financially weak NFP organisations if they have good aims, very competent people on the board and a lot of support letters from the Mayor, the Councillors, or other charity groups. These three funding organisations (B, C, and F) are publicly accountable and therefore might be unwilling to taking risks to support start-up NFP organisations. In contrast, the four other funding organisations (A, D, E, and G) are private independent trusts which are not publicly accountable. Therefore they are much more willing to take risks to support new initiatives. As the Project and Strategy Manager of the funding organisation D said,

> *The freedom which the trustees have is the grant benefit and their ability and willingness to take a risk, which I think a lot of other funders probably less likely to be. It means they are able to get involved in things that others may not. We are particularly interested in innovation, testing or proof of concept...* (The Project and Strategy Manager of the funding organisation D)

Due to the changes in funding strategies in 2010, the funding organisation E might reduce support to new initiatives as "we tend to give larger grants and we have to be more conscious and careful about seeing they can sustain. On the other hand, our trustees are not averse to take some risks".

The funding organisation G prefers supporting new programmes and new initiatives to funding long and established NFP organisations. In terms of the key information used to judge the start-up organisations, the Executive Director of the funding organisation E said,

> *Seems to me that what you judge the new organisation on is the people in it and the key people running that organisation. They have credibility and experience and then it may make up the fact that the organisation has a high certainty of success* (The Executive Director of the funding organisation E).

To these participating funding organisations that are willing to support start-up or financially weak NFP organisations, the financial information is not useful in making grant decisions because most of the new NFP organisations do not have sound historical financial records on which financial analysis could be drawn. As evidenced above, the non-financial information may play a vital role in the grant decision-making processes for start-up or financially weak NFP organisations.

In the case of some NFP organisations that look financially strong from their financial accounts, the funding organisations would not make grant decisions solely because of the robust financial positions of the NFP organisations. Three of the seven funding organisations (C, E, and G) recognise that the non-financial information is much more important than the financial information in their grant decision-making processes. As the Grants Manager of the funding organisation C said,

> *[The] non-financial information is more important than the financials... If we just look at the financials then you would not necessarily fund something that is really important. Or if you have a group that look really good on the books, they may not be delivering a really good project. You need to look at the whole picture* (The Grants Manager of the funding organisation C).

Similarly, the Executive Director of the funding organisation E agrees that, "In the scale of 1 to 5, the scale for financial is 3 and non-financial is 5". In the same vein, the Chairman of the funding organisation G states that the relative importance of non-financial information in grant decisions would be 80 percent, compared with a 20 percent for the financial information.

The four other funding organisations (A, B, D and F) believe that both financial and non-financial information is important. However they could not clearly define the relative importance of them. According to the Grants General Manager of the funding organisation F, depending on the organisations the weighting of the financial and non-financial information in grant decision-making processes could "swing a bit more".

According to the research, the seven funding organisations would use various types of non-financial information to make grant decisions. Six main types of the non-financial information are used by all or some of the participating funding organisations: strategies, outcomes, key people involved in the operation, support from others, legal status and Charities Commission registration number, and what the grants are used for. Assessment criteria related to each type of the non-financial information are investigated in the research and they are presented as follows.

4.5.1. Strategies

A number of different terms are used by the participating funding organisations to refer to the strategies: aims, visions, priorities, purposes, missions, mission statements, objectives, and strategic goals. For the purpose of the research, they are considered as conveying the same meanings as the strategies even though they are different in strict definition. All of the participating funding organisations agree that the strategies are important in the grant decision-making processes. In terms of the strategies, two assessment criteria are adopted by some of the seven funding organisations. Findings related to the two assessment criteria are presented as follows.

4.5.1.1. Alignment of Strategies Between the NFP Organisations and the Funding Organisations

First, strategies of the NFP organisation should fit in the strategies of the funding organisation, in other words, there should be an alignment between the NFP organisation's strategies and the funding organisation's strategies. Five of the seven funding organisations (A, B, C, D and E) assess the strategies of the NFP organisations based on this criterion. Funding organisation B, C and E require strict alignment of strategies. The funding organisation B makes grant decisions based on its purpose, focus and priorities. The strategies of the NFP organisation must be consistent with the funding organisation B's strategies. Similarly, as the Grants Manager of the funding organisation C said,

> *The key thing for us is that the applicants and projects that come through in each of the ten sectors, firstly they must align with our strategy overall and strategy within that sector. And then within each of those sectors we have funding policies... they must meet strategy, must meet funding policies then it gets more into the detailed assessment* (The Grants Manager of the funding organisation C).

In the same vein, the Executive Director of the funding organisation E agrees that,

> *In the written application, we are interested in... what are the differences they make in the world in some way align with what difference the trust would like to see in the world. [There is] an alignment between their aims and our aims* (The Executive Director of the funding organisation E).

In contrast, the funding organisation A and D are flexible in terms of the first criterion. The funding organisation A has a priority for capital works like buildings or similar projects; however it also supports other programmes in a wide range of sectors. The funding organisation D has a quick assessment on whether the NFP organisation's strategies fit in its strategies; however, it may invite some applications that "look like something the trust might be interested in even they do not fit in the strategies" to go through further application processes.

4.5.1.2. Consistency Between the NFP Organisation's Strategies and Programmes

Second, the NFP organisation's strategies and programmes should be cross-checked for consistency. Three funding organisations (B, F and G) assess the NFP organisations based on this criterion. As the Grants General Manager of the funding organisation F said,

> *Their strategy does not have to be the same as ours; their strategy has to be to deliver the objectives of the trust in the best way possible. If they are set up to provide temporary accommodation for children and they want us to fund for adult education. We would say 'just a minute, you have to change your rules if you want to do that. It has to line up with its governance and rules* (The Grants General Manager of the funding organisation F).

Similarly, the Chairman of the funding organisation G agrees that,

> *We really want to know what you are trying to do. There are lots of trusts that are not sure what their purposes are. They might have a particular service they are providing, but really what is their strategic goal? …We want to give [grants] to an organisation where they behave in accordance with what they aspire to* (The Chairman of the funding organisation G).

Interesting to note, only the funding organisation B strictly assesses strategies of the NFP organisation against both of the assessment criteria related to the strategies: alignment between the funding organisation's strategies and the NFP organisation's strategies; and consistency between the NFP organisation's strategies and programmes. It makes grants with more detailed accountability and therefore it is very cautious and strict in assessment processes.

4.5.2. Outcomes

Similar to the strategies, the participating funding organisations use different terms to refer to the outcomes the NFP organisations intend to achieve, including intended benefits, differences made to the community, social impacts, and effectiveness. All of the seven funding organisations agree that the outcomes are crucial in the grant

decision-making processes. In particular, the funding organisation D and E emphasise that even though many of the NFP organisations are good at measuring the outputs, they are more interested in the outcomes.

The outputs, as the Project and Strategy Manager of the funding organisation D said, are "Often more likely to be quantifiable and quite often related to the delivery of a particular product". Similarly, the Executive Director of the funding organisation E defined the outputs as "what you do, like an organisation visited 100 families last year and took 50 families to the doctor", which are "quite easy to count". The outcomes, as defined by the Project and Strategy Manager of the funding organisation D, are "more like a social impact… For instance, [if the outputs are] more training courses and more people get involved in the courses, the outcomes would be more young people in the jobs in the area". Similarly, the Executive Director of the funding organisation E describes that, "the outcome is the result…were those 50 families healthier as a result of what you did? Did they have less cold? Did the children have less time off school?"

The Project and Strategy Manager of the funding organisation D justifies the importance of the outcomes in grant-making processes as follows,

> *For the outcome, you might try to encourage people to eat more healthily. What you would do is to run some courses on diet or lunch clubs, which is the output. You can have the courses and clubs but not necessarily meet the outcome. There is not always a link between the two [the outputs and the outcomes]. What a lot of organisations succeed at is the output because it is much easier. Someone which is very keen in assessing outputs may not necessarily good at assessing outcomes. That is why we think it is more important to ask for the outcomes* (The Project and Strategy Manager of the funding organisation D).

With regards to the outcomes, two assessment criteria are adopted by all or some of the seven funding organisations. Findings related to the two assessment criteria are stated as follows.

4.5.2.1.   Demonstration of the Intended Outcomes

First, the NFP organisation should be able to demonstrate the intended outcomes of the organisation. Regardless of the different features of the seven funding organisations, all of them adopt this assessment criterion. As the Trustee of the funding organisation A said, "Is this [what the institution is doing] going to make a difference to the community? That is always the criteria". Similarly, the funding organisation D requires the applying NFP organisations to provide five outcomes and believe that, "these probably the more crucial things [compared with other items required in the full application form]". The Executive Director of the funding organisation E agrees that, "We are interested in... what differences they can make in the world... how they [the NFP organisations] try to get an understanding of what effects they [what the NFP organisations do] are having". In particular, the Grants General Manager of the funding organisation F prioritises the available funds by looking into the intended outcomes,

> *There are always more requests than we have funds for. That is why the last column about community benefit is on the worksheet. Who will benefit from it at the end? If we give it to you [one funding organisation] then it means we cannot give to you [the other funding organisations]* (The Grants General Manager of the funding organisation F).

4.5.2.2.   Measure the Outcomes

Second, the NFP organisations should be able to measure the outcomes by some evaluation framework or indicators. The funding organisation B and F believe that the number of people that have benefited from the specific services and programmes is an appropriate measure of the outcomes. Since the funding organisation B only funds charities that work on improving human welfare, it believes that "something like the number of people that their life has been changed" could be a way of measuring the outcomes of the NFP organisations. On the other hand, most of the NFP sectors supported by the funding organisation F are related to people. Therefore F takes the number of people benefit from the services and programmes as an appropriate measure.

Unlike the funding organisation B and F which specify a measure of the outcomes for all the applying NFP organisations, the funding organisation D requires the NFP organisations to specify their own indicators that are used to measure the outcomes. As the Project and Strategy Manager of the funding organisation D said, "If they do not have those [five defined outcome and indicators of progress] at that [initial application] stage, then we do not want to go further. They need to go back and think about that".

Apart from the three funding organisations mentioned above (B, F, and D), the other four funding organisations (A, C, E and G) do not have specific requirements related to the measurement of the outcomes. The Funding organisation C is going to develop some evaluation framework and make it as a more formal process. In contrast, the funding organisation E and G clearly state that they will not build up a framework for measuring the outcomes of the NFP organisations. However, they still would like to see that the NFP organisations are making an effort to develop their own framework to measure the outcomes. The Executive Director of the funding organisation E states that even though "it is a quite challenging thing to measure that [the outcomes]", "we still think it is a good thing to be thinking about". Moreover, the Executive Director emphasises that,

> In the future, part of our conversation with the group would be asking more about what they can do to measure [the outcomes], and what is helpful and appropriate… if we put a lot of money into an organisation and think it might be good for you to develop a framework to measure what you are doing, [and measure] whether it is actually making the differences you want to make. We could possibly have evaluation experts to go and help [to develop an evaluation framework] and we could pay for that (The Executive Director of the funding organisation E).

In the same vein, the Chairman of the funding organisation G agrees that,

> Often in the area we are operating it is not easy to do an evaluation… But we want to see people are actually thinking about this. We want to know the trust has that discipline and has in place some form of independent evaluation of their organisation

and programmes… We cannot say 'you need to do this with our level of giving (The Chairman of the funding organisation G).

However, unlike the funding organisation F, the funding organisation G would not fund for developing the evaluation framework.

4.5.3.   Key People Involved in the Operation

Except for the funding organisation A, the six other funding organisations (B, C, D, E, F and G) consider that information about the key people involved in the operation of the NFP organisations is important in the grant decision-making processes. As the Executive Director of the funding organisation E said,

> *I think the overall credibility of people involved in the [applicant NFP] organisation is possibly the very key criteria… All the other things are clues to the thinking of the organisation and so on. But if there is not a sense the key people in the organisation can do the work well, then the chances [of success] are much smaller* (The Executive Director of the funding organisation E).

The key people running a NFP organisation include the board of trustees, the paid staff (Chief Executive and other administrative staff), and the volunteer staff. Assessment criteria used by the participating funding organisation are related to the inputs of the volunteer staff, the qualifications and experience of the key people, and the behaviours of the Chief Executive. Findings related to the three assessment criteria are discussed below.

4.5.3.1.   Inputs of the Voluntary Staff

The first assessment criterion is related to the inputs of the volunteer staff. This criterion is used by four funding organisations (B, C, E and G). The funding organisation B, C and E specifically require information about the number of paid and volunteer staff and their working hours. According to the Chief Executive Officer of the funding organisation B, this is because they "would like to know more information about the

capacity and human resources of the NFP organisations in delivering the programmes".
Since the information about the volunteer staff is not available in the financial
accounts, these funding organisations ask for the specific number of volunteer staff
and their working hours so as to gain more insights into the volunteers' inputs. As
mentioned in the section 4.2, the funding organisation G does not have a formal
application form. Therefore it does not specifically require information about the
number of volunteer staff. However, the Chairman of the funding organisation G
emphasises that "having local volunteer support" is an assessment criterion.

> *We particularly like a trust which actually [has] a more community focus that [is]*
> *driven by [the] volunteers rather than ones which everything is from the national office.*
> *We much prefer ones which sort of [have] got community connection…They [national*
> *groups] need to bring up their trusts so that they can get local volunteer support which*
> *is the people resource* (The Chairman of the funding organisation G).

4.5.3.2.   Qualifications and Experience of the Key People

The second assessment criterion is related to the qualifications and experience of the
key people, in particular, the board of trustees. Two funding organisations D and F use
this criterion. The funding organisation D requires information about the qualifications
and experience of the key people, including a list of the board members. Similarly, the
Grants General Manager of the funding organisation F agrees that,

> *Also we talk to the boards of those [NFP] organisations. Often it is the CEO comes in*
> *and talks to us about what they need. I will say 'look, I would like to talk to your board'.*
> *That is always helpful to get an idea of what kind of people are on the board, position*
> *and direction of the board* (The Grants General Manager of the funding organisation F).

4.5.3.3.   Behaviours of the Chief Executive

The third assessment criterion is related to the behaviours of the Chief Executive of the
NFP organisation. This criterion is only adopted by the funding organisation G.
Interesting to note, G believes that the behaviours of the Chief Executive are vital to
the success of the NFP organisation. Therefore, rather than looking into the
qualifications and experiences of the key people, G makes judgement about the NFP

organisation based on the behaviours of the Chief Executive. As the Chairman of the funding organisation G said,

> *It is very much how the Chief Executive behaves. I am a great believer that performance [of the trust] is based on Chief Executive's behaviours rather than [the] technical qualifications of that individual. It is how that person represents the value set of the organisation… The measure is, how does that person represent, not so much charismatic, but how believable that person is with what the organisation represents to be. I can make that judgement quickly* (The Chairman of the funding organisation G).

4.5.4.   Support from Others

Four of the seven participating funding organisations (C, D, E and F) recognise the importance of the support from other community groups or people who work with the NFP organisations that apply for funds. Three of them (C, D and E) require the NFP organisations to provide two support letters from other community groups or people. Even though the funding organisation F does not specifically require the letters of support, it finds the letters very useful in grant-decision making processes. As the Grants General Manager of the funding organisation F said,

> *It is good to see there are other organisations saying how they work together with that organisation, or the good work the organisation does. There might be letters from Mayor, the local Police, or whoever it might be. Because we would like to see good partnership in the community, not just one group [which is] doing it. So that there is an impact in the community, greater community recognises that there is some good things [that have] been done* (The Grants General Manager of the funding organisation F).

4.5.5.   Legal Status and Charities Commission Registration Number

Except for the funding organisation A and G, the five other funding organisations (B, C, D, E and F) require specific information about the legal status of the NFP organisations.

The legal status of the NFP organisations could be either an incorporated society or a charitable trust. These funding organisations also ask for the Charities Commission registration number of the NFP organisation. Without the registration number, the NFP organisation may still receive grants from most of the funding organisations (C, D, E and F). However, the funding organisation B only makes grants to the NFP organisation that is registered with the Charities Commission.

4.5.6. What the Grants Are Used For

All of the participating funding organisations would like to know what the grants are used for. This is because they have different funding priorities. They may make grants for the specific services and programmes, or the on-going operational expenses, or both. The funding organisation A always prefers supporting a capital project, even though it funds for on-going operational expenses as well as other programmes. The funding organisation B only supports the operational expenses of the NFP organisation. The funding organisation C and F focus on supporting the specific services and programmes, even though the funding organisation C also makes grants for major capital projects. The funding organisation D, E and G make grants for both the operational expenses and specific programmes.

4.5.7. Summary of Theme Three

To sum up, the seven participating funding organisations agree that the non-financial information plays an important role in the grant-decision making processes. Three of them believe that the non-financial information is much more important than the financial information; while the four others consider both financial and non-financial information are important. Assessment criteria are established based on six types of the non-financial information including: strategies, outcomes, key people involved in the operation, support from others, legal status and Charities Commission registration number, and what the grants are used for. These assessment criteria are used by all or some of the seven funding organisations. In particular, all of them agree with one

criterion: the NFP organisation should be able to demonstrate its intended outcomes. Similar to the assessment criteria related to the financial information, there are no specific rules in assessing the NFP organisations. These assessment criteria are more likely to be used as guiding principles by the staff or volunteer in evaluating the NFP organisations.

4.6. Theme Four: Report Back Procedures

Report back procedures normally happen after the grant is made to the NFP organisation. Out of the seven participating funding organisations, four of them (B, C, D and F) have formal report back procedures; whereas the three other funding organisations (A, E and G) have informal report back procedures. A formal report back procedure means the NFP organisation needs to fill in a report back form as required by the funding organisation. In contrast, in an informal report back procedure, the NFP organisation is not required to fill in the form. The process is less formal and sometimes involves negotiation between the funding organisation and the NFP organisation. The funding organisation may arrange an informal site visit to see the outcome of the grant. Otherwise, the NFP organisation may write letters to acknowledge the grants and report the outcomes that it has achieved by using the grant.

Information required in the report back procedures includes financial and non-financial information. Some of the funding organisations even consider the completion of the report back procedure as a trigger of the next payment. Findings related to the report back procedures are discussed as follows.

4.6.1. Nature of the Report Back Procedures

First, the funding organisations' opinions on the nature of the report back procedures are discussed. The funding organisation B and C believe the report back procedures are

about the accountability of the NFP organisations. The funding organisation B refers the report back form as the "accountability and performance report". As the Grants Manager of the funding organisation C said, "That [report back] is more about accountability. It is about whether they have been using the money where they should have". On the other hand, the funding organisation D, F and G consider such procedures as audit processes with a limited level of rigor. As the Project and Strategy Manager of the funding organisation D said, "This is an auditing process, [but] not an in-depth auditing process. It is just looking how it goes with the money. Sometimes, at that stage, it seems appropriate to direct the money to something else". In contrast, the funding organisation F uses the audit processes to prevent fraud. As the Grants General Manager said,

> *We follow up every grant with audit … I am not saying it is full proof with the system we put in place, but we do have some pretty good checks to make sure money goes to the right thing, not to the wrong causes* (The Grants General Manager of the funding organisation F).

Interesting to note, the Chairman of the funding organisation G agrees that the report back procedure is an audit process; however it is an audit of the outcome rather than output. The Chairman mentions that there is "too much focus on the mechanics of audit".

> *I will ask them [the NFP organisations] to let us know how it is going in terms of outcome, whether they have spent it and how successfully it is. However, it is not an audit where too much on mechanic and outputs. If we are giving them $50,000, we audit it to some extent that we then ask them how it went. We will not ask them to show us invoices or proof of items they spent on… So the audit is the outcome of what we give them. It is not the audit of the spent… The focus should be on the outcome not the output* (The Chairman of the funding organisation G).

Furthermore, the funding organisation E does not want people spending too much time on accounting for grants so that they do not have much time to work on what they are supposed to do with the grant. Since the adoption of new funding system

from 2010, it may give out major grants in several instalments and need more information on report back. However, rather than imposing on the NFP organisations, the funding organisation E would like to negotiate with them about what could be the reasonable report back procedures. As the Executive Director of the funding organisation E said,

> *Once the board has decided to support an organisation, we will talk with them about what they think is a reasonable reporting approach. We will not say "this is what you have to do". We will say "tell us what you think that is going to work". We sort of negotiate with them* (The Executive Director of the funding organisation E).

4.6.2. Types of Information Required in the Report Back Procedures

Second, the types of information required in the report back procedures are analysed. All of the seven funding organisation require the NFP organisation to report back on the non-financial information; whereas only three of them (C, D and F) require the NFP organisation to report back on both the financial and non-financial information.

4.6.2.1. Financial Information

As the Project and Strategy Manager of the funding organisation D said, the purpose of reporting back on the financial information is "to know what they [the NFP organisations] have done with the money". Similarly, the Grants Manager of the funding organisation C agrees that the purpose is about "whether they [the NFP organisations] have been using the money where they should have". The types of financial information required in the report back form vary from one to another funding organisation. The funding organisation C requires the latest financial statements within which its grants are separately identified. The funding organisation D requires the non-audited income and expenditure details as well as the budgets. The Project and Strategy Manager of the funding organisation D said the budgets are about "How they [the NFP organisations] confess what they have predicted". The funding

organisation F needs proof of items that the NFP organisation spends on, for instance, bank statements, invoices and receipts of the specific services or equipments.

4.6.2.2.   Non-financial Information

In terms of the non-financial information required in the report back procedures, all of the seven funding organisations require the NFP organisation to report back on the outcomes. The funding organisation A would check the outcomes in a less formal way by arranging an informal site visit to see what has been done with the money. Such a report back procedure usually happens when a major grant is given. As the trustee of the funding organisation A said,

> *I keep in touch with the [NFP] organisation not by formally confronting them and say "now I want to come down and examine what you have done"... It is done informally but yes it is done. I wouldn't give a significant amount of money and walk away* (The trustee of the funding organisation A).

The funding organisation B, C and F consider that it is appropriate for the NFP organisations to report back on the outcomes by telling some real stories. As the Chief Executive Officer of the funding organisation B said, "The report should include real stories about how people are helped and how their life has been changed". Similarly, the Grants Manager of the funding organisation C agrees that, "The groups [NFP organisations] can try to tell their stories as best as they can". The funding organisation F does not make report back on the outcomes mandatory. However it would be great if the NFP organisation reports back on the outcomes by writing a thank-you letter and tells what has happened. As the Grants General Manager of the funding organisation F said,

> *When the letters coming back and say "thank you for doing that, this is what we did and this is what happened"... Many do [report back on the outcomes]. They are grateful and want to say thank you. But some will not come back, they will not say thank you... it is not compulsory [to report back on the outcomes] but it is great that people do* (The Grants General Manager of the funding organisation F).

The funding organisation D has very specific requirements in terms of reporting back on the outcomes. As mentioned in section 4.5.2, in the funding organisation D, one of the most important assessment criteria in the grant decision-making process is that the NFP organisation must provide five unspecified measured outcomes. In response to such assessment criterion, D requires the NFP organisation to report back on these measured outcomes. It also wants to see the unexpected outcomes. As the Project and Strategy Manager of the funding organisation D said,

> *Sometimes it will be they try this but this did not work. However, there is other thing that worked unexpectedly… We would be pleased if the [unexpected outcome] is good. If the [unexpected] outcome is bad, we also want to know. It is not necessarily an indication on the failure of the organisation. They just did not work as expected* (The Project and Strategy Manager of the funding organisation D).

In addition to the five measured outcomes and unexpected outcomes, the funding organisation D also requires the NFP organisation to report back on what they have learnt from the project. Such a requirement is in accord with the viewpoint of the funding organisation E. The funding organisation E makes the report back procedure to be a reflective learning process on what the NFP organisations have learnt from carrying out the work,

> *The idea of putting more efforts on learning is that at the end of the day when they [the NFP organisations] are writing a letter to us, they have to stop and think about what has been to the results* (The Executive Director of the funding organisation E).

As mentioned before, the funding organisation G uses an informal report back procedure. G would like the NFP organisation to put its own words in a letter and tell what outcomes have been achieved and what outcomes have not been achieved. An exemplar progress report that was recently submitted to the funding organisation G is analysed. The report was from a NFP organisation that provides a therapy programme to youth who are school leavers and have mental health issues. In the exemplar, the president of the Board of the NFP organisation specifically describes the progress that one youth has made so far; for instance, the youth has become emotionally stable. The president also identifies the targets to be achieved for the forthcoming period, for

example, working to achieve NCEA credits at certain level in certain subjects. The Chairman of the funding organisation G considers this progress report as a good one because it focuses on the outcomes and makes an effort to tell as much details as possible in a very honest way. The report does not only tell about what the youth has achieved so far, but also tells about what has not yet been achieved.

4.6.3.   Imposition of the Report Back Procedures

Third, to impose the report back procedures on the NFP organisations, six out of the seven funding organisations (B, C, D, E, F and G) would not make the next payment until the report back activity has been done. The funding organisation B would not accept a new application until the formal report back form is submitted. As the Chief Executive Officer of the funding organisation B said, "An accountability and performance report must be submitted before submitting a new application". Similarly, The Grants General Manager of the funding organisation F emphasises that, "We will not do another grant unless we have their [the NFP organisations'] report back". In the same way, the Project and Strategy Manager of the funding organisation D agrees,

> *If the donations are released in several instalments, like quarterly or six-monthly on the condition that they [the NFP organisations] report back on this report form. What they write on there is sent to our trustees, so we will look at this before we make any further instalments* (The Project and Strategy Manager of the funding organisation D).

The Executive Director of the funding organisation E expresses a similar opinion that, "Typically with the multi-year grants that have been made in the past, we can get an update or progress report. That is the kind of trigger for us to send our next payment". The funding organisation G specifies the conditions of the report back procedures when a multi-year grant is approved. G will not make the next grant until a progress report is submitted.

4.6.4.   Summary of Theme Four

In summary, as shown in Table 2, all of the seven funding organisations have either formal or informal report back procedures. Except for the funding organisation A, the six other funding organisations consider the report as a trigger for the next payment. This implies that the report back procedure is considered by these funding organisations as an essential part of the grant-making processes. All of them agree with that the non-financial information related to the outcomes is important in the report back procedures. Only three of them (C, D and F) consider that the financial information is as important as the outcomes.

Table 4 Summary of the report back procedures of the seven funding organisations

Funding organisation	Procedures		Importance of the financial information Yes/ Not mentioned	Importance of the non-financial information Yes/ Not mentioned	Trigger for the next payment Yes/ Not mentioned
	Formal Yes/No	Informal Yes/No			
A	No	Yes	Not mentioned	Yes Requires: Outcomes	Not mentioned
B	Yes	No	Not mentioned	Yes Requires: Outcomes	Yes
C	Yes	No	Yes Requires: latest financial statements	Yes Requires: Outcomes	Yes
D	Yes	No	Yes Requires: non-audited income and expenditure details and budgets	Yes Requires: Outcomes with a focus on learning	Yes
E	No	Yes	Yes Requires: bank statements, invoices and receipts	Yes Requires: Outcomes with a focus on learning	Yes
F	Yes	No	Not mentioned	Yes Requires: Outcomes	Yes
G	No	Yes	Not mentioned	Yes Requires: Outcomes	Yes

4.7. Conclusions

This chapter analyses the qualitative data with respect to four main themes: grant application and decision-making processes, financial information, non-financial information, and report back procedures. Key findings are summarised in terms of these four main themes.

First, except for funding organisation A, the six others share some common features in the grant decision-making processes. The processes start with quick screening of application and then satisfactory applications are assessed in detail by either volunteers or paid staff members. Finally, reports and recommendations are provided to the Board for final decisions.

Moreover, the four private independent trusts are keen to reduce the amount of administrative work by simplifying the application processes. Whereas the three other funding organisations are not concerned about the amount of administrative work as they focus more on compliance and public accountability. Thus they might consider complicated application processes inevitable.

Second, all of the seven participating funding organisations consider financial information important in their grant decision-making processes however they recognise that financial information is only of limited use and they would never want to make grant decisions exclusively based on the financial information of an NFP organisation. Financial information utilised by all or some of the funding organisations in grant decision-making processes include: audited or non-audited financial accounts, budgets, sustainability plan, expenditures (administration, programme delivery and fundraising expenses), income streams and other sources of funds, investment or financial reserves, operating capital, and cash assets.

In terms of assessment criteria of financial information, there are no specific rules in assessing the financial figures. The funding organisations are aware of the fact that NFP organisations vary from one to another in terms of size and operational activities. Many of the NFP organisations are not comparable. Hence, most of the assessments criteria are "principle-based".

Third, all of the seven participating funding organisations agree that the non-financial information plays important role in the grant-decision making processes. Assessment criteria are established based on six types of the non-financial information including: strategies, outcomes, key people involved in the operation, support from others, legal status and Charities Commission registration number, and what the grants are used for. These assessment criteria are used by all or some of the seven funding organisations.

In particular, all of them agree with one criterion: the NFP organisation should be able to demonstrate its intended outcomes. Similar to the assessment criteria related to the financial information, there are no specific rules in assessing the NFP organisations. These assessment criteria are more likely to be used as guiding principles by the staff or volunteer in evaluating the NFP organisations.

Fourth, all of the seven funding organisations have either formal or informal report back procedures. Except for the funding organisation A, the six other funding organisations consider the report as a trigger for the next payment. This implies that the report back procedure is considered by these funding organisations as an essential part of the grant-making processes. All of them agree with that the non-financial information related to the outcomes is important in the report back procedures. Only three of them consider that the financial information is as important as the outcomes.

The next chapter interprets and discusses the findings analysed in this chapter with respect to the concepts from literature review (*refer Chapter 2*).

5. Chapter Five: Discussion and Conclusion

5.1. Introduction

This chapter discusses the findings of the research project with reference to the concepts and propositions from the literature review chapter and the research questions. The research question is: What are the critical pieces of information, both financial and non-financial, that funding organisations utilise in their grant-making decisions? Four sub-questions are constructed and addressed in the research project to achieve this objective. Firstly, this research project investigates the grant decision-making processes. Secondly, funding organisations' assessment criteria on financial information is studied. Thirdly, the research project investigates the assessment criteria on non-financial information. Finally, report back procedures are examined.

The first sub-question about "what are the grant decision-making processes" is analysed in the previous chapter, it is not discussed separately as a major theme in this chapter. This is because this sub-question aims at exploring the features of the grant decision-making processes which are the fundamentals of the three other sub-questions. Such investigation would assist both the researcher and readers to understand distinguished features and details of the decision-making processes of each funding organisation. The discussion section focuses on addressing the other three sub-questions.

This chapter is organised as followed. The first section provides a comprehensive discussion of the findings of the research project. The second section concludes the research project and provides recommendations. This is followed by acknowledgement of theoretical and practical contributions of the research.

5.2. Discussion of the Research Findings

The discussion section is divided into three parts: (1) financial information, (2) non-financial information, (3) insights into grant-making assessment criteria. In the first two parts, findings of the research project either confirm or challenge the results of previous studies regarding importance and usefulness of particular type of financial information. The third part goes further to explore the grant-making assessment criteria utilised by funding organisations.

5.2.1.   Financial Information

5.2.1.1.   Overall Importance of Financial Information

Feasey (2007) states that the financial statements and audited financial accounts are the common types of financial information that is sought by 70 percent of the participating funders in their application forms (*refer 2.6*). This is confirmed and extended by the findings of the research project, that is, all of the seven participating funding organisations consider financial information important in their grant decision-making processes (*refer 4.4*).

Even though the importance of financial information has been confirmed, the findings of the research project also state that the financial information is not useful while making grants to start-up or financial weak not-for-profit (NFP) organisations (*refer 4.5*). This is because most of the new organisations do not have sound historical financial records on which financial analysis could be drawn. This finding confirms Not-for-Profit Sector Advisory Committee (NFPSAC)'s (2009) claim that financial information may have a relatively minor impact on the performance evaluation of the NFP organisations. Stakeholders may make some decisions without assessing the financial information provided under current NZ IFRS.

On the other hand, in the case of some NFP organisations that look financially strong from their accounts, the funding organisations would not make grant decisions solely

based on robust financial positions of the NFP organisations. Therefore, it is probable that the funding organisations consider financial information important, but would not solely rely on financial information in the grant decision-making processes.

5.2.1.2.   Audited Financial Accounts

In response to Feasey's (2007) claim that audited financial accounts are required by 70 percent of the funders, this research project confirms that all of the seven funding organisations use up-to-date financial accounts in decision-making processes. Six out of seven funding organisations (B, C, D, E, F and G) require financial accounts to be audited by an independent qualified accountant (*refer 4.4.2*). However, research findings show a certain degree of flexibility in terms of this requirement. Out of the six funding organisations mentioned above, B and D make audited accounts mandatory for all applications. The four others only make audited accounts compulsory for major grant applications. They allow certain amount of latitude on NFP organisations that only apply for a small-sized grant (below approximately $10,000, *refer 4.2 Table3*).

The research extends further to explore the reasons behind such flexible requirements. First, these four funding organisations are concerned about the cost of audits for the NFP organisations that only apply for a small amount of grant. Second, they recognise the debates on whether an audit does actually provide assurance on the financial status of an NFP organisation. This research finding confirms the results of the studies conducted by Newberry(1992) and Palmer, Isaacs, and D'Silva (2001). These previous studies find that auditors are not able to identify non-compliant accounts. Hence the reliability of audited accounts is uncertain.

5.2.1.3.   Other Financial Information

Another important result of Feasey's (2007) study is 50 percent of the funders specifically require a budget in their application form. This research project has a similar result (*refer 4.4.3*). Four of the seven funding organisations (B, D, E and F) use budgets in their grant decision-making processes. The research goes further to explore

why the budgets are used. First, these funding organisations believe that budgets indicate capability of planning for the future. Second, budgets can provide information about the realistic costs for the programme.

In addition, the funders who participated in Feasey's (2007) study require information about "applied funding elsewhere", i.e. other funding applications, and "other funding sources". This is also confirmed by the finding of this research project. Six out of the seven funding organisations agree that for a NFP organisation to be viable and sustainable, it should have a variety of income streams, i.e. various funding sources. Therefore, they would like to know information about other funding sources (*refer 4.4.5.2.1*). In particular, three of them (B, C and F) check out information about "other funding applications" to ensure they do not make duplicate funding with other funders and the government (*refer 4.4.5.4*).

5.2.1.4. Financial Measures

5.2.1.4.1. Price

A number of financial measures are proposed by previous studies to measure performance of NFP organisations. First, "Price" is suggested as a measure of the percentage of resources that are spent on the programmes that are in accordance with NFP organisation's objectives or missions (*refer 2.7.2.2*) (Parsons, 2003). Tinkelman's (1998) study states that institutional donors (corporate and funding organisations) do not consider the "price" as a significant measure while making grants.

Despite the fact that none of the funding organisations mention this specific ratio, the finding of the research project (*refer 4.4.5.1.2*) suggests that three of the seven funding organisations (B, E, and G) consider another similar term, "the percentage of resources that spent on delivery of programme", would be relevant for grant decision-making. However, they also recognise that the percentage could vary from organisation to organisation. Moreover, they realise that NFP organisations quite often do not categorise expenses in a way to clearly show programme delivery expenses. It

can be concluded that the "price" ratio is not used by these funding organisations. In terms of the percentage of resources that are spent on delivery of the programme, even though these three funding organisations talk about this percentage, they seem not to use them due to the difficulties mentioned above. Therefore, the research project has a similar result to Tinkelman's (1998) study.

5.2.1.4.2. Fundraising Ratio

Parson (2003) suggests that the fundraising ratio measures how much does the NFP organisation spend in generating a certain level of contribution (*refer 2.7.2.3*). Even though watchdog agencies like the Council of Better Business Bureau (CBBB) Wise Giving Alliance use this ratio in providing guidelines for performance evaluation of NFPs, its usefulness to funding organisations is still unclear.

The research project finds that except for the funding organisation A and B, the others are not concerned about the fundraising expenses (*refer 4.4.5.1.3*). In particular, the funding organisation C states that it does not fund for a NFP organisation that has fundraising activities. A and B concern themselves with fundraising expenses due to following possible reasons. The trustee of A has been doing fundraising for thirty years and therefore has particular interests in this field. B raises funds from the community and hence it is conscious of appropriate fundraising ratio. With reference to the above findings, it seems that the majority of funding organisations would not concern themselves with the fundraising ratio while making grant decisions.

Interesting to note, funding organisation A and B provide very different opinions on what an appropriate fundraising ratio should be. A suggests a fundraising ratio for capital campaign should be below 10 percent, whereas campaign for operational funds may have a higher ratio of 25 percent. B suggests a higher ratio of 30 to 50 percent. It is possible that every funding organisation that is concerned about the fundraising ratio might have a different opinion on what an appropriate ratio should be. This ratio

might not work properly if there is no generally accepted benchmark for the fundraising ratio.

5.2.1.4.3.   Revenue Concentration

Tuckman and Chang (1991) suggests revenue concentration, i.e. range of revenue sources, as a measure of financial stability of the NFP organisations (*refer 2.7.2.4*). A later study confirms this measure is significant in predicting financial vulnerability (Greenlee & Trussel, 2000). The finding of this research project confirms that six of the seven participating funding organisations agree that "a variety of income streams" is an important indicator of viability and sustainability of the NFP organisations (*refer 4.4.5.2.1*).

5.2.1.4.4.   Level of Administrative Costs

The level of administrative costs is a ratio of administrative expenses to total expenses. Previous studies suggest this measure is significant in assessing financial stability and predicting vulnerability (Greenlee & Trussel, 2000; Tuckman & Chang, 1991). However, this research project has a different result. Funding organisations look at administrative expenses to assess operational efficiency and governance rather than financial stability of the NFP organisations (*refer 4.4.5.1.1*). Besides, research findings confirm that these funding organisations do not calculate the ratio of administrative expenses to total expenses.

5.2.1.4.5.   Other Financial Measures

A number of authors (Anthony & Young, 2003; Drtina, 1984) argue that the ratio of inputs to outputs demonstrate how costly an organisation is in provision of a service (*refer 2.7.2.1*). Donors can use this ratio to compare performance of NFP organisations across periods to have a better picture of efficiency of the organisation. Cherny et al. (1992) argue that calculation of this ratio is very difficult as outputs are quite often not quantifiable.

Tuckman and Chang (1991) propose to use adequacy of equity and operating margin to measure the financial stability of NFP organisations (*refer 2.7.2.4*). Adequacy of equity is a ratio of equity to total revenue. Operating margin is calculated by using total revenue less total expenditure and then divided by total revenue. A later study conducted by Greenlee and Trussel (2000) finds that the adequacy of equity ratio is not a significant factor in predicting financial vulnerability. Parson's (2003) study has a similar result as Tuckman and Change's (1991) research and confirms that these two ratios are significant factors in predicting financial distress.

The findings of this research project show that none of the participating funding organisations do rigorous, scientific financial analysis while assessing the performance of NFP organisations (*refer 4.4.5*). Hence they do not calculate these financial measures. However, six of the seven participating funding organisations do some (not scientific and rigorous) degree of analysis by looking at the appropriateness of some specific financial figures in the accounts. For instance, they look at revenue, expenditure, equity as well as inputs and outputs. The assessment criteria on the specific financial figures are discussed in section 5.4.1.

5.2.2.   Non-financial Information

5.2.2.1.   Overall Importance of Non-financial Information

The findings of Feasey's (2007) study is that various types of non-financial information are sought by 50 percent of the participating funders in their application forms (*refer 2.6*). Unlike the result of Feasey's (2007) study where non-financial information is sought by only half of the participating funders in grant application forms, this research project finds that all of the seven participating funding organisations recognise the importance of non-financial information in grant-decision making processes (*refer 4.5*). Three of the seven funding organisations (C, E, and G) actually believe that non-financial information is much more important than the financial information. Whereas the rest of them consider both types of information is important.

The weights of financial and non-financial information could swing depending on what types of NFP organisations they are.

This might be because of two reasons. First, most of the new NFP organisations do not have sound historical financial records on which financial analysis could be drawn, therefore financial information is not useful in this case. Second, these funding organisations would not make grant decisions solely relying on robust financial positions of the NFP organisations. Therefore, the research finding suggests that it is highly likely that non-financial information play a vital role in the grant decision-making processes.

Feasey's (2007) study finds 50 percent of the funders seek some common types of non-financial information including: purpose of organisation, national body affiliation, project description, legal status and project community benefit. Research results related to each type of the above non-financial information are discussed as follows.

First, all of the participating funding organisations consider strategies, i.e. purposes of organisation important in the grant decision-making processes (*refer 4.5.1*). This finding confirms and strengthens the usefulness of strategies in grant making processes. The research project goes further to explore the assessment criteria regarding strategies, which is discussed in section 5.2.3.2.1.

Second, unlike the result of Feasey's (2007) study, none of the funding organisations consider national body affiliation while making grant decisions. Instead, four of the seven funding organisations recognise the importance of the support from other community groups or people who work with the NFP organisations (*refer 4.5.4*). Therefore, they would like to see support letters from other community groups or people, for instance, the mayor or the local police.

Third, all of the seven participating funding organisations require information about what the grants are used for, i.e. project description (*refer 4.5.6*). This research finding confirms and reinforces the result of Feasey's (2007) study with regard to the usefulness of project description in grant-making decisions.

Fourth, similar to what Feasey (2007) has found out in the grant application forms, five of the seven funding organisations (B, C, D, E and F) require specific information about the legal status of the NFP organisations (*refer 4.5.5*). In addition, these funding organisations also ask for the Charities Commission registration number even though this is not a compulsory requirement for most of them (except for B). It can be concluded that legal status and the Charities Commission registration number are important. Nevertheless many of the funding organisations may still support NFP organisations that are not yet registered or do not have appropriate legal status if their programmes are justifiable.

Fifth, all of the seven funding organisations agree that the outcomes, i.e. project community benefits are crucial in the grant decision-making processes (*refer 4.5.2*). This research finding confirms and strengthens the result of Feasey's (2007) study. The research project goes further to investigate the assessment criteria used in evaluating outcomes of the NFP organisations, which is discussed in section 5.2.3.2.2.

5.2.2.2.   Non-financial Performance Measures

5.2.2.2.1.   Voluntary Inputs

The contribution of the volunteers is vital to the success and sustainability of the NFP organisations (Charities Commission, 2010; Sanders et al., 2008), however voluntary inputs are quite often excluded from the performance measurement (Cordery, 2010; Fisher, 2010; Snively, 2010). A number of authors argue that the value of the volunteers' inputs should be measured, valued and recorded either in financial reports (Fisher, 2010) or in supplementary non-financial reports (Snively, 2010) (*refer 2.7.1.1 and 2.8.3.1*).

This research project finds out that three of the seven funding organisations (B, C, and E) specifically require information about the number of paid and volunteer staff and their working hours to gain more insights into the volunteers' inputs in the NFP organisations. The funding organisation G does not specifically require such information but would prefer to support organisations that have local volunteer support (*refer 4.5.3.1*). The finding of this research project suggests that many funding organisations are aware of the importance of volunteer support. Therefore they probably take voluntary inputs into account while making grant decisions.

With regard to the debates around how to measure, value and record voluntary inputs, it seems that the above four funding organisations (B, C, E, and G) are satisfied with knowing the number of volunteer staff and working hours. None of them mention demands of knowing the monetary value of volunteers' inputs.

5.2.2.2.2. Outputs

Snively (2010) states that many existing government contracts are based on the outputs because outputs are quite often measured in numerical terms and hence much easier to "count" than outcomes (Buckmaster, 1999) *(refer 2.7.1.3)*. The Statement of Service Performance (SSP) is suggested as an effective reporting tool to assess the output delivery and service performance of NFP organisations (Carson, 2010; Scoringe, 2010). An effective SSP should disclose both projected and actual outputs and outcomes of the programme (NZICA, 2007a) (*refer 2.8.1*).

This research project investigates the usefulness of outputs in grant-making decisions. Two funding organisations (D and E) emphasise that even though lots of the NFP organisations are good at measuring the outputs because it is much easier, they may not necessarily good at assessing outcomes. They believe that measuring outcome is the more crucial part. The rest of the organisations do not even mention outputs (*refer 4.5.2*). Based on the finding of the research project, it is almost certain that funding

organisations do not consider outputs important and useful in grant decision-making processes.

5.2.3. Insights into Grant-making Assessment Criteria

Section 5.2.1 and 5.2.2 discuss research findings that either confirm or challenge results of previous studies. It has become clear that even though financial information is important to the funding organisations, the non-financial information plays vital role in grant-making decisions. The research project goes further to explore the assessment criteria used by the funding organisations while assessing financial and non-financial information. This part is further divided into three themes. The first theme is about assessment criteria on financial information. This is followed by discussion about assessment criteria on non-financial information. The last theme discusses report back procedure which is impliedly an important part of the grant-making processes.

5.2.3.1. Assessment Criteria on Financial Information

Financial information is required by all of the seven participating funding organisations for three main principles (*refer 4.4.1*). A common principle is that financial information can provide an overview of whether the operation of the NFP organisation is efficient, and could be an indicator of whether the organisation is viable, sustainable, financially healthy and well-governed. The second principle is that financial information can be used to test the needs of the organisation. The last principle is to avoid duplicate funding with the government and other funders for the same programme or initiative.

Six of the seven funding organisations (B, C, D, E, F, and G) do some degree of analysis and assessment by looking at a number of specific financial figures in the accounts. Based on the above three principles, assessment criteria on financial information are classified into four categories: (1) efficient operation and good governance, (2) viability

and sustainability, (3) need for funds, (4) duplicate funding with the other funders and the government.

5.2.3.1.1. Efficient Operation and Good Governance

The research project finds out that the above six funding organisations look into the expenditures of the applying charities to make a judgement on their operation and governance status. They are interested in three types of expenditures: administration expenses, programme delivery expenses, and fundraising expenses.

First, salary expenses are examined by two funding organisations (C and F) to see whether there is a clear separation of the governance and operation of the NFP organisation. Two other funding organisations (D and G) have very different opinions on what is an appropriate level of administrative cost. Funding organisation D looks at either too high or too low expenses, whereas funding organisation G prefers supporting a NFP organisation with relatively low administrative cost.

Second, three funding organisations consider programme delivery expense relevant but mention some difficulties in looking at this expense item. This is because: (1) expenditure varies across a wide range of different NFP organisations; (2) the NFP organisations quite often do not categorise expenses in a way to separate programme delivery expenses from administration and other activities and hence programme delivery expense is not readily available from the financial accounts.

Third, surprisingly, out of the seven participants, five funding organisations would not look at fundraising expenses. Only two of the seven funding organisations consider fundraising expenses relevant to their grant-making decisions.

In brief, some of the funding organisations accidentally look at the same expenditure item, for instance, administrative expense. However, they make judgement based on

some vague, subjective criteria. Based on readily available information about expenditure items, funding organisations tend to make subjective judgements on the operational efficiency and governance status of the NFP organisation.

5.2.3.1.2.   Viability and Sustainability

The finding of the research suggests that the above six funding organisations (B, C, D, E, F, and G) examine the viability and sustainability of the NFP organisations by looking at their income streams (i.e. other sources of funds), investment or financial reserves, and operating capital.

All of them agree the first financial indicator for the viability and sustainability is a variety of income streams. They believe that dependence on one particular funding organisation makes the NFP organisation vulnerable.

Five of them (B, C, D, E, and F) agree that the investment or financial reserves is the second financial indicator for the viability and sustainability. They understand that many NFP organisations have financial reserves or investments which are kept for "rainy days" when the income goes down due to an economic downturn or other unforeseen events. Depending on the size and nature of the NFP organisation, a certain level of investment or financial reserve is considered appropriate.

Four of them (C, E, F, and G) believe that the operating capital is the third financial indicator which can be used to test the viability and sustainability of a NFP organisation. However, they may still support the ones that are running without enough capital if the programme or initiative is worthwhile. This assessment criterion reinforces the statement made by all of the seven participating funding organisations, that is, financial information is important but only of limited use. They may still support the NFP organisation even though it is financially weak as long as their programme objectives are considered innovative or justifiable. According to the above findings of

the research project, it is almost certain that a variety of income streams is the most commonly agreed indicator of viability and sustainability.

5.2.3.1.3.   Need for Funds

Four of the above six funding organisations (C, D, F, and G) look at assets, in particular cash assets as well as investments in order to test the needs for funds. They do not want to support a NFP organisation that has lots of spare money that is not attached to any specific future project or capital work. Relating this finding with the finding in 5.2.3.1.2, it can be concluded that funding organisations would like to see NFP organisations viable and sustainable, but would not like to support organisations that are "too rich". Funding organisations would make their judgement on what is an appropriate level of investment and cash according to the size and nature of a NFP organisation.

5.2.3.1.4.   Duplicate Funding with the other funders and the government

Three of the above six funding organisations (B, C and F) need information about the other funders that the NFP organisations have approached as well as the NFP organisations' government contracts. They require the NFP organisations to be transparent on the other funders and any government funding that they have sought for the same programme or initiative. This assessment criterion seems to be a specific requirement of those funding organisations that have public accountability. The four other private independent trusts do not have concerns about duplicate funding.

5.2.3.2.   Assessment Criteria on Non-financial Information

Assessment criteria are established based on six types of the non-financial information including: strategies, outcomes, key people involved in the operation, support from others, legal status and Charities Commission registration number, and what the grants are used for. Since support for others, legal status and what the grants are used

for are discussed in section 5.2.2.1, this section focuses on discussing the assessment criteria related to strategies, outcomes and key people involved in the operation.

5.2.3.2.1.   Strategies (Purposes of NFP organisations)

All of the seven participating funding organisations agree that the strategies (i.e. purposes of NFP organisations) are important in the grant decision-making processes. As mentioned in 5.2.3.1.2, funding organisations would support financially weak NFP organisations if the purposes of their programmes are worthwhile or innovative, i.e. the strategies of the NFP organisations sound innovative or worthwhile to support.

Findings about how to assess strategies of the NFP organisations can be grouped into two criteria. First, five funding organisations (A, B, C, D and E) want to see an alignment of strategies between the NFP organisations and the funding organisations. Second, three funding organisations (B, F and G) check the consistency between the NFP organisation's strategies and programmes.

To conclude, funding organisations would look at strategies of the NFP organisations based on either of the above two criteria. Nevertheless, it is still unclear which criterion is the most commonly adopted one as their approaches are very subjective.

5.2.3.2.2.   Intended Outcomes and Outcome Measurement

All of the seven funding organisations agree that the outcomes are the crucial information that they would require while assessing the NFP organisations. Findings related to outcome assessment are grouped into two criteria. First, regardless of the different features of the seven funding organisations, all of them require the NFP organisations to be able to demonstrate their intended outcomes.

Second, they believe that the NFP organisations should be able to measure the outcomes by some evaluation framework or indicators. The funding organisation B and

F believe that the number of people that have benefited from the specific services and programmes is an appropriate measure of the outcomes. The funding organisation D requires the NFP organisations to specify their own indicators that are used to measure the outcomes. The other four funding organisations (A, C, E and G) do not have specific requirements related to the measurement of the outcomes. However, they still would like to see that the NFP organisations are making an effort to develop their own framework to measure the outcomes.

To conclude, it is almost certain that **demonstration of intended outcomes is considered as an essential assessment criterion**. Even though funding organisations do not have similar requirement with regard to the measurement of outcomes, all of them acknowledge that they would like to see outcomes to be measured by some form of evaluation framework or indicators. This confirms the need of developing and reporting non-financial measures of the accomplishment of result-based outcomes in New Zealand's NFP sector (Feasey, 2007; NFPSAC, 2009; Snively, 2010).

5.2.3.2.3.   Key people involved in the operation

Except for the funding organisation A, the six other funding organisations (B, C, D, E, F and G) consider that information about **the key people involved in the operation** of the NFP organisations is important in the grant decision-making processes. The key people running a NFP organisation include the board of trustees, the paid staff (Chief Executive and other administrative staff), and the volunteer staff. Since section 5.2.2.2.1 discusses the voluntary inputs, this section focuses on the importance of the two other types of key people involved in the operation. First, two funding organisations D and F look at the qualifications and experience of the key people, in particular, the board of trustees. Second, the funding organisation G believes that the behaviours of the Chief Executive are vital to the success of the NFP organisation. Therefore, rather than looking into the qualifications and experiences of the key people, G makes judgement about the NFP organisation based on the behaviours of the Chief Executive.

The finding of the research project suggests that it is almost certain that many funding organisations are aware of the importance of key people involved in the operation. Therefore they probably take the "quality and good faith of people" into account while making grant decisions. Nevertheless, funding organisations have different opinions about the importance of particular type of people. Their staff member or evaluation volunteers tend to make judgements subjectively on the characters of key people they meet or talk with.

5.2.3.3. Report Back Procedures

All of the seven funding organisations have either formal or informal report back procedures. Except for the funding organisation A, the six other funding organisations consider the report as a trigger for the next payment. Without an appropriate report back on progress, a NFP organisation would not be able to receive payment for the next period if the grant is paid in several instalments. In the case of a one-off grant, a NFP organisation is not eligible to apply for next round if a performance report is not submitted to the funding organisation. Therefore, it is reasonable to believe that **funding organisations consider report back procedure as an essential part of the grant-making processes**.

5.2.3.3.1. Report Back on Actual Outcomes

All of the seven funding organisations require the NFP organisation to report back on the outcomes. Only three of them (C, D and F) require a report back on both financial information and outcomes. It is reasonable to conclude that NFP organisations' report back on actual outcomes is more crucial to most of the funding organisations. The funding organisation A would check the actual outcomes in a less formal way by arranging an informal site visit to see what has been done with the money. Three funding organisation (B, C and F) consider that it is appropriate for the NFP organisations to report back on the outcomes by telling some real stories. Funding organisation G want the NFP organisation to write in their own words and tell about what outcomes they have achieved. This finding confirms Carson's (2010) proposition

that Key Performance Indicators (KPIs) should go beyond numbers and include "words, graphs, pictures and even video clips".

In addition to report on actual outcomes achieved, funding organisation D and E requires the NFP organisation to report back on what they have learned from the project. They believe that the report back procedure could be a reflective learning process to allow the NFP organisations to think about what they have learned and how to improve. This finding is consistent with Buckmaster's (1999) opinion that outcome measurement is a powerful tool to facilitate the organisational learning process.

Taking account of the above finding of the research project, funding organisations would assess the actual outcomes of the NFP organisations while making grant decisions. Relating this finding with the finding in section 5.2.3.2.2, it is almost certain that both intended and actual outcomes are considered important while assessing and evaluating the performance of the NFP organisations.

5.3. Conclusion and Recommendation

5.3.1.   Conclusion

It has become clear that funding organisations acknowledge the limited use of financial information and would not solely rely on financial information to make grant decisions. In most of the cases, non-financial information could influence the final grant-making decisions.

In terms of financial information, audited financial accounts are likely to be used by most of the funding organisations. However, unlike the result of previous studies, funding organisations may allow a certain amount of latitude on NFP organisations that only apply for a small-sized grant (below approximately $10,000). It can be concluded that funding organisations make a judgement on the appropriateness of

financial accounts based on three principles: (1) efficient operation and good governance, (2) viability and sustainability, (3) need for funds, and (4) duplicate funding with other funders and the government. Out of the financial accounts, a variety of income streams is considered as a meaningful indicator of viability and sustainability.

Since none of the funding organisations do rigorous financial analysis on the financial information, most of the financial measures proposed by previous studies (including "price", "fundraising ratio", "level of administrative costs", "ratio of inputs to outputs", "adequacy of equity", and "operating margin") are not used by funding organisations. According to the research findings, revenue concentration, i.e. a variety of income streams is the only financial measure that is used by the funding organisations to assess viability and sustainability.

The finding of this research project cannot conclude any specific standard or rule used by funding organisations in assessing the financial status of NFP organisations. Volunteers and staff members in these funding organisations tend to make subjective judgement on the financial status of the NFP organisations based on the principles mentioned above. This is mainly because (1) most of the funding organisations are not run with strong professional accounting support. They rely on volunteers or their staff members to make an assessment on the financial status of the NFP organisations. These volunteer or staff members may be idealistic, but often generally lack technical accounting skills (Brown & Purushothama, 2005). (2) NFP organisations vary from one to another in size and nature of activities. It can be difficult to apply one standard or benchmark to all different organisations. (3) Building evaluation or assessment framework can be too costly to most of the private independent trusts. They do not want to spend too much on administrative work and therefore rely largely on volunteers. They would rather spend money on making grants than spend it on building an evaluation framework.

In terms of non-financial information, strategies (i.e. purposes of organisations), outcomes and key people involved in the operation are probably the most important non-financial information utilised by many funding organisations.

Findings of the research suggests that funding organisations would look at the strategies, i.e. purposes of the NFP organisations, to decide on whether this organisation (and its programme) is worthwhile to support. Their criteria are quite vague and subjective in assessing the strategies of the funding organisations.

On the other hand, it has become clear that funding organisations would want to see clearly defined intended outcomes before grants are made. They also want to see report back on actual outcomes achieved after the first or full instalment of the grants is made. Funding organisations show strong interest in looking at outcomes, even though many of them do not strictly require NFP organisations to have an outcome measurement or evaluation framework. They are quite flexible in assessing outcomes, a variety of indicators including number of people benefited from the programme, specifically measured outcomes, and successful real stories, would be acceptable.

The research finding shows that in addition to the outcomes, funding organisations are also aware of the importance of key people involved in the operation of the NFP organisation. In particular, they would like to see local volunteer support. They would also want to meet or talk to the NFP organisations' broad of trustees and Chief Executive. It can be concluded that volunteers and staff members of the funding organisations would make a subjective judgement on the performance of the NFP organisations based on the characters of the key people involved in the operation.

To conclude, the overall finding of this research is that there is no strong pattern emerging as to how funders determine how to allocate their funds. Outcomes and key people are important to funders but much of the financial information is less regarded and there is no consistent approach. For example, the media has raised public

attention to the high ratio of operating expenses to programme deliveries (Beynen, 2009; McCracken, 2009; NZ Herald, 2009), yet funders do not consistently identify this ratio as critical. Furthermore, unlike their for-profit counterparts, NFP organisations' managers are not constrained by returns to shareholders, earnings per share and the bottom line. To explain this lack of established criteria, it is noted from the literature and borne out by this research that many trustees and managers in NFP organisations are either voluntary or comparatively lowly paid. There is often a lack of expertise in business, especially in accounting and management(Brown & Purushothama, 2005). Idealism and enthusiasm compensates for business skills. Thus, much of the funders' allocations rely on instinctive feel for the projects proposed and the character of the applicants proposing them. For example, four funding organisations awarded grants to four small trotting clubs that did not even have their own standard race tracks (Sunday Star Times, 2008).

5.3.2.   Recommendation

5.3.2.1.   A Standard Guidance Statement for funding organisations

The Charities Commission may be able to help funders by refine their approach by introducing a standard guidance statement. To this end, the research findings of this study may be useful a reference. More explicitly, it is recommended that:

Standard Guidance Statement (Key Performance Indicators) for Grant-making

1. **Indicators of Financial Health**

(a) Efficient operation and good governance

    a)   Fundraising ratio

    b)   Percentage of resources that spent on programme delivery

    c)   Projected expenses for next year

(b) Viability and sustainability

    a)   Variety of income streams – primary indicator

    b)   Projected income for next year

(c) Duplicate funding

    a) Details of government contracts

    b) Other funding applications for the same programme/purpose

2. Indicators of Good Service Performance

(a) Clearly identified purposes and strategies

(b) Qualifications and experiences of Broad of Trustees and Chief Executive

(c) Clearly identified intended outcomes

5.3.2.2. Recommendations to the Development of Financial Reporting for NFP sector

First, NFP organisations should classify expenses in a way that clearly show the proportion of expenses that has been used for fundraising activities, and the proportion of expenses that has been spent on programme delivery, rather than a aggregated number of total salary expenses and total administrative expenses. With this readily available financial information, calculation of financial ratios would be much easier.

Second, NFP organisations should supplement financial reporting with a Statement of Service Performance (SSP) with a much stronger focus on outcomes rather than outputs. Considering the difficulties of reporting SSP for most of the small- to medium-sized NFP organisations, a certain degree of flexibility could be provided to them in report format and content, for instance, moving focus from formally reported outcomes to real stories, words from beneficiaries, pictures taken from the events or programme delivered by the NFP organisations and so forth.

If existing standards on SSP cannot be modified (it is mandatory for public sector entities) to move focus from outputs to outcomes, an outcome reporting would be appropriate. However, rather than imposing highly standardised format (similar to SSP), standard setters should consider the costs and benefits of such reporting for small- to medium-sized NFP organisations.

Outcome reporting should allow some latitude in the format and content of report. The criteria for an effective outcome reporting could focus more on (1) intended outcomes are clearly identified, (2) actual outcomes (both expected and unexpected) are clearly measured and reported, (3) if the programme has a long-term outcome, then progress outcome should be measured and reported, (4) report on actual outcomes should be supported by evidence like real stories, pictures taken on events or programmes, words from beneficiaries, and (5) what has been learned and how to make improvements in the future.

5.4. Theoretical and Practical Contributions

Both theoretical and practical contributions of this research project are discussed. From the theoretical aspect, this research project reveals the fact that most of the funding organisations tend to make subjective judgements on financial and non-financial information of the NFP organisations. Due to limitations on human resources and accounting support, they can only do a certain, very limited degree of analysis on financial accounts. Notwithstanding the subjective and vague assessment criteria used on financial information, this research does suggest that funding organisations largely concern themselves with non-financial information, which is usually not readily available in financial reports based on current financial reporting standards for Not-for-profit sector. In addition to strategies (i.e. purposes of organisations) and outcomes which have been studied by a number of authors, there must be added the importance of key people involved in the operation of the NFP organisations. Much of the funders' allocations rely on instinctive feel for the projects proposed and the character of the applicants (i.e. key people) proposing them.

Based on the findings and literature, this research project provides recommendations that could be used by the New Zealand's funding organisations for making grants. On the other hand, grant seekers could use this guidance statement to evaluate their own

performance. The additional benefit to the grant seekers is this guideline would indicate what would be more relevant information to grant-making decisions of funding organisations. They would be able to apply for funds in a more efficient and effective way.

6. References

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7. Appendices

7.1. Appendix 1: Characteristics of the Sectors

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(NFPSAC, 2009, p. 17)

7.2. Appendix 2: New Zealand Standard Classification of Non-profit Organisations

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(Sanders et al., 2008)

7.3. Appendix 3: Interview Guide

Interview Guide

Interviewee: The Executive Director of funding organisation F

Introduction

Small talk and sign the consent form, test the digital recorder

Firstly, I would like to briefly introduce the research programme. I am seeking the funding organisations' criteria, both financial and non-financial, in making **grants** to organisations. Please feel free to ask me if you have any concerns regarding the research participation.

Background of Funding Organisation F

Funding area:

Disadvantaged children and their families, and Maori development

Interview Questions

- ❖ **Old Approach – More, smaller grants**
- ❖ **New Approach – Fewer, larger grants on continuous base**

What criteria are still the same, and what criteria have been changed?

1. **General grant decision-making process**

Grant size: approximate figures

Application process: how many stages, rigorous?

Published grant list and declined? In what stages/circumstances they can get declined?

Support matured charities? or also support new charities?

2. **Importance of Financial Information in decision-making, and why do you think they are useful?**

What financial information was used? For instance, audited report, budgets?

Why do you think they are useful?

Do you do data analysis based on financial accounts? Like ratios?

Some financial indicator/ratios: e.g. Percentage of resources that spent on delivery of programme (programme expense), fundraising expenses/efficiency, ratios measuring financial stability: equity/revenue, range of revenue sources, admin costs/total expenses, (revenue-expenses)/revenue

3. **Importance of Non-financial Information in decision-making, and why?**

What Non-financial information is used?

For instance, legal status, organisation governance structure, people involved, measured outcomes, programmes and initiatives?

4. **Do you require a report back activities after the grants are made? To what extent? Content?**

5. **How the financial and non-financial information contribute to decision-making, overall? What will you say about the relative importance of financial and non-financial information in grant decisions?**

7.4. Appendix 4: Invitation Letters sent out to potential research participants

Date

XXX (Name of the participant)
Position
Name of the Funding Organisation
Address

Invitation to participate in a research project

Dear XXX,

My name is XXX and I am a Master of Business student at the Auckland University of Technology. I am doing a research project which seeks to explore what criteria, both financial and non-financial, is used by funding organisations in grant-making decisions. Successful completion of the research project will contribute to the completion of the Master of Business 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 the charitable giving will be very much appreciated.

If you are not able to participate, would you please recommend an appropriate person whom I could contact with? I will be telephoning you in a few days to answer any enquiry regarding the research participation. You are also welcomed to contact me at any time to seek further information or clarify any concern.

I look forward to seeing you.

Yours sincerely,

Signature

XXX (Name of the researcher)

Contact details

7.5. Appendix 5: Information Sheet

Participant

Information Sheet

Date Information Sheet Produced:

xxx

Project Title

> An investigation into the funding criteria used by funding organisations in New
>
> Zealand

An Invitation

> Dear XXX (Name of the participant),
>
> My name is XXX and I am a Master of Business student at the Auckland University of Technology. You are invited to participate in a research project titled as "Funding organisations' criteria in awarding grants to not-for-profit organisations". Successful completion of the research project will contribute to the completion of the Master of Business qualification. Even though it will be grateful if you could participate in the research project, your participation is absolutely voluntary and you may withdraw at any time up to the completion of data collection without any adverse consequences of any kind.

What is the purpose of this research?

> This research project seeks to explore what criteria, both financial and non-financial, is used by funding organisations in grant-making decisions. The proposed research question is, "What are the critical pieces of information, both financial and non-financial, that funding organisations utilise in their grant-making decisions?" The project focuses on the New Zealand not-for-profit (NFP) sector. The research will result in a dissertation which is the final part required to complete the Master of Business qualification.

How was I chosen for this invitation?

> The selection of participants is based on a list of full members (97 in total) on the website of Philanthropy New Zealand. 52 members are excluded from the study if they are either not registered on New Zealand Charities Commission, or they are individual donors or service provider which do not make grants to NFP organisations. 14 funding organisations that support a wide range of activities are selected for the study. The key personnel in each funding organisation who make grants decisions are invited to participate in the research project.

What will happen in this research?

> The research project involves interview programme. You are invited to have a one-hour interview. Interview questions will be financial questions regarding the criteria in awarding grants to not-for-profit organisations.

What are the discomforts and risks?

There is possibility you might feel uncomfortable while answering questions regarding criteria used in grant-making decisions. However, such circumstance is highly unlikely.

How will these discomforts and risks be alleviated?

The level of discomfort and risk will be very limited because the interview questions are financial questions and there are neither personal questions nor sensitive questions regarding amount of money granted to any specific NFP organisation.

What are the benefits?

The outcome of the research is to provide more insights into the criteria used by the funding organisations in grant-making decisions and therefore facilitate effective and efficient grant-making decisions. Consequently, charities will know what information to provide to the funding organisations. In the meantime, as a researcher, I can gain much comprehensive understanding on this particular phenomenon and hence contribute to the development of the academic research in this field.

How will my privacy be protected?

In terms of privacy issues, firstly, the Privacy Act 1993 will be strictly complied with. The data collected from the interview will be used only for the purpose for which it is collected. You have the rights to access information held by me all the time. Secondly, your name and the name of the organisation to which you belong will remain anonymous to anyone other than me. For instance, I will name you and the organisation as A, B, C, D....

In terms of confidentiality, as the researcher, I am accountable for safekeeping your personal information, interview data and consent forms. Both interview data and consent forms will be stored confidentially and securely in locked cupboards on AUT premise (off the research site) but separate locations for six years. I will keep interview content strictly confidential and will not mention it to any other participant. Because someone other than me will be transcribing the interview, a confidentiality agreement will be made to ensure your confidentiality.

What are the costs of participating in this research?

Participating in this research will cost one hour of your time.

What opportunity do I have to consider this invitation?

I will make a follow up phone call to you within two weeks of receiving the invitation letter (with Information Sheet and Consent Form attached) to answer any enquiry regarding the research participation. You are also welcomed to contact me at any time to seek further information or clarify any concern. It is assured that participation to this research is absolutely voluntary and you have the right to withdraw at any time up to the completion of data collection without any adverse consequences of any kind. To make a withdraw request, please contact me using the contact details provided at the end of the Information Sheet. A copy of the report of the research outcome will be mailed directly to the specified address upon request.

How do I agree to participate in this research?

To agree to participate in this research, please complete the Consent Form enclosed in the invitation letter, keep one copy of the form and return the other copy to me prior to the interview.

Will I receive feedback on the results of this research?

Yes. You can make such request by ticking "*I wish to receive a copy of the report from the research*" in the Consent Form. A copy of the report of the research outcome will be mailed directly to the specified address upon request.

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, 64-9-917 9999 extn 5758*.

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTEC, Madeline Banda, *madeline.banda@aut.ac.nz , 64-9-921 9999 ext 8044*.

Whom do I contact for further information about this research?

Researcher Contact Details: XXX

Project Supervisor's Details:

Professor Keith Hooper, keith.hooper@aut.ac.nz, 64-9-917 9999 extn 5758

Approved by the Auckland University of Technology Ethics Committee on 14 December 2009, AUTEC Reference number 09/272.

7.6. Appendix 6: Consent Form

Consent Form

![AUT University logo]

Project title: **An investigation into the funding criteria used by funding organisations in New Zealand**

Project Supervisor: **Professor Keith Hooper**

Researcher: **XXX**

○ I have read and understood the information provided about this research project in the Information Sheet dated 02 March 2010.
○ 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 14 December 2009 AUTEC Reference number 09/272

Note: The Participant should retain a copy of this form.

7.7. Appendix 7: Initial Codes and Final Codes

Initial Codes

1. **Application process**
   1.1. Application form
   1.2. Administration
   1.3. Report and recommendation
2. **Financial Information**
   2.1. Financial accounts – financial structure/discipline
   2.2. Budgets
   2.3. Financial Analysis
       2.3.1. Ways of doing analysis – level of rigor
       2.3.2. Governance Structure – separation of trustees (not get paid) and admin
       2.3.3. Stability/Healthy/Viability/Sustainability
           2.3.3.1.   Income streams/other sources of funds/earnings and growth
           2.3.3.2.   Assets
           2.3.3.3.   Expenditures
               2.3.3.3.1.   Head office costs/admin costs/Rent, CEO salary
               2.3.3.3.2.   Programme delivery costs
               2.3.3.3.3.   Fundraising expenses
           2.3.3.4.   Cash
           2.3.3.5.   Operating capital
           2.3.3.6.   Investment / financial reserve
3. **Non-financial Information**
   3.1. Outputs
   3.2. Outcomes/differences made/social impacts
       3.2.1. Outcome measurement/evaluation framework
   3.3. Strategies/Priorities Fit – relates to purpose, intended to achieve
   3.4. Site visit/Phone Interviews
   3.5. History/Track records (New/old organisations)
   3.6. People involved
       3.6.1. Board member
       3.6.2. CEO
       3.6.3. Volunteers
   3.7. Operations of the organisation (process)
   3.8. Share of resources
   3.9. Link within the community (references)
   3.10.   Proof of Registration Status
4. **Report back / audit process**
   4.1. Report form
   4.2. Financials
       4.2.1. Financial accounts
       4.2.2. Budgets
       4.2.3. Others
   4.3. Non-financials
       4.3.1. Outcomes achieved
       4.3.2. Unexpected outcomes
       4.3.3. Lessons learnt / reflective thinking

Final Codes

1. **Grant application and decision-making processes**

    1.1. **Application approaches**

      1.1.1. Re-active
      1.1.2. Pro-active
    1.2. **Administration work**
    1.3. **Grant decision-making processes**

      1.3.1. Generic application process
      1.3.2. Different application process for different size of grant
2. **Financial information**
    2.1. **Principles of using financial information**
      2.1.1. Efficient operation and good governance, viability and sustainability
      2.1.2. Needs of funds
      2.1.3. Avoid duplicate funding
    2.2. **Financial accounts**
      2.2.1. Audited accounts
      2.2.2. Non-audited accounts
    2.3. **Budgets**
    2.4. **Sustainability plan**
    2.5. **Analysis and assessment on financial information**
      2.5.1. Level of rigor
      2.5.2. Efficient operation and good governance
        2.5.2.1. Administration expenses
        2.5.2.2. Programme delivery expenses
        2.5.2.3. Fundraising expenses
      2.5.3. Viability and sustainability
        2.5.3.1. Income streams and other sources of funds
        2.5.3.2. Investment or financial reserves
        2.5.3.3. Operating capital
      2.5.4. Need of funds
        2.5.4.1. Cash assets
        2.5.4.2. Investment
      2.5.5. Avoid duplicate funding
        2.5.5.1. Other sources of funds
3. **Non-financial information**

    3.1. **Strategies**

      3.1.1. Alignment of strategies between the NFP organisations and the funding organisations
      3.1.2. Consistency between the NFP organisation's strategies and programmes
    3.2. **Outcomes**
      3.2.1. Demonstration of the intended outcomes
      3.2.2. Measure the outcomes
    3.3. **Key people involved in the operation**
      3.3.1. Inputs of the voluntary staff
      3.3.2. Qualifications and experience of the key people
      3.3.3. Behaviours of the Chief Executive

3.4. Support from others

3.5. Legal Status and Charities Commission Registration Number

3.6. What the grants are used for

4. Report back procedures

4.1. Nature of the report back procedures

    4.1.1. Formal
    4.1.2. Informal

4.2. Types of information required in the report back procedures

4.3. Financial information

    4.3.1. Financial statements
    4.3.2. Non-audited income and expenditure details and budgets
    4.3.3. Bank statements, invoices and receipts

4.4. Non-financial information - Outcome

    4.4.1. Real stories
    4.4.2. Measured outcomes, unexpected outcomes
    4.4.3. What they have learnt from the project – focus on learning
    4.4.4. Informal progress report – NFP organisations put own words in a letter

4.5. Imposition of the report back procedures