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THIRD SECTOR REVIEW

Australian and New Zealand Third Sector Research is a professional and academic organisation that aims to foster research and the dissemination of knowledge concerning the third sector in Australia and New Zealand. The third sector is constituted by all those organisations that are non-profit and non-government, together with the activities of volunteering and giving which significantly sustain them.

Third Sector Review provides a refereed publication outlet for scholars, researchers and practitioners who are working in the third sector.

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Australian New Zealand Third Sector Research Ltd (ANZTSR) is a network of people interested in pursuing and encouraging research into private, non-profit, community or voluntary organisations and the activities of volunteering and philanthropy.

What is the third sector?

The third sector is constituted by all those organisations that are non-profit and non-government, together with the activities of volunteering and giving which sustain them. These organisations are a major component of many industries, including community health services, rural, education, housing, sport and recreation, culture and finance. Although they differ amongst themselves, third-sector organisations differ as a group from for-profit businesses and from government departments and authorities. Third-sector organisations vary greatly in size and in their activities. They include neighbourhood associations, sporting clubs, recreation societies, community associations, chambers of commerce, churches, religious orders, credit unions, political parties, trade unions, trade and professional associations, private schools, charitable trusts and foundations, some hospitals, welfare organisations and even some large insurance companies.

What is ANZTSR?

ANZTSR was launched in 1993. It arose from the growing awareness of the importance of the third sector in Australia and New Zealand, the paucity of reliable information about it, and the difficulty of working as isolated researchers. ANZTSR is an incorporated association. ANZTSR joins similar organisations in the USA (ARNOVA), the UK (ARVAC) and the International Society for Third Sector Research (ISTR) as active networks that promote communication between researchers and help develop synergies in the research endeavour. Research networks have also formed in several European countries or regions, in Latin America and Japan. These all testify to the growing interest in the third sector. The third sector is an important but hitherto undervalued and under-researched sector of societies, political systems and economies.

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Third Sector Review is explicitly cross-disciplinary, with both theoretical and empirical papers invited from a range of disciplines and fields of practice. Critiques of existing theory or practice are invited. Contributions are encouraged from both practitioners and academics. There is a special 'From the Field' section. Contributions are invited relating to characteristics of the third sector or any aspect of its management, including governance, human-resources management, the labour market, financial management, strategic management and managing change, community development, fundraising, user rights, relations with government, legal issues, historical development, etc.

Papers should be written in a jargon-free, non-technical style accessible to managers, workers and board members of non-profit organisations, and to academic researchers, teachers and students from a variety of disciplines. Papers are subject to rigorous peer review, normally by two independent reviewers. A blind review process is adopted. For that reason, authors should indicate their names and affiliations on a separate page.

Authors should also include a brief abstract (100 words) and up to five keywords. Papers should be between 4000 and 6000 words in length, in 12-point Times New Roman, double-spaced and with 2.5-cm margins. Please use minimal formatting and styles; indicate headings through the use of CAPITALS, bold and *italics*. Authors should submit an electronic version of their paper in Microsoft Word format or Rich Text Format (RTF). If any images are used, please ensure that a high-resolution image file (jpeg or tiff) is supplied separately. If graphs are included, please ensure that the data used to create them is available to our designer. Where quotations are more than 40 words, they should be indented, justified and set in italics, with the source following directly. Single quotation marks are to be used throughout the text, with double quotation marks within single when needed.

Citations

The Harvard style of referencing is used, with endnotes kept to a minimum. Examples: (Lyons 1999); (Lyons 1999: 20); (Lyons 1998a, 1998b); (Onyx & Bullen 1998). If there are three or more authors, use the form: (McDonald et al. 1998). List multiple references in ascending chronological order: (McDonald et al. 1998; Onyx & Bullen 1998; Lyons 1999).

References

List in alphabetical order by the first author's surname. List multiple references by the same author chronologically, the earliest first, with the author's name repeated. Refer to the following examples, including the punctuation and capitalisation.

Book: Verba, S., Scholzman, K. & Brady, H. (1995) *Voice and Equality: Civic voluntarism in American politics*. Cambridge, MA: Harvard University Press.

Book chapter: James, E. (1987) The Nonprofit Sector in Comparative Perspective. In W. W. Powell (ed.), *The Nonprofit Sector: A Research Handbook*: 397–415. New Haven: Yale University Press.

Journal article: Lyons, M. (1997) Contracting for Care: What is it and what is at issue? *Third Sector Review*, 3 (Special Issue): 5–21.

Working paper: Onyx, J. & Bullen, P. (1998) Measuring Social Capital in Five Communities in NSW: An analysis. CACOM Working Paper No. 41. Sydney: CACOM, University of Technology, Sydney.

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EDITORIAL

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INTRODUCTION

There is no doubt that the last six or so months has been one of the most challenging periods for the not-for-profit and charitable sector ('Third Sector') in Australia, New Zealand and globally. Similarly, academic life across our network has been impacted by the COVID-19 pandemic as a new 'business as usual' drives how we undertake teaching and research activities. However, the important work of the academic community in building our understanding of the not-for-profit and charitable sector has continued unabated as the need for knowledge and data increases in response to the health and economic crises.

The pandemic has also reinforced and emphasised the importance of the sector itself in responding to health and social needs and, in turn, of the broader research undertaken. Indeed, the academic community has continued to pursue research goals that were extant prior to the pandemic and which will, no doubt, continue to be significant priorities once this current crisis has abated. This does not diminish the realities of the impact of COVID-19 but it does confirm the continued presence of the significant challenges faced by the Third Sector and its mission to build better communities.

This work has been conducted notwithstanding the challenges—both economic and operational—that have faced the academic community. Universities are facing dire economic pressures causing them to cut internal funding allocations for research while 'lock downs' and other government measures have restricted the capacity of researchers to extend their activities as broadly as they might otherwise have done. This includes in relation to the important activities associated with conferences, symposia and other research networking arrangements so necessary to enculturating ideas and refining them for better research outcomes.

This issue of Third Sector Review presents articles that directly and indirectly frame issues that are relevant to COVID-19 from an Australasian and global perspective and which also extend the ideas raised beyond the current crisis. Indeed, this is the challenge of academic researchers in this area, to be relevant to the immediate challenges while also striving to frame better outcomes into the future. These articles certainly respond to this challenge. Presented here are papers focusing on outcomes reporting, fundraising in economic downturns, social enterprise and sustainability, regulation, marketing and the development needs of sector leaders. Once again, these pieces are presented as general articles and as 'From the Field' papers.

The Articles

In the face of the economic impacts of COVID-19, John Godfrey and Alexandra Williamson have investigated the literature related to the impacts of recession on fundraising. They have examined the research related to Australia, New Zealand as well as the UK and USA. They identified an area of research need as well as the ubiquitous problems associated with poor data assets and competing definitional structures increasing research challenges.
Mahesan Kandaiya explores sustainability in social enterprises located in South Asia. Kandaiya applies grounded theory in support of a practical set of prescriptions aimed at increasing the financial sustainability of not-for-profit social enterprises. Importantly, the piece develops a focus on the social, cultural and institutional contexts of India, Bangladesh and Sri Lanka.

The examination of social enterprise in an international context continues with Alceste Santuari's contribution focusing on the Italian Social Enterprises Reform Act [2017] in the context of the European Union's directives relating to this area. The combination of EU and Italian national legislation provides a framework for not-for-profit social enterprise that Santuari considers could inform regulatory structures in other parts of the world.

The development of market-style funding policies in the context of not-for-profit and charitable organisations' fundraising is a critical area for consideration as these economic policies place organisations in a position where they need to market themselves effectively. This process costs money and time for these organisations which have little of either, so any advertising needs to be effective. Therefore, Cathy Nguyen and Margaret Faulkner's article focusing on effective charity advertising is timely and relevant. The article considers advertising collateral of 40 Australian not-for-profits and prescribes a set of guidelines for testing effectiveness in charity campaigns.

Measuring and accounting for outcomes in human services is both a challenge and an opportunity. In the next article, Sarah Adams and her colleagues Lydia Kilcullen, Zoe Callis and Paul Flatau examine outcomes, their development and reporting in the context of the users' information needs. Importantly, the results of their survey indicate that outcomes measurement and reporting is driven by identity and upwards accountability rather than downwards accountability. This primacy of upwards accountability impacts utility experienced by report users.

Ian Murray's article brings us back to COVID-19 and the regulatory framework surrounding reserves and investments held by charities. He examines activity-based regulation in the context of the need to ensure the natural proclivities of those charged with governance to retain and 'hoard' such reserves does not reduce charities' capacity to meet increased need as a result of the impact of the pandemic.

The 'From the Field' section of the journal is an important element in our pursuit of industry engagement and relevance. This edition of Third Sector Review includes an article from Paul Oslington examining the development needs of future leaders of Christian not-for-profits. Using the development of a course with the intention of meeting these needs, Oslington utilises the interviews carried out with CEOs of Christian not-for-profit organisations to gather evidence relating to needs and the challenges faced by the organisations in meeting them. Amongst other things, Oslington reports that these CEOs identified that religious formation is a high priority in terms of preparation of the next generation of leaders.

Concluding remarks

Overall, a balance between continuing research topics and timely responses to COVID-19 issues is sought in this edition of Third Sector Review. The articles do provide new ideas while assessing existing thought in a practical and sector-focused way such that I believe sector leaders, experienced and emerging academics and those from the policy world are able to assimilate and use the prescriptions and ideas effectively.

As always, the submission of articles to Third Sector Review is appreciated and I would like tothank the authors who have created the articles presented here. A very special thank you is also extended to the reviewers and my colleagues as editors of the Third Sector Review, Associate Professor Ian Murray and Dr Fiona McGaughey.

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The impact of recessions on fundraising: A systematic review of the literature

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Abstract

The impact of economic crises on philanthropic funding to, and fundraising by, nonprofit organisations is a surprisingly under-researched field. Internationally, data is scant and comparisons are impeded by different categorisations and definitions of funders and sectors, different timeframes and the dominance of the US in the body of published research. A search and review of the literature identified 60 journal articles and professional reports that we analysed by theme. This paper brings together, reviews and analyses what is known from four national contexts – the US, the UK, Australia and Aotearoa New Zealand. Analysis covers the impact of multiple recessions, with a particular focus on the Global Financial Crisis (GFC) of 2008-09. Key findings include that losses of funding are not as uniform nor as sustained as media coverage would suggest and that different sectors are impacted in different ways. Philanthropic sources including individuals, trusts and foundations, and corporate philanthropy vary in the timing of their responses to economic crises, and though the impact of economic crises on nonprofit sectors is variable, giving as a whole is better sustained than popularly supposed.

Keywords

GFC; Australia; UK; US; New Zealand; philanthropy

Introduction

The headline of an Australian media release screams: '50% loss of revenue across social purpose organisations' (Xfactor Collective 2020) though closer inspection of the text reveals this to refer to 'early research' in which *half* the respondents report *some* loss of income. A blog from the Australian Institute of Company Directors (AICD) reports fundraising income *may* fall by 20-30 percent over the next nine months (Dempsey 2020). These are just two examples of what Breeze and Morgan (2009: 19) warned against during our last global recession, the GFC, given '…the evidence of existing research indicates no straightforward causal relationship between economic conditions and the amount of philanthropic spending that takes place'.

Such early announcements are usually based on opinion and prediction (Breeze & Morgan 2009; Wilding 2010; Taylor et al. 2012). For example, the survey cited by AICD asked fundraisers what they thought the impact of Covid-19 on fundraising *might* be (More et al. 2020). A US example using this same method provides similar pessimistic projections '… with several organizations forecasting alarming rates of reduced funding as 50%, 70%, or even 100%' (CAF America 2020: 9). Data on actual receipts are mixed, and given the short timeframe, are far from robust indicators (Taylor et al. 2012).

In contrast, one research agency reports worldwide giving to March 2020 as higher than previous responses to a crisis (Grabois 2020). Similarly, a UK agency tracked significant growth in individuals reporting having given to UK charities between March and April (Murphy 2020a; 2020b). This UK agency reported increased income to some charities from individuals 'cleaving to the causes they feel close to' (Madden et al. 2020: 5).

The immediate aftermath of an economic shock is too early to know its effect (NFP Synergy 2008; List & Peysakhovich 2011; Morreale 2011; Brooks 2018). The full impact of the current Covid-19 recession will not be clear until it is over - therefore, historical evidence provides the best guide to what we might expect (Breeze & Morgan 2009; Taylor et al. 2012).

Lack of research

This paper updates research on the impact of economic downturns on fundraising, including data from Australia and Aotearoa New Zealand. In doing so, however, it faces a challenge that high-quality data on giving during recessions is difficult to find (Reich et al. 2011). These points are troubling given the profile and role of nonprofit organisations in times of crisis (Clifford 2017).

Some initial observations frame the discussion in this paper. One is that the proportion and therefore the importance of philanthropic gifts to nonprofits differs considerably according to their sector (Breeze & Morgan 2009; Dietz et al. 2014; Lee & Shon 2018). Another is that not all trends and changes to giving may be caused solely by recession (Anheier 2009; Pharoah 2009). A third is that, as is inevitable in the case of philanthropy research, the vast majority of articles present US data and analysis.

Methodology

The literature of philanthropy and nonprofits is recognised as being interdisciplinary (Katz 1999; Daly 2011; Barman 2017; Webb Farley 2018). Sources may appear in publications related to various social science or humanities (SSH) disciplines. This suggests that a broad approach to conducting any literature search should be adopted. SSH sources are found in books and journals, SSH researchers communicate with each other via conference presentations and informal communications including blogs, pre-prints and other non-peer-reviewed publications (Morris & Van Der Veer Martens 2008; Glaser & Oltersdorf 2019).

Google Scholar (GS) is considered to be the bibliographic database best able to provide information from the most diverse array of sources (Harzing & Alakangas 2015; Gusenbauer 2019) including references such as theses, books, conference papers, and unpublished materials (Martín-Martín et al. 2018). Gusenbauer (2019) found that GS has the highest query hit rate out of 12 academic search engines and bibliographic databases. The two other major bibliographic databases are Web of Science and Scopus (Harzing & Alakangas 2015; Martín-Martín et al. 2018). Information services scholarship recommends that interdisciplinary researchers consult all three of these databases.

Having determined to use the three bibliographic databases discussed above, we chose the keywords on which to base our literature search (Linnenluecke et al. 2019). Our starting point was a collection of 37 articles assembled for a piece written for the Fundraising Institute of New Zealand (Godfrey 2020). Using NVivo we identified, by the frequency of their usage (shown in parenthesis), the following words of five letters or more related to the topic:

giving (3709)
philanthropy (1225)
charities (1034)
donors (925)
funding (904)

charitable (878)
fundraising (875)
donations (850)
recession (365)
crisis (475)
downturn (422)

Using these words as our guide, we constructed a search string to be used, with minor variation, in each of the bibliographic databases: (giving OR philanthropy OR charities OR donors OR funding OR charitable OR fundraising OR donations) AND (recession OR crisis OR downturn). We focused our search on papers that were empirically based.

We followed Harzing's (2017) recommendation to search for these keywords in article titles. We used *Publish or Perish* to search GS as it has an easier to use search interface (Harzing 2011; Harzing & Alakangas 2015). Using the search string above generated 1,000 results (the maximum GS will provide) being the 1,000 highest cited by GS citation metrics (Harzing 2011). We then exported these 1,000 records into EndNote, de-duplicated records, and then examined them for relevance. This first examination considered the title of the article, the title or type of journal or other category of publication, and the limited information that GS provides in its abstract field. Using these methods we were able to reduce the number of relevant articles to 221. We repeated this same process using Scopus and Web of Science. A variation was used for Scopus as it searches abstracts and keywords, as well as title. It does, however, permit limiting a search by journal name. Restricting the output to journals using the words 'nonprofit' or 'philanthropy' and their synonyms in the title (for consistency with other sources) produced 123 records. Our Web of Science search using the search string initially resulted in 341 articles.

Once we combined the articles from the four sources (including our initial collection), 185 were found to be duplicates. A further examination of title, keywords and abstract to identify those without a primary focus on fundraising in recessions reduced the collection even further. However, a process of addition also occurred, as relevant citations were discovered in reviewing the combined list of articles. After final consideration, 60 documents were retained for thematic analysis and coding in preparation for discussion in this paper. We used NVivo as it provides effective tools for searching and coding and both researchers are experienced in its use.

The impact of recession on fundraising in the USA

This section examines literature that uses empirical data related to giving in the USA during recessions (including recessions before the GFC as well as during the GFC itself), and the effect of these downturns on philanthropic funding sources and nonprofit sectors. Since the advent of Giving USA in 1956 as a source of data on US philanthropy, the USA has experienced seven official recessions (Shaefer 2018). The only earlier economic downturn for which there is giving data is the Great Depression from 1929-1933.

As noted above, there is substantially more literature related to the impact of recessions on giving in the USA than any other country. This literature also cites a considerable range of primary data as shown by Table 1.

Table 1: Sources of US primary data cited by reviewed articles

	Bank of America Study of High Net	**Center on Philanthropy**	**Foundation Center**	**Giving USA Foundation**	**Guidestar**	**Million Dollar List**	**National Center for Charitable**	**Nonprofit Almanac**	**Panel Study of Income Dynamics**
(Adelman et al., 2010)			X		X		X		
(Breeze and Morgan, 2009)				X					
(Bridgeland et al., 2009)				X				X	
(Brooks, 2018)				X					X
(Charity Commission, 2009)			X						
(Crittall et al., 2019)	X			X					
(Dietz et al., 2014)				X			X		
Drezner 2010 (Drezner, 2010)		X		X					
(Giving USA, 2008)				X	X				
(Hanfstaengl, 2010)			X						
(Horvath et al., 2018)							X		
(Hudson Institute, 2009)			X		X				
(Lawrence, 2009)			X						
(Leat, 2010)			X						
(Lee and Shon, 2018)							X	X	
(Lee, 2013)				X					
(Lin and Wang, 2016)					X		X	X	
(List and Peysakhovich, 2011)			X	X			X		
(Marx and Carter, 2014)	X		X	X					X
(McCambridge, 2012)				X					

	Bank of America Study of High Net	Center on Philanthropy	Foundation Center	Giving USA Foundation	Guidestar	Million Dollar List	National Center for Charitable	Nonprofit Almanac	Panel Study of Income Dynamics
(McCambridge and Dietz, 2020)							X		
(McGregor-Lowndes and Pelling, 2011)				X					
(McLeod, 2020)				X					
(Meer et al., 2017)									X
(Mohan and Wilding, 2009)				X	X				
(Morreale, 2011)			X	X	X		X		
(NCVO and CAF, 2009b)				X					
(NCVO and CAF, 2009a)	X			X					
(Osili, 2010)	X	X		X					
(Osili et al., 2019a)			X	X		X			X
(Osili et al., 2019b)				X			X		X
(Reich and Wimer, 2012)	X			X	X		X		
(Reich et al., 2011)	X	X	X	X	X				
(Rooney et al., 2009)	X	X		X					X
(Salamon et al., 2009)				X					
(Shaefer and Boudreaux, 2012)				X			X	X	X
(Sheehan, 2012)	X		X	X					
(Taylor et al., 2012)					X				
(Wilding, 2008)				X					
(Wilding, 2010)				X					

Recessions from 1970 - 2007

Recorded patterns of giving during recessions since the 1970s benefit from improved data collection. Giving in the US has tended in the long-term to remain stable between 1.7 percent to 2.3 percent of GDP between 1970 and 2010 (Reich et al. 2011). Shaefer and Boudreaux (2012) note that before 2008 only once – in 1987, not a recession year but the year of the Black Monday stock market crash on October 19, 1987 - did the value of giving in nominal (unadjusted) terms diminish. This was prompted by an impending change to tax rules which individuals anticipated by giving more in 1986 (Giving USA 2008). Giving in the US, nonetheless, declines during recessions, after adjusting for inflation (Reich et al. 2011; Shaefer & Boudreaux 2012) with the largest impacts on giving occurring during longer recessions (Giving USA 2008). Sheehan (2012) suggests that only twice has private giving in adjusted terms declined for more than one year. Giving USA (2008) indicates that, for the five recessions of eight months duration or more between 1969 and 2007,[1] the average reduction in the value of individual giving was 3.9 percent while corporate giving averages fell 1.6 percent and foundation giving barely changed (-0.6%). Nonetheless, as individual giving comprises 80 percent of total giving, this decline has the most overall impact.

Changes in US giving to different sectors during recessions prior to 2008 are worth noting (See Table 2). Overall, giving to environment/animal welfare and international affairs fare the best, both showing continued growth albeit less than during non-recession years. It should be noted, however, that the data for these two sectors only began in 1987. Next, giving to public-society benefit and human services fare well, human services markedly so in longer recessions when average growth in giving in fact exceeded non-recession growth. Changes in giving to arts and culture are not dramatic, while giving to foundations diminishes markedly in longer recessions. The only negative changes or reductions in giving during this period are experienced by education and religion.

Table 2: 1967-2007 US Giving Change Averages in Recessions

Sector	Non-recession	Recession	Long recession
International Affairs	26.3%	9.0%	12.0%
Environment/Animals	12.8%	6.2%	8.2%
Foundations	11.5%	5.9%	0.5%
Public-society benefit	7.3%	3.9%	4.8%
Arts, culture & humanities	4.7%	1.9%	2.3%
Human Services	2.9%	0.7%	5.0%
Health	2.9%	0.5%	1.9%
Religion	2.8%	-0.1%	1.4%
Education	4.6%	-1.1%	-1.9%

GFC and recovery

Several scholars remark that the GFC had a more severe impact on giving than its post-1970 predecessors (Morreale 2011; Reich et al. 2011; Shaefer & Boudreaux 2012; McCambridge 2013). However, Reich et al. (2011) note that while total giving decreased 7 percent in 2008 and a further 6.2 percent in 2009, Americans were only giving slightly less *as a percentage of GDP* - 2.0 percent in 2009, 2010, and 2011 compared with 2.1 percent in 2008. This is linked

[1] The recession of 1980 was officially six months.

to what Brooks (2018) explains as the steepest decline in US household income and wealth this century. These data suggest, as Breeze and Morgan (2009: 13) note, people do not stop giving because of changes to the economy (Wilding 2008).

As well as giving less, some segments of the US population appeared to change their giving patterns (Osili et al. 2019b). This could have been because giving attitudes changed or public uncertainty increased during this particular recession (Meer et al. 2017). Another possibility is that people 'moved …to more informal types of charitable giving or private transfers' (Osili et al. 2019b: 1858) which are not visible in the data.

Impact of GFC on us individual giving

The next sections discuss literature relating to impacts of the GFC on sources of US philanthropy, namely individuals, foundations and corporations. Individuals account for around 80 percent of US giving (Reich et al. 2011). The influence of the GFC on individual giving was, according to Brooks (2018: 720), the steepest decline in US household income and wealth this century resulting in "…at least four consecutive years of diminished real purchasing power".

Depending on their date of publication, articles offer differing data regarding the decline in individual giving in the US. An early estimate suggested that individual giving declined by 6.3 percent between 2007 and 2008 in real terms (Giving USA 2009, cited by NCVO and CAF, 2009). A later result was that individual giving decreased by 2.4 percent from 2007 to 2008, followed by 3.2 percent in 2009, after adjusting for inflation (Giving USA 2019, cited by Osili 2010). A revised figure (Giving USA 2019, cited by Clark et al. 2019) is that during 2008, there was an 11.7 percent drop in inflation-adjusted giving by individuals.

Another aspect, however, is the decline in participation (measured as the number of households giving) which began in 2002, before the GFC (Clark et al. 2019). The decline following the GFC was more significant among those with lower levels of education, income, or wealth (Clark et al. 2019). Explanations for this include that giving (apart from religious tithing) comes second to basic needs (Sheehan 2012). Tithing also potentially reduces total amounts of individual giving, as it is based on a percentage of (potentially reduced) income or wealth (Reich et al. 2011). Other reasons for decreased giving could be that low-income homeowners saw substantial reductions in the worth of their homes (Morreale 2011); and poor households generally were affected by job losses (Reich et al. 2011).

The decline in giving during the GFC also took place in high net worth households that represent between 65 percent and 70 percent of all individual giving in the US (Osili 2010). While both the *proportion* of income given by high net wealth households (Clark et al. 2019) and the *number* of such households giving (Osili 2010) remained stable during the GFC, the *average amount* given decreased 34.9 percent from 2007 to 2009 (Osili 2010). Consistent with the observation that elites may give anonymously during recessions to avoid publicity, the *Chronicle of Philanthropy* reported a leap in anonymous gifts of over $1 million to 19 percent in 2008-9 from an average ranging from 3 percent to 5 percent in the decade prior (Gose 2009).

Explanations for changes in the value of High Net Worth Individuals (HNWI) giving during downturns include the argument that 'predicting giving behavior (sic) based on gross economic measures is imperfect at best' (Sheehan 2012: 88). Huge declines in the stock market are not closely correlated to declines in philanthropy as even the wealthy give based on income rather than assets. Contra to Sheehan's argument, List (2011: 157) finds gifts are responsive to the economy but are 'much more sensitive to economic upturns than to downturns'. Two probable causes for downward 'stickiness' are that large gifts are often pledged in advance, and the social or peer pressure on wealthy philanthropists to maintain their giving (List & Peysakhovich 2011).

Bequests are a form of individual giving noted for their volatility (Reich et al. 2011), though Brown and Rooney (2010) consider bequests unlikely to be affected by the timing of recessions. Nonetheless, there was a 21 percent reduction in the value of bequests received from 2008 to 2010 (Reich et al. 2011).

Impact of GFC on US foundation and corporate giving

Foundation giving has a close relationship with the economy (Brown & Rooney 2010). Estimates of the overall decline in value of foundation endowments during the GFC range between 20-30 percent (Hanfstaengl 2010; Martin 2010). Foundation assets held in shares dropped 30 percent in value when the US stock market fell in 2009 (Morreale 2011). Foundation giving increased slightly in the first year of the GFC (Reich et al. 2011) but declined during 2009-11 (Reich & Wimer 2012). The initial rise in giving is typical of the countercyclical trait of foundations (Brown & Rooney 2010; Osili et al. 2019a) and Donor-Advised Funds (DAFs) (Heist & Vance-McMullen 2019). This countercyclicality is partially explained by basing giving on average asset values over prior years (Lawrence 2009a; Reich et al. 2011; Sheehan 2012), by decisions to dip into reserves (Lawrence 2009a), and to continue to fund causes foundations care about. Many foundations agreed to continue funding existing commitments during the GFC (Hanfstaengl 2010) while others shifted giving from capital projects (Lawrence 2009a) to areas such as human services, arts, and higher education (Osili et al. 2019a) or hard-hit localities (Reich et al. 2011).

Corporate giving is the smallest of the three sources of US giving at around 4-5 percent of giving (Klein 2004; Van Fleet 2010). Although there is evidence of countercyclical giving by some US corporations during recessions (Morreale 2011) and the GFC in particular (Reich et al. 2011; Osili et al. 2019a), most research points to declines in US corporate giving during recessions (Van Fleet 2010; Sheehan 2012; Brown et al. 2013).

Impact of GFC on US nonprofit sector

As in previous recessions, the impact of the GFC varied among sectors. Table 3 provides an overview of the impact according to various papers. As indicated by their disparate assessments some data require a closer focus. Two factors need to be considered: firstly publication dates as data becomes more accurate or complete over time; secondly, certain papers comment on giving by the wealthy rather than giving overall (Osili 2010; Sheehan 2012; Marx & Carter 2014; McCambridge & Dietz 2020; McCambridge & Heliczer 2020). An example of the second point is causes related to the environment and animals. An overall decline in giving to these is noted (Morreale 2011; Reich et al. 2011). Giving from the wealthy, however, increased (Osili 2010).

Table 3: Impact of GFC by Sector According to Literature

	Negative Impact	**Neutral Impact**	**Positive Impact**
Arts, culture, humanities	Bridgeland et al., 2009 Katz, 2010 Lee and Shon, 2018 Morreale, 2011 Reich et al., 2011 Rooney et al., 2009 Salamon et al., 2009		
Education	Osili, 2010 Reich et al., 2011		

	Negative Impact	Neutral Impact	Positive Impact
Environment/Animals	Morreale, 2011 Reich et al., 2011		Osili, 2010 Dietz et al., 2014
Health	Osili, 2010 Reich et al., 2011		McCambridge and Dietz, 2020 Pratt and Aanestad, 2020
Higher Education	Drezner, 2010 McCambridge and Dietz, 2020 Pratt and Aanestad, 2020		
Hospitals	McCambridge and Dietz, 2020 Reich et al., 2011		
Human Services	Morreale, 2011 Reich et al., 2011	Shaefer and Boudreaux, 2012	Marx and Carter, 2014 McCambridge and Dietz, 2020 McCambridge and Heliczer, 2020 Osili, 2010 Osili et al., 2019 Pratt and Aanestad, 2020 Sheehan, 2012
International Aid	Dietz et al., 2014 Morreale, 2011	Adelman et al., 2010	Osili, 2010 Reich et al., 2011
Public Benefit	McCambridge 2012 Morreale 2011 Pratt & Aanestad 2020	Reich et al 2011	Marx & Carter 2014 McCambridge & Heliczer 2020 Osilli 2010
Religion	Barna Group 2008 Bridgeland et al 2009 McCambridge 2012 McCambridge 2013 Morreale 2011	Reich et al 2011	Marx & Carter 2014 Osili 2010

Arts, culture and humanities, and higher education appear to have been the US sectors worst affected by the GFC. Performing arts organisations (which in the US tend to be highly reliant on donations) were especially hard-hit (Salamon et al. 2009; Lee and Shon 2018). The wealthy, in particular, reduced their 2008 giving to this area (Rooney et al. 2009), suggesting donors prioritise health and human services over arts (Osili & Ackerman 2019) during an economic crisis. Yet, giving to the arts increased in 2009 (Osili 2010). For higher education too, 'The data were grim' (Drezner 2010: 191) as its donors also gave more to health and human services (Pratt & Aanestad 2020).

Turning to health and human services discloses a mixed picture. Health receives a relatively small amount of revenue from philanthropy (Worth 2014, cited by Lee & Shon 2018). Early publications suggest declines in giving to health both from the wealthy (Osili 2010) and overall (Reich et al. 2011), whereas a later article (Pratt & Aanestad 2020) suggests contributions grew. Human services, in contrast, relies heavily on philanthropy (Worth 2014, cited by Lee & Shon 2018). In this case, wealthy donors were supportive (Osili 2010; Marx & Carter 2014; Pratt & Aanestad 2020). Foundations and corporations provided million-dollar gifts to human services during the GFC (Osili et al. 2019a). Overall revenue, however, declined in 2008 before an increase in 2009 (Reich et al. 2011) and, at a slower rate than other sectors, declined after 2010 (McCambridge & Heliczer 2020). Among human services, food banks fared well (Rooney & Bergdoll 2020) which might be considered an indication of 'more diligent targeting of poverty-relevant causes' (Reich & Wimer 2012: 1).

Religion relies primarily on philanthropy (Worth 2014, cited by Lee & Shon 2018) and represents the largest target for private giving in the US (McCambridge 2013). The sector also presents the most varied picture. A consultant study undertaken at the end of 2008, the busiest time for religious giving, reported a significant reduction in giving to Christian churches (Barna Group 2008, cited in Bridgeland et al. 2009). Osili (2010) and Marx and Carter (2014) say that religion continued to be highly supported by wealthy households. Morreale (2011) considers religion fared badly (along with arts, culture and humanities, international aid, environment, and public-society benefit organisations). Reich et al. (2011), however, report only a minor decline for religion overall. A final note is provided by McCambridge (2013, 'Other findings', para. 2) who, reporting an interview with the editor of *Giving USA 2013*, says religion "…is trending downward, and… that's a long-term trend".

The category of public-society benefit in the US includes intermediaries that both fundraise and distribute grants, such as United Way, the Red Cross or Salvation Army, and their grant recipients are usually charities providing basic needs to the poor (Osili 2010; Marx & Carter 2014; Osili et al. 2019a). Contributions to public-society benefit organisations declined considerably (Osili 2010; Pratt & Aanestad 2020) although they were the largest beneficiary category of gifts from the wealthy (Marx & Carter 2014) and of million-dollar gifts from foundations and corporations (Osili et al. 2019a). Gifts to (private grantmaking) foundations declined (Rooney et al. 2009; Reich et al. 2011; McCambridge 2012).

International aid is the last sector covered and, while Morreale (2011) describes a decrease in contributions, Reich et al. (2011) report a strong rebound. This was likely due to increased giving by corporations (Adelman et al. 2010) foundations (Reich et al. 2011) and wealthy individuals (Osili 2010).

Giving during recessions in the UK

There is very little data on the impact of recessions on UK philanthropy and fundraising before the GFC (Wilding 2010). During the recession of 1991-93 many charities experienced a fall in total income. No articles, however, describe data specifically for philanthropic giving in that period. It was said that corporate giving declined in that recession (Taylor-Gooby 1994, cited by Wilding 2008). Other data suggest that UK household giving was generally in decline from 1974 to 1994 making it difficult to disaggregate meaningful patterns regarding the recession years of 1974, 1980 and 1991 (Wilding 2008).

Empirical research articles on the GFC's impact on UK giving are considerably fewer than the US. The insights provided by these articles concerning both the sources of, and causes supported by, giving are discussed below. The principal sources of data used in the articles are the National Office of Statistics and the UK Charity Commission. Additionally, there are data compiled in a series of annual reports on *Million Pound Gifts* (e.g. Breeze, 2009; Breeze 2011). No empirical research was discovered relating to UK corporate giving during recessions.

Impact of GFC on UK sources of giving

As in the US, individuals are the largest source of philanthropic income. The proportion of the UK population giving fluctuated in the range 54-58 percent, with the low of 54 percent occurring during the GFC in 2008/9 (NCVO & CAF 2011). A drop in the mean amount (but not the median) also occurred during 2008/9, the worst year with an 11.4 percent decline for individual giving. This indicates a fall in the size of larger gifts rather than the reduction in value of most gifts (NCVO & CAF 2009).

It is noteworthy that the percentage of UK donors who give monthly amounts over £100 and are responsible for around half the total value of individual donations fluctuated only slightly between 7-8 percent during the GFC (NCVO & CAF 2009, 2011). Thus keeping or attracting major donors is important: ‘Wealthy people retain the capacity and the desire to make their philanthropic contribution’ (Breeze 2009: 14).

The Charity Commission (2009) undertook qualitative research within the UK grant making foundation sector in early 2009 indicating that asset values had declined. The managers interviewed, however, noted that foundations were ‘holding their nerve’ (Charity Commission 2009: 11) and some planned to spend from reserves. Nonetheless, some charities did report decreases in giving from foundations in the subsequent year (Charity Commission 2010).

Impact of GFC on UK sectors receiving gifts

The Charity Commission (2010) survey found that just under half of UK charities receive income from fundraising and, for around one-quarter, it was their most important source. By sector, international aid charities were the most reliant on fundraising. In 2009 religion received the most in gift value (NCVO & CAF 2008) though taking second place after medical research the following year (NCVO & CAF 2010). Higher education may also have suffered during the GFC though this finding is only based on a press report (Shepherd 2010, cited in European University Association 2011). Breeze (2011) provides corroboration, reporting a significant drop in million-pound gifts to UK universities which had previously been, along with arts and culture, donors’ preferred recipient category. Breeze (2011) also found more million-pound gifts going to international aid and public welfare during the GFC recession than previously.

Overall, the favoured causes for UK giving remained medical research and hospitals, then children and young people. Giving to these remained stable from 2005 until 2011 (NCVO & CAF 2011). The only significant fluctuation was that international aid increased its giving income in 2009/10 probably in response to the Haiti earthquake (NCVO & CAF 2011), in itself a confirmation that people remain charitable during economic downturns.

Australia

Sources of primary data on the impact of recession on Australian philanthropy are even more limited than in the UK. The data for giving by individuals can be obtained from Australian Tax Office (ATO) records of tax deductions claimed for charitable donations. These are available from 1979 onwards, except for 1991 to 1993 when the last recession occurred – during that period the ATO did not collect data (McLeod 2020). The previous recession was in 1983 when, according to these data, giving grew before falling the following year (McLeod 2020).

There is no longitudinal data for giving by trusts and foundations and the data for the GFC provided below was obtained through two surveys (Centre for Corporate Public Affairs 2009; Leat 2010). Information on corporate funding was obtained from beneficiary nonprofit organisations (Centre for Social Impact 2009).

Australian individual giving in the GFC

Australian individual giving rose sharply from 2000 until the GFC in 2008, followed by a decline between 2008 and 2010 (Crittall et al. 2019). The GFC heralded a trend of fewer people giving (McGregor-Lowndes et al. 2017) and verified in annual tax-deductible donation data. Total giving (including bequests) decreased 20 percent from the 2007 high point to 2011-12 (Crittall et al. 2019). Giving levels had not yet recovered to pre-GFC levels by 2011-12.

Major gifts fell significantly during the GFC, with nonprofit organisations concerned about whether they would be renewed in subsequent years (Centre for Corporate Public Affairs 2009). However, some individual philanthropists increased support in recognition that needs are greater during an economic downturn (Centre for Corporate Public Affairs 2009). These high net worth donors continued to give a greater percentage of their taxable income than lower-earners. In 2008-09, taxpayers earning over $1 million donated approximately 1.71 percent of their taxable income to eligible nonprofits, compared to the national average of 0.38 percent (McGregor-Lowndes & Pelling 2011), highlighting their importance to the nonprofit sector.

Australian foundation giving in the GFC

Survey results from 73 nonprofit organisations in June 2009 (Centre for Corporate Public Affairs 2009) indicate that the biggest falls in nonprofit funding included that from philanthropic trusts and foundations. Some philanthropic foundations scaled back commitments and reduced discretionary or one-off grants.

This was despite the fact that qualitative research by Leat (2010) of 23 Australian foundations in 2009 revealed that foundations did not lose asset value and that many remained wealthier than previous years. A problem for Australian foundations is that some cannot, under the terms of their establishment deed, spend the accumulated (or endowed) capital, while others choose not to dip into their assets in times of economic crisis. Leat (2010) contrasts this with the UK Charity Commission (2009) study that found a majority of UK foundations (69%) had made no changes to grant making expenditure in the 2008-09 period (Leat 2010).

Australian corporate giving during the GFC

From a survey of 263 nonprofit organisations, just over half of respondents experienced a decrease in corporate funding in the six months before December 2009, and a further one-third experienced flat income. Only 7 percent experienced an increase in corporate donations in the second half of 2009 (Centre for Social Impact 2009).

Changes to the nature of Australian corporate support during the GFC meant less cash support but increases of in-kind support and corporate volunteers for community activities (Centre for Corporate Public Affairs 2009). Multi-year funding partnerships were most stable whereas funding support for one-off requests and sponsorship of art or sports events were not. Companies were understandably reluctant to support fundraising gala events when making difficult economic decisions in their organisations (Centre for Corporate Public Affairs 2009).

Sectors supported in Australia

Only one article was discovered discussing the support for different sectors in Australia during the GFC (Centre for Social Impact 2009). This was based on a survey of the impact of the first six months of the downturn and the *anticipated* consequences of the recession. These results should be treated very cautiously given the short period to which they apply, and the small samples in some categories.

International aid organisations were found to be the most reliant on philanthropy, raising over three-quarters of their income through fundraising. Education charities were next, raising less than half this way. Welfare organisations were the least dependent at under one-third, while environment, health, arts and sport raised between 35 percent and 40 percent from giving. Within the six-month period examined, environmental causes reported the largest decline in fundraising income and international aid reported the least decline. Arts and sports organisations had been the least affected.

Giving in New Zealand during the GFC

Philanthropic giving in Aotearoa New Zealand contributes around 20 percent of nonprofit revenue (Tennant et al. 2006; Slack & Leung-Wai 2007; McLeod 2017). Data regarding the impact of the recession on giving in New Zealand is extremely limited. Only two *Giving NZ* reports spanning 2005 to 2010 exist from which to extract data relevant to the GFC (Slack & Leung-Wai 2007; Slack & Molano 2012). As a percentage of GDP, individual giving appeared to increase substantially in that interval, from 0.81 percent (Slack & Leung-Wai 2007) to 1.35 percent (Slack & Molano 2012). This, however, was undoubtedly due to the removal in 2009 of limits to the amount claimable as a tax rebate on charitable gifts (Slack & Molano 2012; McLeod 2017) which masks any response to the economic downturn.

NZ individual giving

The analysis of individual giving in New Zealand shows most funding coming from a large number of people giving smaller amounts, contrasting with the UK (NCVO & CAF 2009; 2011), although similar to Australia and the USA (McLeod 2017). The substantial increase mentioned above meant that, while before the recession in 2005 individual giving contributed around one-third of funding to nonprofits (Slack & Leung-Wai 2007), by 2011 this had leaped to three-fifths (Slack & Molano 2012).

NZ foundation giving

The proportions of trust and foundation grantmaking showed exactly the opposite trend. In 2005 this represented just under three-fifths of total giving (Slack et al. 2006) and in 2011, one-third (Slack et al. 2012). A noteworthy part of NZ philanthropy is that giving from the energy, gaming and lottery sectors is mandated by government. Combined, grants from these industries' statutory trusts represent around a third of foundation giving (Slack & Molano 2012).

NZ corporate giving

Corporate giving, calculated by the two *Giving NZ* reports that bookend the GFC, decreased from 7 percent of total giving in 2005 (Slack & Leung-Wai 2007) to 5.7 percent in 2011 (Slack & Molano 2012). This decrease appears to be related to a reconsideration of how to distinguish sponsorship from corporate philanthropy rather than a significant decline since the earlier report (Slack & Molano 2012).

Sectors supported in NZ

There are no data regarding the effect of the GFC on different sectors for New Zealand. Those that rely most on philanthropy, however, are reported to be international aid, animal care and religion (McLeod 2017). The activities that receive the most philanthropy are culture and recreation (arts and sport), education (including research) and social services (welfare) (Slack & Molano 2012).

Discussion and recommendations

The literature on philanthropy is clear that social values are stronger drivers of giving than economics (Breeze & Morgan 2009; Shaefer & Boudreaux 2012; Crittall et al. 2019). Recent indications from surveys in the UK indicate that people expect charities to continue fundraising (Murphy 2020b) during economic crises. Arising from this, communicating using a focus that aligns mission to values is recommended (Anheier 2009; Lawrence 2009b; Sheehan 2012). A study of environmental NGOs (ENGOs) in Greece, where recession and austerity bit harder than anywhere found:

> *Greek donors and ENGOs [sic] views correspond to a great extent. Both sides place the greatest emphasis on moral legitimacy components, on an ENGOs [sic] proven capability - mainly through its past record – to carry out the task that the organisation asks to be funded for* (Botetzagias & Koutiva, 2015: 138).

Anheier (2009: 5) suggests organisations consolidate their efforts around those that are ‘mission critical’ and more ‘resource attractive’ or fundable.

In addition to communicating mission and values generally, connecting and communicating with donors is regarded as important. Based on their large database of giving research, Giving USA (2008: 3) is clear that ‘Donors continue to give during recessions and are most likely to make gifts to organizations that provide excellent stewardship’. A study of US HNWI donors during the GFC found the top reason they stopped giving was feeling disconnected from a recipient organisation (Rooney et al. 2009).

Anheier (2009: 9) suggests that a recession offers opportunities for change: ‘New funding patterns, business models and ways of organizing are likely to emerge’. In the literature, however, consensus seems to emphasise not making changes to ways of fundraising but investing more in it. Not only fundraising pundits such as Klein (2004), Warwick (2009) and scholars (Giving USA 2008; Breeze & Morgan 2009; Morreale 2011; Sheehan 2012) recommend more investment but it was also reflected in actual practice (Lawrence 2009b; Salamon et al. 2009; Hanfstaengl 2010). In an Australian survey during the GFC, nearly half the 263 nonprofit organisations that responded indicated greater investment was planned (Centre for Social Impact 2009). A post-GFC study found that US organisations that maintained strong external funding relationships were “more successful in generating revenues during and in the aftermath of the financial crisis” (Lin & Wang 2016: 269).

Other strategies discussed for fundraising during recessions are diversification (Klein 2004; Anheier 2009; Charity Commission 2010) and mergers (Anheier 2009; Lawrence 2009b; Charity Commission 2010; Morreale 2011; Wilson 2020). Empirical evidence on the effectiveness of diversification is mixed. A global report indicated that organisations did well during the GFC by extending their fundraising efforts to attract new Asian wealth (Adelman et al. 2010). Lin and Wang (2016) found that diversification for more localised organisations was counter-productive in the short-term.

The literature contains theoretical suggestions that changes in taxation are levers which could be beneficial during economic crises (Hanfstaengl 2010; NCVO & CAF 2011; Lee 2013). Hence the question arises as to whether there a role for government support of nonprofit fundraising during recessions? There is, however, scant empirical data to support such cases and the limited data discovered in the literature reviewed is conflicting. The New Zealand example (Slack & Molano 2012; McLeod 2017) showed how removing a cap on deductions made a difference, although this change was made because of the recession. Brooks (2018) demonstrated the reverse, using data to construct a model showing that lowering the cap in the US would have a negative impact.

A recommendation of this paper - to governments and data agencies in Australia and New Zealand, at least - is to ensure robust and accurate data are kept on all forms of giving to, and expenditure by, nonprofits. The example from Australia, of tax data collection having being discontinued before the early 1990s recession (McLeod 2020) indicates a failure to understand or prioritise this data. Among the nations whose research has formed part of this review, only the US have access to comprehensive data on giving and institutions capable of collating, analysing and distributing it. This may well relate to the size of the US philanthropic sector. The importance of service provided by nonprofits particularly in times of economic crisis (Clifford 2017), should support the proposal that where similar economies of scale do not prevail, government attention to, even funding for, robust data would be beneficial.

Conclusion

This review of philanthropic funding of, and fundraising by, nonprofits during times of economic crisis questions some popular assumptions. A challenge faced by fundraisers during recessions is a lack of information regarding how donors will behave.

The literature clearly shows that reductions to philanthropic revenue are not as large nor as sustained as media coverage or fundraisers' initial predictions suggest, but also that different sectors are affected in different ways. Funding sources vary in the timing of their responses to economic crises, with giving by individuals first increasing but then falling as economic realities, particularly reductions in household income, take hold. Participation rates, however, vary less: the number of donors remains the same but the average donation drops. It seems that the emotional and social values that inspire generosity are not dimmed by economic concerns.

Foundation giving remains steady for at least the first year and may also increase counter cyclically as a deliberate policy response. It is likely to decline in the second year due to the lag effect as new distribution decisions are based on reduced asset valuations. From that time on, grant making is dependent on the recovery of financial markets. Corporate giving decreases, particularly in the form of one-off contributions and event sponsorships, though long-term funding partnerships are likely to endure in some form.

Giving by HNWI and households, however, tends to be maintained, at least to causes and organisations to which donors have a close ongoing relationship. There is also evidence that giving to public welfare by the wealthy increases during recessions.

One practical contribution of our review and analysis is therefore the recommendation that nonprofit leaders and fundraisers should continue to communicate the needs and values that underlie their organisation's mission (Scaife et al. 2013), as donors will continue to give within their capacity to those organisations they care most about. Theoretical contributions include highlighting the large gaps in the body of research around philanthropic responses in times of economic crises and financial insecurity. Giving money to help those immediately and directly affected by an economic crisis (through, for example, unemployment, underemployment, homelessness or food scarcity) may be an obvious and intuitively generous reaction but the breadth of the nonprofit sector's work supports and sustains communities, research, culture and environmental causes in the much longer-term. The separate but related topic of fundraising in times of disasters (whether natural or human-made) offers some areas for future comparison. A further challenge is that charitable gifts and services have different social and political connotations in different cultures (Bekkers 2016). It should be noted that the vast majority of published research in English around nonprofit fundraising in economic crises is from the US and the UK. We feel that Australia and New Zealand both should make stronger efforts to track and analyse their national data.

Fundraising is now recognised as a specialisation requiring professional education, skills and standards. We believe that this paper, by reviewing past research on nonprofit responses to economic crises, contributes a useful platform that may serve as a resource not only for fundraising practitioners and future academic researchers but governments when they look towards civil society to step forward in times of crisis.

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Social enterprise and financial sustainability in South Asia: A grounded theory

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Abstract

This paper presents a theoretically grounded strategy for the financial sustainability of small-to-medium nonprofit organisations (NPOs) engaged in social enterprise (SE) strategies. The theory is based on research conducted in the South Asia region: specifically India, Bangladesh and Sri Lanka. Despite the significant growth in the NPO sector in this region, the literature does not adequately deal with the emergence of SE. Using an adaptation of Strauss and Corbin's (1998) pragmatic approach to grounded theory method (GTM), the aim of this research is to contribute to the formulation of practical solutions to achieving financial sustainability across the spectrum of the target organisations, with due consideration of their region and country specific social, cultural, economic, and institutional contexts and drivers. This is achieved through development of a performance-based management action framework to achieve financial sustainability for small-to-medium NPOs pursuing SE strategies.

Keywords

Social enterprise; grounded theory method; South Asia; financial sustainability

Introduction

The issue of sustainability continues to be one of the most critical challenges confronting nonprofit organisations (NPOs). Burkett (2016) considers sustainability as longevity of the organisation along two dimensions: financial sustainability and the impact of the social purpose. Financial sustainability in turn is influenced by a range of endogenous capability and management related factors (Salvado 2011) and exogenous factors affecting access to traditional sources of funding (Gassman et al. 2012; Huggett 2009; Lamers 2005; Landsberg

2004) while competition for funding requires a strategic management approach (Francois 2015; Greatbanks & Manville 2013). The objective of this research paper is to develop a theoretically grounded approach to financial sustainability of small-to-medium NPOs deploying social enterprise (SE) strategies in India, Bangladesh and Sri Lanka, countries where there is a recognised literature gap in relation to SE and social entrepreneurship (Hasan 2015; Krishna & Krishna 2010; Ravichandran 2008; Sidel 2001).

While significant case study research on SEs in India has been undertaken[2], there is little substantial theoretical and empirical work on the topic of SE itself or indeed on the NPO sector in general (Fisac & Moreno-Romero 2015; Doherty, Haugh & Lyon 2014; Kerlin 2009). The origins of the NPO and SE sectors, and the models that are emerging, also vary by region and country due to differences in the macro-institutional context (Kerlin 2013). This further raises the question as to whether models from other regions and contexts are transferable to South Asia.

SE is a multi-disciplinary and multi-faceted phenomena (Sassmannshausen & Volkmann 2013) with a variety of definitional constructs (Battilana & Lee 2014; Borzaga, Depedri & Galera 2012, Grassl 2012) and typologies (Kaplan 2013; Mair, Battilana & Cardenas 2012; Defourny & Nyssens 2010; Brouard, Hebb & Madill 2008; Alter 2007). For the purpose of this research and selection of the sample organisations, the following broad working definitions have been adopted: a *social enterprise* is an organisation 'seeking business solutions to social problems' (Thompson & Doherty 2006); *social entrepreneurship* is a strategy, process, and capability to exploit an opportunity for innovation for social purposes (Luke & Chu 2013); *financial sustainability* is the ability of an SE organisation to generate all or a significant part of the revenue it needs in order to achieve its social mission consistent with its system of values (Alter 2003).

While these definitions encompass a broad spectrum of organisations, this research is focused specifically on small-to-medium SEs that belong to the social value creation group in Alter's (2007) typology as illustrated in

Figure 1 below. A shared vision and associated trust components are part of the norms that enable co-creation by all stakeholders of social value for such organisations (Lester 2013; Tsai & Ghoshal 1998).

[2] See for example Best & Kumar (2008) and Kumar (2004).

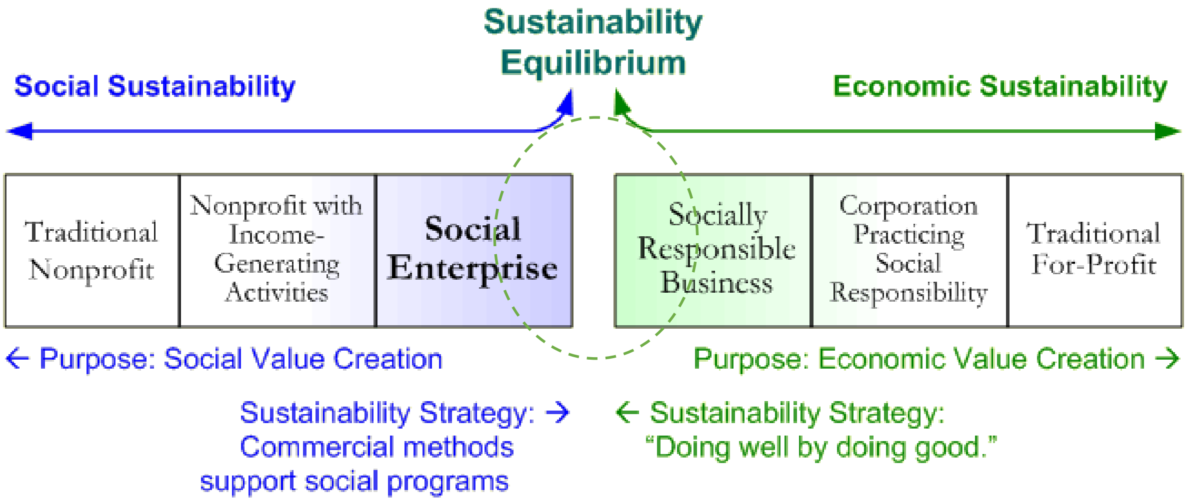

Figure 1 – Sustainability equilibrium (Alter 2007)

The overarching question is how can small to medium-sized NPOs in the South Asian context achieve financial sustainability through SE business and organisational models? This question is answered by developing a grounded theory of financial sustainability drawing on interviews with 11 organisations from across the three countries. The paper proceeds by firstly elaborating the rationale for focusing on South Asia; secondly identifying through the literature a set of a priori themes to guide data collection and initial analysis without constraining the emergence of new themes in the process; thirdly introducing the research methodology based on grounded theory method (GTM); fourthly a discussion of the findings in terms of the main concepts and a detailed discussion of the core concept – *performance*; and lastly the presentation of a grounded theory of financial sustainability anchored in the core concept.

Geographic rationale

The literature gap relating to NPOs in developing countries relates to variations in political, social, economic and legal systems governing SE (United Nations Statistics Division 2017) which are reflected in concepts, models and practices of SE and social entrepreneurship. In the South Asian context, SE has emerged from the traditional nonprofit sector and business models and practices have largely been adapted from the commercial sector.

Kerlin acknowledges these variations and has developed a conceptual framework to explain regional and national differences (Kerlin 2010, 2013) encompassing culture, history, type of government, stage of economic development, model of civil society and their inter-relationships together with the internationals influences on each of these factors. Monroe-

White, Kerlin and Zook (2015) have added strength of civil society and governance, collectivist values and levels of international aid to this framework. Kerlin's conceptual framework is validated by empirical data from five countries (the USA, Sweden, Italy, Argentina and Zimbabwe) with an acknowledgement of the need for further research to include Asian and Middle Eastern countries, and others, in order to validate the groupings already identified or add new groups - such as for South and South-East Asia – with potentially new models of SE.

There is also a need to extend the macro view by applying country-specific micro-level factors, thus 'offering a clearer overview of different influences that 'shape' social enterprises' (Mason & Barraket 2015). This is particularly relevant in the South Asian countries, where the differences in economic, political and historical environments are more pronounced, compounded by recent wars and conflicts, and devastating natural disasters. In the context of these countries and other developing countries, the impact of centuries of colonialism (Ziltener & Künzler 2013) also needs to be considered as a distinct international influence in comparative studies.

In Bangladesh for example, NGOs have played a significant role in the country's development since 1971, having established a foothold in the recovery from the War of Independence. They are important in meeting the needs of the people as there is limited state capacity. In different political contexts, the state has regulated the sector more or less strictly depending on its perceived need to limit external institutional influence (Fernando 2011). This role has led the sector to diversify from nonprofit to commercially oriented enterprises, seeing the rise of large local SEs such as the Grameen Bank and BRAC, the largest international development organisation in the world. While the NGO sector is regulated, there are no policies or legal frameworks relating specifically to SEs, other than specific cases such as microfinance and social impact investment (British Council 2016a).

A multi-ethnic country,[3] Sri Lanka's development is still determined by the 1983-2009 ethnic conflict and the post-war recovery policies of the government and international donors. The NPO sector has a tradition dating back to the early nineteenth century of being anchored in an ethno-religious construct, originally Christian and then later Buddhist, Hindu and Muslim. The sector has evolved from community-based social service organisations to include cooperatives for rural development, human rights from the 1970s onwards, humanitarian relief, poverty alleviation, advocacy and grass roots development (Asian Development Bank 2013). The NPO

[3] The three ethnic groups are: Sinhalese (predominantly Buddhist) – approximately 70%, Tamil (predominantly Hindu) – approximately 13%, and Muslim (ethnically Tamil) – 8% (Department of Census and Statistics 2012).

sector's involvement in civil society activism, especially during the war, has been the main source of tension with the government, resulting in a tight, financially oriented regulatory model operating in the country since 1980. Civil society organisations and NPOs rely predominantly on overseas funding and donors. There is very little research and data on SE in Sri Lanka. Social and cultural norms (Weeratunge & de Silva 2007), as well as state–civil society relationships as discussed above, are a constraining factor on growth. The SE sector operates at the micro end of the size scale.[4]

India contrasts with both Bangladesh and Sri Lanka in several ways. The federal structure of the state has created a very complex and varied political, regulatory, economic, social and cultural landscape, with uneven development. The NPO sector in India, dating to the early medieval period (Asian Development Bank 2009), derives from the values of service and giving. At independence, the NPO sector took on a significant role in helping to meet the demands placed on government but, unlike Bangladesh and Sri Lanka, this relationship was explicitly framed in policy as complementary to the state. Indeed, the state established institutions to facilitate the sector, including decentralisation to a village level. The sector has also become an active participant with the state in the development planning process (Nair 2011). Registration is voluntary but does attract certain benefits in relation to tax and access to foreign and government funding. The British Council (2016b) has identified 39 SE-related policies, including the National Skill and Entrepreneurship Policy of 2015. The majority of these policies have emanated from the Ministry of Micro Small and Medium Enterprises. The sector is also well developed in terms of donor funding and private investment. There is as yet no SE–specific regulatory framework.

Chilufya and Kerlin (2017) point out that the micro-institutional processes in the local context of SEs are as important as the macro view due to human agency. This research is concerned first and foremost with this interaction between the social entrepreneur and the environment in which they operate and the challenges they face as they navigate a path to financial sustainability. The following section draws on the literature to identify where these challenges might lie.

[4] One notable exception is the largest NGO with an SE arm in technology (Fusion 2017), the Sarvodaya Shramadana Movement (SSM) (2017) established in the 1950s on Buddhist principles.

Research themes – A conceptual framework

Kerlin (2013, 2017), Weerawardena and Mort (2006), and Seel (2006) inform the research design by providing a set of a priori themes for data collection and analysis. This is consistent with the pragmatic variant of GTM (Strauss 1987; Corbin & Strauss 1990; Strauss & Corbin 1998)[5] which allows the researcher to engage with the literature both pre and post data collection and analysis, to establish a conceptual framework as a starting point without pre-determining in any way the emergence of the theory (Charmaz 2006; Bryant & Charmaz 2007; McGhee, Marland & Atkinson 2007; Dunne 2011).

Social entrepreneurship brings a process dimension (Dacin et al. 2011) to social value creation which Weerawardena and Mort (2006) encapsulate in their social entrepreneurship model. Their grounded theory study of social entrepreneurship in Australian NPOs found that social entrepreneurship exhibits three core attributes: innovativeness, proactiveness and risk management. However, these attributes are constrained by the need to fulfil the social mission and ensure the sustainability of the organisation within the environmental dynamics in which it operates (Weerawardena & Mort 2006).

Seel's grounded theory study on sustainability of the NPO sector in Canada, identified seven concepts relating to sustainability: risk and risk management, attaining the attributes of a learning organisation, sustainability largely through innovation, credibility, relationships, organisational uniqueness and ethics. These are integrated into a central category of boundary spanning, that is, the capability to reach out beyond the boundaries of the organisation for the purpose of exchange and co-operative pursuit of a social outcome.

The five a priori themes derived from these three scholarly contributions are integrated into a conceptual framework in

Figure **2** below. They are as follows:

1. *Context and environment for markets and risk*: factors that put at risk the financial sustainability of an organisation (e.g. government policy, regulation, resource constraints, competition).

[5] The two dominant variations of GTM are: the Glaserian or purist method (Glaser & Strauss, 1967) and the Straussian or pragmatic method (Corbin & Strauss, 1990; Strauss & Corbin, 1998; Strauss, 1987). The former argues that the generation of theory must proceed exclusively from the analysis of data, while the latter advocates a preliminary review of the relevant literature.

2. *Scope of social entrepreneurship*: in terms of business strategy, business model and organisational structure, and how together they ensure financial sustainability and mitigate risk.
3. *Opportunity recognition, innovation and exploitation*: the links between and contributions of these capabilities to maintaining and enhancing financial sustainability (successes/failures, lessons learnt).
4. *Role of technology in creating social value*: technology exploitation for financial sustainability, networking and collaboration, cost control, and developing an e-business model.
5. *Performance and effectiveness in diffusion of social innovation in social venture formation*: goal-setting, critical success factors, performance measurement criteria, impact measurement and impact of governance.

Interviews conducted with research participants were structured according to the above themes which were then used as a set of a priori codes in the data analysis, without constraining the emergence of new themes. The GTM analytical process also identifies relationships between core categories of themes and any critical dimensions that may be identified by the research participants.

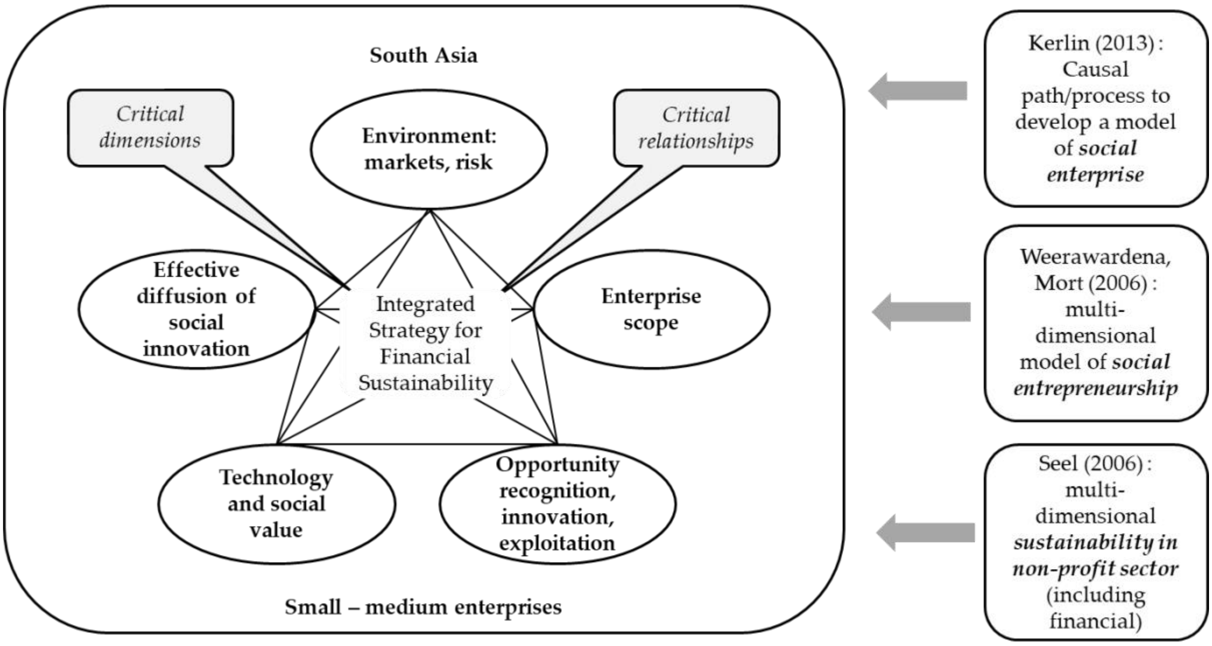

Figure 2 – Conceptual framework

As will be seen later, the thematic categories that ultimately emerged from the analysis differ from these initial themes and lead to a new conceptual framework. The following section describes the research methodology from design through to analysis and development of theory.

Research methodology

The sampling process began with an initial list of 30 organisations, identified through a broad scan of the publicly available data, and based on number of employees, financials (income, assets and expenditure), location, years of operation, sector, mission, legal structure, demography and socio-economic profile. This list was filtered down to 11 based on information to support purposive sampling provided by on-ground contacts and considerations of time and budget. Purposive sampling was done using an initial survey questionnaire to gather background information on each organisation and confirmed in a preliminary face-to-face meeting.

The sampling criteria ensured that the sample covered a spectrum of SEs based on size as shown in Table 1.

Table 1 – Sample distribution based on size

Size based (investment [6] and employees[7])	**Number**
Medium	4
Small–medium	2
Small	2
Micro–small	0
Micro	3
TOTAL	**11**

The selected organisations were also categorised according to stage-of-development using Burkett's (2010 life cycle phases of SE development as shown in

Table **2.**[8] The initial classifications were subsequently revised based on interviews as shown.

[6] Indian Ministry for Micro, Small and Medium Sized Enterprises classification based on investment (2009 as cited in GIZ 2012, p.16). Investment data was not available, so revenue or turnover was used as a proxy given that nonprofits by definition reinvest surpluses into the organisation's mission.

[7] Classification based on employee numbers drawn from the United Nations Industrial Development Organization (UNIDO 2004, p.20)

[8] These life cycle phases mirror those identified in the micro, small, and medium SE (MSMSE) sector in India (GIZ 2012, p.17).

Table 2 Phase of development (Burkett 2010: 13)

	Pre: traditional nonprofit model	**Startup phase of SE: beyond grant cultures**	**Development phase of SE: towards viability**	**Growth phase of SE: building strength and impact**	**Maturity phase of SE: towards sustainability**
Initial sampling classification	2		4	4	1
Post interview re-classification		5	6		

The sampling did not aim for an even distribution by country as the focus of the research was regional rather than country-specific and not intended to be comparative. The distribution by country together with the nature of the enterprises is summarised in Table 3.

Table 3 Country distribution and type of enterprise

Country	**Sample size**	**Type of enterprise**
Bangladesh	1	Fair trade supporting small scale handicraft producers
India	9	Artisan crafts co-operative (pottery) Women's empowerment Funding education through small business development Sustainable forestry and agriculture Farmer co-operative venture Supporting university students through a profit generating graduate finishing school Indigenous health network

Country	Sample size	Type of enterprise
		Facilitating small farmer access to markets Remote area primary and secondary health care trust
Sri Lanka	1	Drug rehabilitation

The basic unit of analysis in the research is the a priori themes. The participants, and the organisations they represent, are the informants of the themes under investigation (Gasson 2004; Gläser & Laudel 2013). An extended interview of approximately 1.5 – 2 hours duration was conducted in the field with each organisation's founder or a C-level executive who had extensive knowledge across all strategic and operational details of their organisations over a number of years and were key drivers of the sustainability.

The interviews were transcribed and then analysed using NVivo software. The first step in GTM analysis is coding. O*pen coding* involves coding and comparison of a single interview for developing categories. A*xial coding* is a process of comparison between interviews and then relating categories to subcategories. Finally, *selective coding* identifies a core category. The core category or concept is central, that is all other categories can be related to it and as such it ultimately anchors the theory.

In GTM, sample size and characteristics are important in ensuring that the data is sufficient to adequately test the completeness of the theory as it emerges through the analytical process. This is referred to as 'theoretical saturation'. However, this is not necessarily a function of the number of interviews (Kandaiya 2018). In this research, the interview process itself was designed to satisfy the demands of theoretical saturation within the practical constraints of a PhD project. This was done by firstly allowing for reflexivity between interviews in the field, and secondly by commencing analysis after the initial six interviews and using the remaining five to elaborate themes and test for theoretical saturation.

GTM analysis is thus an iterative process. There is overlap between stages as categories emerge (open-axial) and then the core category emerges (axial-selective). This parallel operation ultimately delimits the previous coding step. However. the following section presents the end results of coding steps in a way which implies a sequential process however this is done purely for ease of discussion and presentation.

Findings

The substantive findings from the application of open and axial coding are a stable set of categories and sub-categories. In this research the original a priori thematic codes used in the open coding step have not survived as categories in the axial coding. A new set of categories has emerged as discussed below.

Selective coding, identifies the core concept or category and maps out the relationships between that core category and other categories resulting in reconfiguration. The core category is the central unifying concept or variable in the participant responses to the challenge of financial sustainability.

Results of open and axial coding - Categories and sub-categories

The most salient of the thematic categories in the interview data was external *factors*, followed by *performance*, *organisational characteristics, business process,* and lastly *technology*. However, ultimately, *performance* was identified as the core category. This is discussed in the next sub-section following a summary of the other categories.

External factors

In this category participants highlight a mix of macro and micro issues. At a macro level Government regulation, economic conditions, political climate for NPOs, and understanding of markets and product positioning are encountered as a series of hurdles to be overcome. At a micro level, within their domain of operation or engagement the issues are organisational; for example, continuity of core capabilities when key people leave, and also the complexity of pursuing a mission which may interfere with existing family and community structures and traditions, such as women’s empowerment.

Organisational characteristics

The internal organisational aspects of sustainability are articulated as the tension between mission and delivering outcomes for the target beneficiaries on the one hand and on the other hand making the changes necessary to manage and sustain growth and longevity. These changes include more formalised processes, building human capital in the organisation, and adopting a more commercial orientation in part to meet donor expectations. Participants stress that the enterprise exists and grows for the sake of its target beneficiaries, not for its own sake as an enterprise.

Business processes

Moving beyond the perceived barrier of more formality in internal processes, participants see the opportunity and necessity of continuous improvement and finding better ways to do things as well as appreciating the benefit of having good, up to date information on costs and income. However, there is less emphasis in the responses on budgeting and forecasting. The perspective on governance tends to focus on inclusion and participation, while Boards are viewed as necessary but not always close enough to the mission and day-to-day operations to add value.

Technology

Technology is seen as a positive contributor to efficiency, service delivery, and even public image. However, it was primarily seen as a useful administrative tool, especially for financial management.

Results of selective coding – Core category

Performance emerged from the selective coding process as the core category because it meets Strauss and Corbin's (1998) criteria, specifically: its centrality in relation to the issue of financial sustainability in terms of causality, its salience in the data, its ability to logically integrate the other categories, its substantive underpinning of the theory as shown in the next section, and because it holds regardless of variations across organisations in relation to strategy, tactics and progress towards financial sustainability.

Analysis of the data relating to the different aspects of *performance* and the researcher's impressions during the interviews show that organisational characteristics such as size, budget and current operational environment of the organisation are significant for participants. However, there was a consensus view that, regardless of these differences, performance is multi-dimensional and dynamic.

Irrespective of the sources of the funds, the performance of the enterprise is often driven by the donor's perception of how the funds should be used and how performance should be demonstrated. Nor does donor influence always effect change in the environment requiring change in the organisation's response:

> *You know, the social issues are very dynamic or new. So they go on changing, either they grow or disappear … [new] forms of challenges come up.*

Another participant was confident that the performance of the organisation on multiple performance metrics has ensured continued financial sustainability, noting though that the dynamics of the environment in which they operated impacted on performance and needed continuous realignment in order to be financially sustainable and respond to the risks to sustainability:

> *I count at about twenty, twenty-five years this organisation has been running before my coming. … Wherever I saw that this is a losing part of the business I had to … then do some analysis and then guide my people that way. …, I was able to make it profitable.*

This interviewee ascribed the continued achievement of financial sustainability to the management training and oversight of its parent organisation (a global US-based NPO), his own leadership and a talented team. He also comments on the effects that performance measurement can have on individuals and that measurement on its own is no guarantee that a target will be achieved, especially as processes become more formalised / less informal:

> *Again, in most cases that I know… a few months before is very informal. Now we actually have a formal CEO who managed to put in the processes and put a structure. Again, both a result of the donor agency request and our own realisation that you cannot scale up the informal process. … Once you start measuring and people know you are being measured, there is always a tendency to [0:52:08.8] the system. So there is no guarantee that just because someone is measuring numbers, it actually has made a difference.*

There is consensus that, in a financially constrained economic environment, the execution of the strategy must meet the increasing demands for accountability from multiple stakeholders. However, the barriers to impact measurement as voiced by the participants include: staff's skills and turnover; complexity of impact measurement and evaluation; in particular early planning and setup rather than last minute scrambling for data; time constraints and work commitments; and an organisational culture that is geared more to action than evaluation (Barraket & Yousefpour 2013).

The founders and senior executives of two small healthcare service organisations share a passion to scale up their current services and build the capacity of their organisations. For this they need capital. Both shared the view that the performance of their organisations strengthens their legitimacy and in doing so assists in strategic marketing to raise growth capital from multiple sources, be they philanthropic donors, CSR programs, government grants or social finance. The first step is to establish consistent performance over time, which has benefits in terms of staff retention and external legitimacy:

> *In most of the organisations of this order, what happens is the people who manage this kind of an organisation tend to dilute the focus of the organisation … To run it for a short period, anybody can go, 'Five years, six years we run it'. I could have very well said, 'I've done my bit. I'm walking out'. No. … And today, because of a consistency of performance, the doctors who were our [0:10:24.5] they feel confident about our performance … 'Here is something that you're assured' [0:10:41.5] the consistency of performance.*

Focus on the core mission must also be maintained and be 'congruent' (Huybrechts & Nicholls 2013: 133) with performance:

> *Like in the hospital today … the people who are funding you, should first and foremost have trust in you … That if they give you even ten rupees, they know this guy will spend it for the focus on which it's been given to them … First and foremost, you've got to have a conviction about what you are doing. That's the most important thing…. But as much as that, you have to see that you perform. Your focus should be on performance.*

In the case of the Ayurvedic hospital SE, performance and leveraging performance are a critical element of its financial sustainability strategy. Its point of differentiation is in relation to patient outcomes – and the actions to achieve these – as a key performance metric.

> *No, for the growth part we need to raise capital, but for the existing things, they're self-sustaining … For example, from almost inception we take the patient's feedback of medical outcomes … you use the power of IT to look and monitor health, tracking and, you know, recording all the [patient treatment] life cycle … But right now, from a tactical angle we are looking at viability.*

'Viability' is viewed as depending on scale while maintaining focus on the core mission and values of Ayurvedic Medicine. If it succeeds in doing both, it will achieve both patient and enterprise performance goals and enhance legitimacy:

> *Our measurement of impact, I think at this point, has to be primarily in terms of number of patients served and cumulative as well. And the other thing is clearly in terms of the nature of medical care that we're doing, and you know, the values based on which you set up.*

Another participant offering advice to its clients – a women's self-help organisation - expressed confidence that the organisation is meeting its performance goals based on two metrics. The first is the social success of the organisation. As the women earn income from the revenue generated from the sales of the products produced by their activities, the social mission of the organisation is achieved:

> *Basically because the money that's, a couple of women are the primary wage earners, because their husbands are day workers, day labourers and what have you. …. If they didn't do this, Tony, what would they do? They would have to go for day labour, or be one of these women that carries head-loads of wood, which some of my girls have done. We're talking about the head-load and the other extreme.*

The second set of metrics relating to performance is the use of technology to track and monitor the costs, profits and incomes of the production and sales cycles. The key members of the group have been trained to use desktop-based spreadsheets to monitor the financial data as a measure of success.

The artisan pottery SE participant expressed confidence that the organisation is meeting its performance goals again based on two metrics. The first is the *social success* of the financial support to the schoolchildren's education program (their ultimate target). The second is continuous upgrading of the potters' *skills* to meet market demands, thus covering both financial and organisational sustainability. They have a minimal reliance on donations and are confident that the income generated from the sales of pottery products will be sustained. This is predicated on the skills of the master potter, and the accounting and planning skills of a trustee.

Impact measurement resonates for participants in a different way, as it is seen as relating more to the community than to donors and reflects both short-, medium- and long-term goals and perspectives:

> *Well, impact is a long-term gain. Right. So, if you do a one-year program, two-year program and if you still want the impact to be then, it is still in a stage you can't expect impact to happen so early, right. So, we call them, you know, we transfer them into three categories: output, outcomes and impact. ... Outcomes is what has changed in the life of your customers. Impact is long term; impact is when the whole community or the whole society ... It will come not just because of us, it will because it is the effort of everybody, how everybody is contributing towards the goal.*

Similarly, performance goals themselves are understood in terms of social capital creation, although the connection with the concept of social value creation in an accounting or measurement sense is not made:

> *One metric which has nothing to do with accounting is, as we said before, the social success of that organisation…I mean, one of the important metrics is to also assess how their academic performance has been. ... For us that's also success criteria, if you wish.*

In summary, the struggle for many organisations is to make the bridge between performance understood as the achievement of goals and outcomes, and the accountability aspect that comes from hard measurement:

> *But what happens is that you cannot identify indicators of that sort because it fluctuates so much, right? And like I told you, like now we have very limited staff.* and:
> *So the social enterprise has limited time resources. So one point of view is to say, hey, you know what, the farmer to whom I'm trying to provide service is a better judge of whether I have added value to them or not.*

Core category 'performance' as foundation for theory – A new conceptual framework

In selective coding, the other categories and their subcategories are selected and reconfigured according to their relationship to the core category to form a new integrated conceptual model or framework as shown in Figure 3. This further validates the choice of core category to the extent that the reconfigured categories can be related to it ‘meaningfully and easily’ (Holton 2007: 280).

In relation to the NPO sector, the term ‘performance’ is used variously to mean social impact measurement, accountability measures, outcome measurement and effectiveness evaluation (Morrison 2016; Ebrahim 2010; Moxham 2010; Nicholls 2009; Bell-Rose 2004; Cutt & Murray 2000). Regardless, a recurrent theme is that contextual factors are integral in designing a NPO performance framework (Morrison 2016; Ebrahim & Rangan 2010; Moxham & Boaden 2007). In the new conceptual framework, the other categories from axial coding relate to performance as contextual drivers of performance. The participants’ responses can be reclassified as relating to the external, internal organisation, and community related social context.

The theory itself, as explained in the next section, provides an answer to the research question by explaining to managers the causal link between performance in a given context (external, operational, and social) and financial sustainability. As will be seen, this causal link is management itself, specifically their awareness of contextual drivers and their capability to formulate a response.

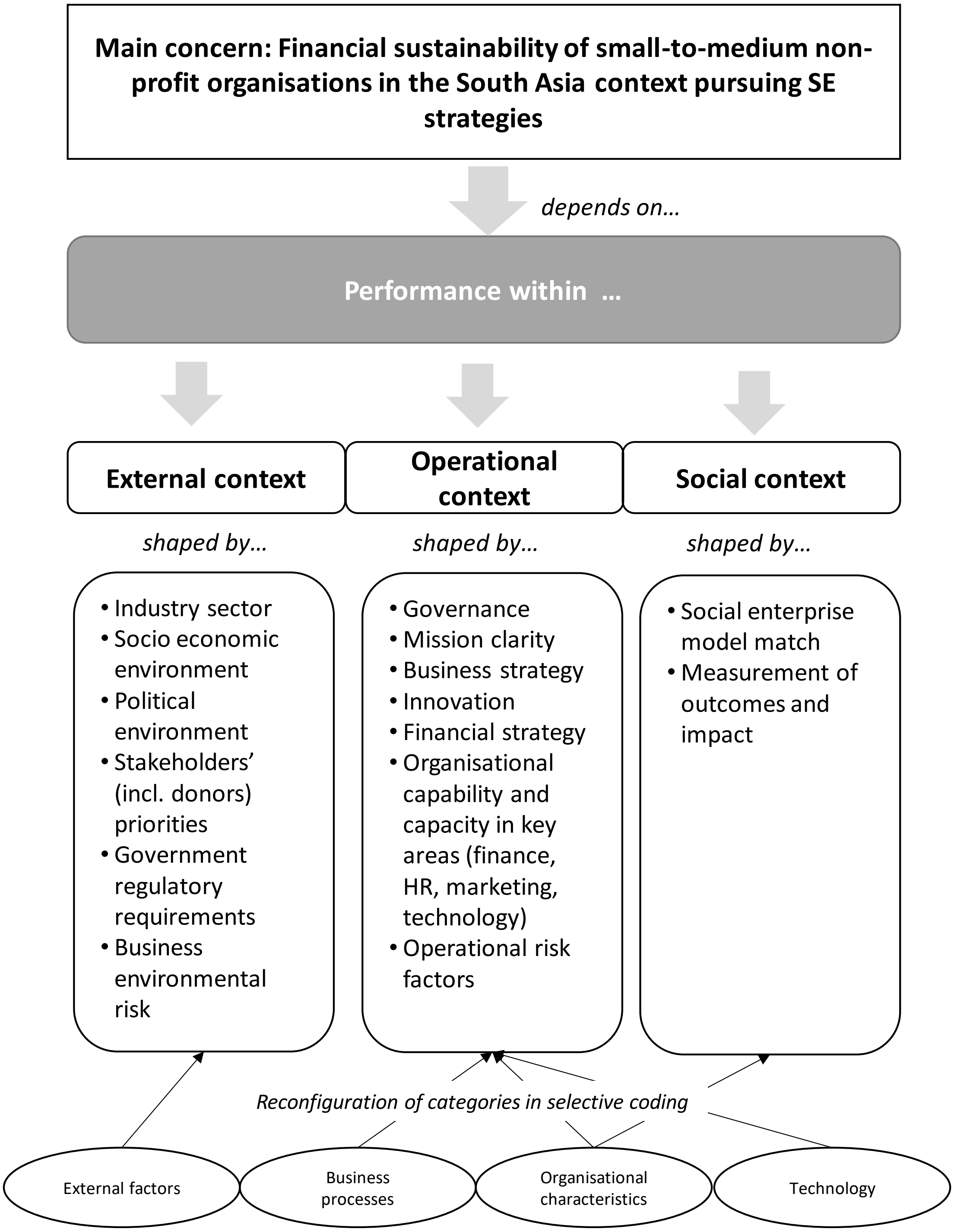

Figure 3 Core category and relationship to other categories

From concepts to theory – Grounded theory of financial sustainability

In management research, causality is established through human cognition. That is, 'the mental action or process of acquiring knowledge and understanding through thought, experience, and the senses'[9] which then leads to action (Partington 2000: 92). Management plays the mediating role between stimulus and response within a very particular social, economic, and macro-institutional context. This is known as the Stimulus-Organism-Response (S-O-R) model.

In the theory illustrated in Figure 4 and described below, *performance* is multi-dimensional and relies on the sub-core contextual categories, which provide stimulus and inputs leading to managerial action that bridges from context impacting on performance to strategic decision making for performance and consequently financial sustainability.

In *Phase 1*, stimuli or inputs come from the external, social and operational contexts and, if attended to, will lead to a targeted response (Santos-Alvarez et al. 2012), and if not will result in the continued dormancy of the organisation (Partington 2002). For example, participants' articulation of the impact of donor priorities on the organisation's mission, goals and performance targets emphasises that these priorities are a critical input in formulating an organisational performance strategy to ensure continued funding. Tension arises when donors provide financial resources on the assumption or condition that the recipient organisation will acquiesce to the donors' agenda and objectives, which may conflict with the organisation's mission and identity. The challenge for management in SEs in this situation is to develop a strategy based on performance that targets mission outcomes and attracts appropriate funding sources (Smith et al. 2013).

Phase 2 is based on managerial cognition, that is 'how managers in organisations interpret both external and internal organisational environments' (Uotila 2015: 221). Managerial cognition is a critical element in formulating goals and strategy based on an analysis of the environment, evaluation of performance, strategy implementation and maintenance of strategic control (Wrona et al. 2013; Kaplan 2011; Narayanan et al. 2011; Walsh 1995). The need for managerial cognition of stimuli/inputs in developing business strategies is implied in comments by the participants. For example, in relation to stakeholder management, building organisational capability, and effective governance. However, they seem to struggle to interpret or translate

[9] https://www.cambridgecognition.com/blog/entry/what-is-cognition

the inputs into a cohesive strategy other than constantly balancing and re-balancing competing stimuli. The analysis has revealed the three contextual categories as an information framework and this is what the participants need to take on board rather than trying to address individual challenges one by one.

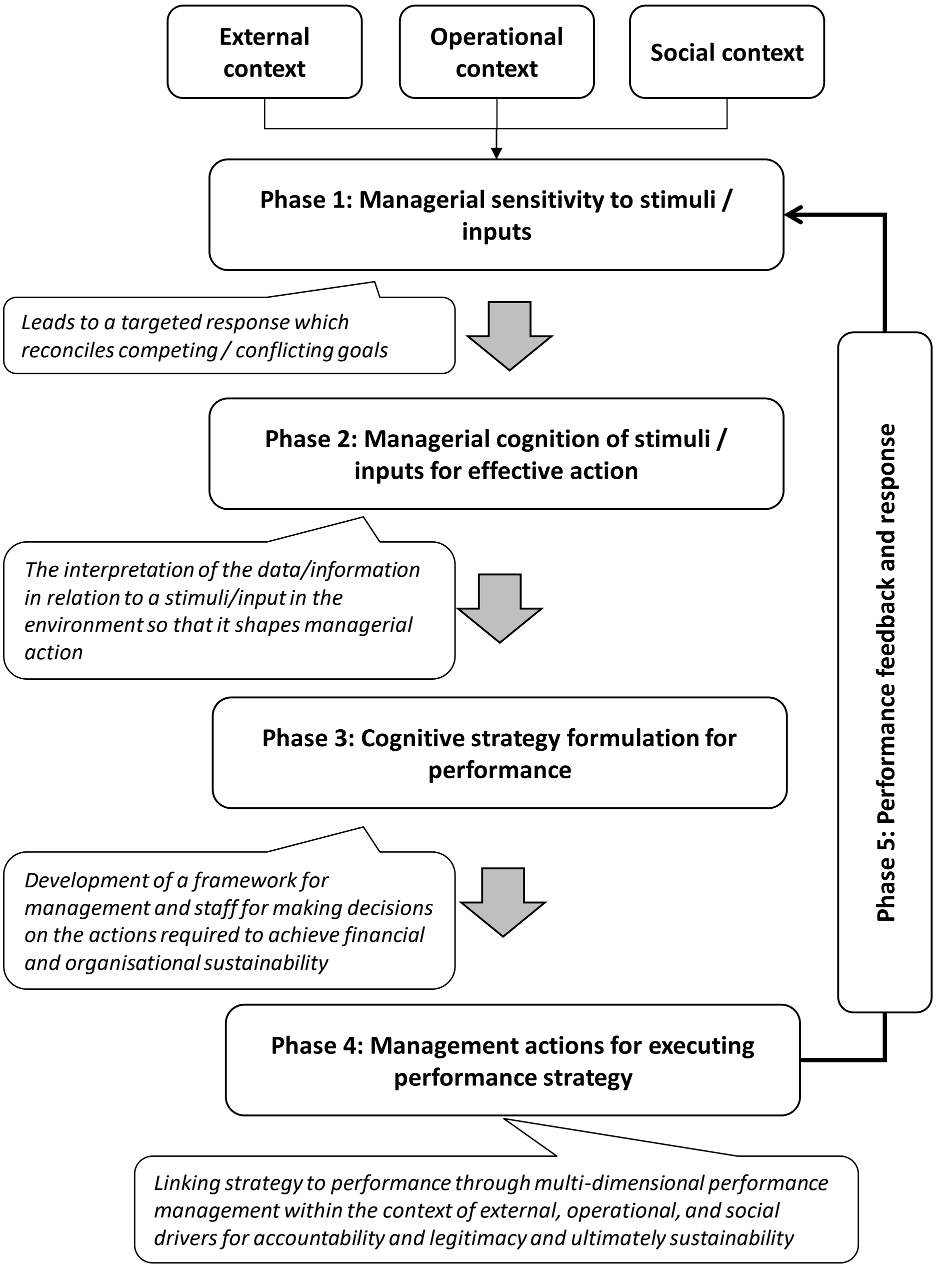

Figure 4 Theory of performance for financial sustainability

Phase 3 involves the development of a framework for management and staff for making decisions about the actions required to achieve financial and organisational sustainability. The managerial cognition of the environmental stimuli in phase 2 underpins this process. Strategic management concentrates on the relationship between cognitive structures of understanding, and decision processes for formulating and implementing strategy. Cognitive structures are managerial interpretations of ‘environment, strategy, business portfolio, and state of the organisation’ (Narayanan et al. 2011: 307). Courtney (2013: 8) uses the term *strategic management* (in lieu of strategic planning) to signify ‘the whole process of innovation, strategic analysis, formulation, and implementation’ and learning.

Participant comments regarding their organisation’s strategy formulation process suggest that, in SMEs, the strategic direction is set by the board of directors, which includes the founders, with the executive management team having responsibility for detailed strategy formulation, implementation and reporting. This is true of both start-up phase and development phase organisations. However, it is not apparent from the interviews that the formulated strategies are an outcome of a strategic management process as suggested by Courtney (2013). In the case of the sampled micro SEs and SHGs, the approach is tactical rather than strategic and focused on day-to-day operations, cash flows and social outcomes. The principal strategy is to maintain the current operating model, without any decision-making framework for meeting future challenges. This will not be sustainable when the external contextual factors shift. In smaller organisations a lack of resources may constrain a strategic approach and in others ‘transformational leadership’ may even be needed to shift the thinking of small organisations away from a day-to-day operational focus and as a platform for both organisational and financial sustainability (Hu et al. 2014).

Poister (2010) observes that, to respond effectively to the current uncertain environments and progress on the growth path, organisations need to not only think strategically and manage for results but also shift from a focus on measurement to an emphasis on a process of performance management which closely links strategy and performance management. Walsh (2006) links strategy and performance as follows:

Performance = Strategy + Measurement + Change.

The next phase of the theory links the cognitive strategy formulated in the current phase to the core conceptual category – $performance$**.**

Phase 4, management action, is critical to accountability and legitimacy. There is consensus among the interviewed participants, and in the literature on nonprofit accountability that, in a financially constrained economic environment, the execution of the formulated strategy must meet the increasing demands for accountability from multiple stakeholders. The core dimension of an accountability framework (Ebrahim 2010; Ebrahim 2003; Cutt & Murray

2000) is performance (Nicholls 2009). Accountability establishes legitimacy. Huybrechts and Nicholls (2013: 133) define legitimacy as 'the congruence, in multiple stakeholder judgements, of an organisation's perceived actions with their expectations of its performance'. Performance, measures and evaluation can be leveraged by SEs to establish legitimacy with both external and internal stakeholders, and to demonstrate the achievement of the organisation's strategic goals (Luke et al. 2013; Nicholls 2010).

The barriers to impact measurement often include staff's skills and turnover (Barraket & Yousefpour 2013)[10]; complexity of impact measurement and evaluation; time constraints and work commitments; and an organisational culture that is geared more to action than evaluation (Barraket & Yousefpour 2013). This research can add: inflexibility of donors' expectations as contextual factors and challenges shift; the need for continuous realignment in response to these shifts; the insight that measurement on its own is no guarantee that a target will be achieved; the need for consistent performance over time which has benefits in terms of staff retention and external legitimacy; and maintaining congruence between actual performance and the core mission or internal performance and external impact.

Ebrahim and Rangan's (2010) counsel, particularly for small-to-medium SEs, is that:

> it is not feasible, or even desirable, for all organisations to develop metrics at all levels on the logic chain. The more important challenge is one of alignment: building systems and structures for measurement that support the achievement of organisational mission, especially the goals that an organisation can reasonably control or influence. We contend that organisational efforts extending beyond this scope are a misallocation of scarce resources. (Ebrahim & Rangan 2010: 4)

To ensure the effective allocation of scare resources in small-to-medium SEs and NPOs, the performance framework must include a feedback process that addresses the variances between the actual and target levels of performance (Walsh 2006).

Phase 5 establishes the actual measurement process including the feedback loop and realignment of goals, resource allocation, and target outcomes. Monitoring, measuring and reporting on both financial and nonfinancial performance metrics allow an organisation to take corrective actions to remedy the situation before scarce resources are wasted, through an organisational learning process (Argyris 1977). Ebrahim (2005) argues that organisational

[10] See also Flatau et al. 2015; Hu et al. 2014; Barraket & Anderson 2010; Kong 2008

learning provides the foundation for a broader perception of accountability by focusing on organisational mission.

Conclusion

To situate the practical application of this grounded management action theory of performance for financial sustainability derived from the experience of small-to-medium SEs in South Asia, a review of participants' perspectives on performance measurement contextualises the operating environment in which the theory can be applied. This environment is characterised by attributes such as: a lack of time and resources to focus on sustainability; pressure to comply with donor priorities; difficulty in applying rigorous financial management practices and knowing where and how funds are being utilised; and the importance of demonstrating the achievement of mission as an indicator of the proper use of funds.

These participant perspectives reveal that, in these organisations, performance is dictated by funders, boards of directors and requirements of the beneficiaries of the social capital building projects. The approach to performance is based on tactical approaches on how to sustain the organisation, and not on a strategic approach which evaluates all the contextual factors affecting performance. The effectiveness of strategy is linked to ongoing assessment of organisational performance in achieving its strategic goals and objectives and ensuring the sustainability of the organisation. This requires a shift from a focus on measurement to an emphasis on a process of performance management which closely links strategic management and performance management processes, where the strategy defines and reinforces the overall performance, which in turn informs the strategy.

Francois (2015) interprets the financial sustainability of NPOs – unlike for-profits – as being a factor of the organisation's core mission and values, rather than money. Cultures of strategic planning, performance and measurement are identified as indicators of financial sustainability while financial sustainability itself must ultimately empower the organisation to further its mission.

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In pursuit of effective charity advertising: Investigating the branding and messaging execution tactics used by charity marketers

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Abstract

Charities operate in a highly fragmented environment with many players competing for individuals' support. The limited resources available for campaign development (creative, filming) and execution (media planning, on-air time) means that charity marketers need to use the most effective principles to ensure return on investment. Commercial marketers can use clear guidelines published on how to execute the brand to enhance advertising effectiveness and, more specifically, brand recall and recognition. Whether such guidelines are adhered to by charity marketers is unclear as no known research exists on this topic. In this paper, we draw on well-regarded memory theories and their past applications to commercial brand and messaging execution studies, documenting the evidence of these in the advertising collateral of 40 Australian charities. The results allow us to report on the characteristics of charity advertising and to derive guidelines for the future development and testing of effective charity advertising initiatives.

Keywords

charity advertising, branding, call-to-actions, messaging

Introduction

Charities are crucial because they work to solve difficult problems and provide services to help the most vulnerable members of society. They do, however, operate in a highly fragmented environment. Currently there are over 55,000 registered charities fighting for the support of individuals in Australia alone (Australian Charities and Not-for-profits Commission 2018), many of which are considered to be small and all have limited marketing resources. In such a crowded market, it is imperative that marketing communications from charities are effective to achieving the desired outcomes, for example increasing public donations and support.

For commercial brands, advertising is considered an essential part of any marketing strategy. Andrew Ehrenberg (2000: 44) notes how advertising can *'create, reawaken or strengthen awareness'*, increasing the chance of an individual becoming a brand customer (Sharp 2010). Within the advertising academic community, it is generally accepted that advertisements only 'work' if consumers correctly remember the brand being promoted (Kapferer 1995; Romaniuk 2009; Rossiter & Bellman 2005). Memory of the advertised brand is regarded as an important precursor to all other desired brand outcomes: salience, associations, attitudes, knowledge, purchase intentions and ad-likeability (Percy & Rossiter 1992; Franzen 1999) . As Gordon Brown (1994: 16) puts it, *'…if people have noticed the creative content but not taken it in as being about the brand, the attention gained is not much use to the advertiser'*. That is, if the thoughts and feelings evoked by an advertisement are not linked to the brand – the main focus of the ad – the advertising expenditure is wasted!

However, advertisers are constantly competing with consumer inattention and ad avoidance. For instance, research shows that up to 80 % of viewers claim to engage in other activities while viewing TV (Lynch 1999). Other observations of TV viewing behaviour reported that 38 % of ads are not seen due to channel switching, substantially reducing the effectiveness of media purchased (Dix & Phau 2017). Therefore, marketers must ensure that each and every advertising exposure is effective in communicating the brand as well as other relevant information. Research has also supported the value of branding, with laboratory tests on the residual effects of TV advertising suggesting that branded information displayed for at least three seconds increases memorability (Bellman, Schweda & Varan 2010).

Advertising for charities provides a departure from the typical branded advertisement. While the goal for charities is to promote their brand (e.g. The Salvation Army), it is often equally important to raise awareness around a cause (e.g. homelessness, hunger, mental health) or encourage the audience to take action to support the charity/cause (e.g. sign a petition, sponsor a child, volunteer). Through advertising, charity marketers must not only ensure that the charity brand is remembered by an audience, but that the audience also register and remember the key message or action to be undertaken. Both memory of the brand and memory of the message are important in the advertisement's capacity to bring about change for charities.

While empirical audits have been undertaken in a variety of industries regarding branding and messaging quality in advertisements (e.g. Romaniuk 2009), branding strategies within advertisements for the non-profit sector are not well understood. This is despite senior, non-profit directors and consultants considering advertising to be the most effective way to community their brand to different audiences. (Stride & Lee 2007). A possible explanation for the lack of research into this area is that the concept of 'branding' is regarded as being relatively new to the non-profit sector, compared to commercial practice. Consequently, charities are known to be comparatively slow to the adoption of branding practices (Grounds & Harkness 1998). As late as 1996, Tapp reported that charities are only beginning to embrace the notion of branding, with some adopting a professionally designed logo. More recently, Lee, Chan and Prendergast's (2019) interviews with senior managers within non-profit organisations revealed that most recognise the importance of investing in their brand to build awareness, but very few are investing effectively. Despite the importance of advertising as a brand building tool for non-profit firms, the topic remains under researched, as acknowledged by a number of scholars (e.g. Bennett & Sargeant 2005; Sargeant, Hudson & West 2008; Nelson & Vilela 2009; Michel & Rieunier 2012).

Our present paper draws on well documented guidelines outlined within the psychology and marketing literature on advertising memorability, applying this knowledge to a largely under-investigated charity sector. In order to establish whether effective branding tactics are being utilised by charity marketers, this study documents the various branding techniques used within charity advertising, in the context of television or video advertising. Television advertising is a part of many charity marketers' media toolkits, with Direct Response Television Advertising (DRTV) often used by charities to achieve immediate and measurable responses (Aldrich 2004). Furthermore, we examine how messaging execution techniques, particularly call-to-action messages, are co-presented along with the brand in charity advertisements.

Our work involves analysing the prevalence of branding and messaging execution tactics implemented across 215 advertisements gathered from the largest 40 Australian charities. Along with the research findings, we draw on well-regarded memory theories and their past applications to commercial advertising and brand execution studies, to derive guidelines for the development and testing of effective charity advertisements. The findings from this investigation provides the Australian charity sector with a benchmark of branding and messaging practices in relation to commercial marketing standards, which ultimately will help to ensure that any funding and support received is maximised.

Background & research questions

Branding execution tactics in charity advertising

A brand is a valuable asset as it provides a means for consumers to recognise and specify a particular offering, should they wish to choose it or recommend it to others (Crommelin, Gerber & Terblanche-Smit 2014). Effective branding in advertising ensures that an audience will build mental connections and remember the brand being advertised, rather than only being entertained (Sharp 2013). Given the extremely fragmented nature of the charity sector, it is imperative that audiences do remember the charity brand so that the limited and valuable resources invested into promoting that charity or cause are not wasted. Research by O'Guinn et al. (2008) suggests that a strong brand presence in advertising aids in reinforcing the memory links between the brand and a message.

To execute 'effective branding', direct and indirect branding techniques can be used (Hartnett, Romaniuk & Kennedy 2016). Direct branding techniques refer to when advertisers visually or verbally use the brand name (e.g. 'Cancer Council') and indirect techniques, known as distinctive brand assets (Romaniuk 2018), include presenting other visual or auditory items that are linked to the brand in the consumer's mind (e.g. Cancer Council's yellow daffodil or The Biggest Morning Tea event). Examples of indirect branding techniques include: logos, colours, fonts, taglines, sounds, advertising styles, characters and celebrities.

The body of empirical evidence on branding strategies in charity advertising remains relatively small. Bali and Bélanger (2019) recently quantified the frequency of posts, the content type and media type used by hospital foundations within Facebook ads. They found that 60% of foundations make postings fewer than four times a week, which is less than the standard benchmark used by other organisations on Facebook. While Bali and Bélanger's (2019) aim was to investigate how hospital foundations use Facebook for marketing and branding purposes, they did not document the presence of direct and indirect branding elements within these posts. Looking at online banner advertisements, Nguyen et al. (2018) investigated the impact of charity brands co-presented alongside commercial brands. Their findings indicate that the addition of a charity or commercial brand to a cause-related advertisement reduces an audience's ability to recall the brand/s advertised, but no analysis of branding execution tactics within these co-branded ads was undertaken. Sargeant and West's (2008) study analysed the presence of charitable statuses within advertisements, and found that these were under-emphasised. Bruce (2005) noted benefits would arise if charities were more distinctively positioned, whereas when charities are indistinct the unbranded or weakly branded, the work of such charities will often be attributed to the market leading brands. Clearly, there is more work needed to understand how charities can optimise branding within their communication efforts.

In commercial marketing, there are some clear guidelines published on how marketers can execute the brand effectively to enhance advertising effectiveness and, more specifically, brand recall and recognition measures (Romaniuk 2009). We now explain the theoretical underpinning and key findings related to three key principles evident for video-based advertising (e.g. TV): frequency, dual-mode branding and early appearance.

(1) **Frequency** refers to how many times a brand is present or mentioned in an ad. The average television ad will feature a brand visually 3.4 times and 2.2 times verbally. Romaniuk's review of advertising studies (2009) provides strong evidence (five out of five studies) that increased brand frequency in a TV ad leads to higher memory of both the brand and the ad, across prompted and unprompted recall measures. An artefact of branding frequency is the duration of time a brand is present on screen (i.e. the more times a brand is mentioned or shown, the longer the total duration of branding presence). Research by Crommelin et al. (2014) suggests that individuals are more likely to store the brand in memory if the brand is present for a longer duration within an ad. Such findings are in line with the knowledge on how humans encode, store and retrieve information – our memories are imperfect and require constant refreshing to keep the information easily retrievable (Anderson & Bower 1979; Romaniuk & Sharp 2004). This is linked to the idea that human learning generally happens through repeated experience, where Ebbinghaus (1885) was among the first to formally document the effects of repetition on learning. Zielske's (1959) research later covered the effects of exposure frequency on newspaper ad-awareness and retention. Romaniuk (2009) provides evidence that repetition can also influence memory in a single exposure context, as well as across multiple exposures.

(2) **Dual mention** refers to using both visual (written name, logo or packaging) and verbal (spoken) modes of branding. Romaniuk's (2009) review of studies (five out of five) shows that branding that is dual-mode results in enhanced ad and brand recall, compared to single-mode tactics. This builds on an established body of work showing that both audio and visual cues provide brands a higher chance of being attended to (Nasco & Bruner 2007, 2008; Tessitore & Geuens 2013; Wang & Muehling 2010).

Because of humans' limited information processing capabilities, attention is split when exposed to stimuli that is both visual and auditory (Eimer 1999). As there is a trade-off between attentional resource allocation across senses, audio-visual stimuli have a higher chance of attention because individuals can attend to the visual information even if they are not processing the audio information, and vice versa (e.g. talking to someone in the room or muting the TV, (Bonnel & Hafter 1998)).

(3) Early appearance occurs when a brand appears at the beginning of an ad, rather than at the end. More specifically, brand introduction refers to the length of time elapsed before any branding element is introduced within an advertisement (Crommelin et al. 2014). Romaniuk's (2009) review revealed that out of eight studies, five show a positive relationship between featuring the brand early and memory of the ad and the brand. Similar findings were also evident in the work of Crommelin et al. (2014), who found that the shorter the amount of time for a brand to appear in advertising, the more the brand was recognised. The effect of early appearance is grounded in the primacy principle of memory and recall – that is information presented first in a sequence (such as an ad), is more easily recalled and attracts more visual attention (Wedel & Pieters 2000) and is more likely to be stored in memory (Li 2010) than that in the middle of the sequence. Note that our focus (and that of Romaniuk 2009) is on primacy as opposed to recency effects, to increase the chances that viewers will still notice the brand even if the advertisement is turned off partway through.

As documented, guidelines to enhance memories for the advertised brand, particularly in a video environment, are based on three principles: (1) showing the brand frequently, (2) using dual (visual and verbal) mentions and (3) showing the brand early in the ad. In other research related to print advertising, the use of indirect branding techniques (Hartnett et al. 2016), and the use of larger-sized brand elements (Pieters & Wedel 2004) have been shown to increase the effectiveness of advertising. Unfortunately, such audits and resulting guidelines do not exist for those operating in the charity marketing field. As such, our first research question aims to shed light on how brand execution tactics are currently used by charity marketers and from this, form an assessment on the effectiveness of TV or video-based advertising branding for the sector.

RQ1: *What direct and indirect branding techniques do charities use in advertising, and do techniques align with prior literature's recommendations for effective branding?*

Messaging in charity advertising

Arguably what is equally important to branding is a marketer's ability to communicate a message that ultimately influences some kind of behaviour. This can include taking immediate and/or longer-term action. In this paper, we examine the prevenance of three different aspects related to advertising messaging for charities: Call to Action appeals, linking the charity to the cause and emotional appeals.

Call to Action Appeals

Direct petitions, known as a call-to-action (CTA), are typically featured within charity advertisements to encourage or change behaviour (e.g. 'slip slop slap', 'donate to the appeal'). Asking for support is suggested to be the single biggest factor affecting charitable giving (Body & Breeze 2016). A CTA involves a direct ask by the charity for supporters to act and can often be: a donation appeal as per DRTV (Aldrich 2004), selling a good or service, a call for volunteers, lobbying and advocacy, subscribing to a cause, promoting an event or improving awareness of a cause (Lovejoy & Saxton 2012).

In online commercial practices, scholars have found that direct CTAs (e.g. 'buy now') lead to higher rates of purchase conversion (Cotter 2002). Such calls help to solidify the end purchase, unlike other behaviours such as click-throughs where consumers merely place an item in their 'basket' but may not carry through on the purchase (Cotter 2002). Therefore, Cotter (2002) recommends that the proportion of people who respond to a CTA promotion be a key metric that marketers measure.

For the non-profit sector, Parker et al. (2016) and Wenham et al. (2003) agree that advertising and direct CTA's are necessary in the third sector to attract and retain supporters, as well as to facilitate the donation process. Other studies in the charity marketing sector find positive effects to be associated with the presence of CTAs. When included in charity advertisements, CTA's are considered to have a higher chance of eliciting positive donor behaviour than campaigns that do not include them (Persons & Lepkowska-Whites 2010; Filo, Funk & O'Brien 2014). One explanation for this effect is that CTAs not only create a sense of perceived urgency, but provide opportunities to privately comply with requests that can alleviate feelings of guilt or pity (Cialdini & Goldstein 2004). Experiments investigating factors that lead to TV charity appeal pledges finds that emphasising the benefits gained by others outperform benefits gained by the individual when donating, with direct calls to help others particularly important (Fisher, Vandenbosch & Antia 2008).

Experimental research has also shown that feelings of guilt are increased when ads portray donations being given by others less fortunate than the viewer, as this enhances controllability of taking action perceptions (Chang 2014). To successfully undertake a behaviour, an individual needs to have confidence in being able to perform the particular behaviour and that action will result in a desired outcome (Parkinson, Russell-Bennett & Previte 2018). Hence, increasing the perception of ease of taking action is another factor contributing to the effectiveness of CTAs. Wenham et al. (2003) highlight 'ease of use' as required for best practice in website design, with their research finding that CTAs that allow people to donate funds online are a common and necessary feature within environmental charity websites. Unfortunately, the same investigation has not been done more broadly for all charities and within other modes of advertising such as video. There is little known on how widespread the use of CTA's is, nor whether existing CTA asks are direct enough to actually elicit a response. As such, we ask the following question:

RQ2: *How prevalent are Call to Action messages within charity advertisements?*

Linking the charity to its cause

In commercial marketing, an important aspect of messaging involves communicating the product category that a brand belongs in, or characteristics related to said category (e.g. that IKEA sells good value furniture and homeware, Sunkist is a refreshing soft drink). Typically, branding execution and effectiveness has been the focus for marketers as it helps viewers to delineate between a given brand and other brands in the same category. However early work by Durgee and Stuart (1987) concluded that efforts are best spent on communicating the best qualities relevant to a product category.

For the charity sector, the equivalent to a 'product category' would be the cause to which a given charity serves (e.g. raising awareness around domestic violence or pancreatic cancer research). If the emphasis in advertising is on the cause, this messaging can be used to increase awareness of the sector or issue; and if the emphasis is on the charity itself, an ad is used to highlight the need to support this brand specifically. In some cases, the presence of the cause serves the purpose of educating new supporters on the sector that a charity operates in (e.g. MOSH operates in mental health aid for the youth).

The Associative Network Theories (Collins & Quillian 1969; Anderson & Bower 1973) provides a basis for understanding the cognitive advantages of linking a charity to its cause in advertising. The theories conceptualise human memory as a complex network of nodes, each representing a point in the memory structure. Nodes can denote any item or concept (e.g. a node can be a charity, a cause, an event or an action), and can be connected to each other by associative links (Krishnan 1996). In a charity context, the promotion of the charity brand alongside the cause should increase the chance of activating the brand in memory leading to the occurrence of linked behaviours due to the triggering of connected nodes.

In practice, charities may choose to work together, combining their resources to increase the likelihood of the cause being thought of. This approach has benefited unpopular causes, such as mental health (Body & Breeze 2016). However in a competitive context, charity marketers may prefer to promote the charity brand over the cause, rather than building or refreshing links in memory to both nodes. Similarly, building associations with the cause but not the specific charity misses the opportunity to strengthen the brand's identity, which can later pose problems in attracting resources (Amujo & Laninhun 2013). Ideally, charity advertisements will promote and signal a link between both the charity and its cause, strengthening the association between the two in the minds of the audience, in line with the memory theories related to Associative Networks.

Currently, there is no record of whether promotion of the charity or cause is more prominent within charity advertising. Therefore, we also document the prevalence of advertisements that document the charity brand, the cause, and both.

RQ3: *How prevalent is both the charity brand and cause in charity advertising?*

Emotional appeals in messaging

Emotional appeals in advertising have long been a popular method of gaining an audience's attention (Holbrook & Batra 1987). Emotion also influences the depth of information processing (Bradley & Lang 2007). More specifically, emotions are found to trump cognition (Zajonc 1980) and acts as the gatekeeper for decision making (Damasio 1994; LeDoux 1995). As such, it is widely accepted that emotional responses to advertising can enhance information retrieval from memory (Du Plessis & Hollis 2002; Ehrenberg et al. 2002). For this reason, advertisements that feature a charity often aim to elicit a strong emotional response, such as empathy (Schlinger 1979; Aaker & Stayman 1990; Keller 2003). Emotions also play an important role in anticipation of undertaking a given behaviour. For example, in a study on breastfeeding, emotions were shown to play a vital role in intentions and behaviour (Parkinson et al. 2018). Hence, marketers often opt to make emotive advertisements, particularly where complex social behaviours are concerned, and have a choice on whether to evoke negative or positive emotional responses.

Existing research has focused heavily on positive and negative framing within charity advertising. Chang & Lee (2010) considered the importance of message framing within charity advertisements on encouraging donations, finding that negative messages are more effective when congruent with negative presentation elements. This differed from research undertaken by Nelson-Field et al. (2013) which found that although message valence is less important than a highly arousing ad in eliciting donations, generally positive messages are more effective than negative messages. Similarly, industry research conducted by Murphy and Muderrisoglu (2017) report that emotional messaging and positively framed messages aids cut-through, while other scholars have shown that guilt appeals encourage more consumers to donate to crowdfunding initiatives (Chen et al. 2016) and charities alike (Hibbert et al. 2007; Chen, Thomas & Kohli 2016).

The consensus is that emotions are important for advertising process and messaging, regardless of whether the message is positively or negatively framed. However, it is unclear the whether the majority of charity advertisements do in fact feature an emotionally-geared message, and what direction this falls in (i.e. positive or negative). Therefore, our final research question is as follows:

RQ4: *What proportion of charity advertisements contain positive or negative framed messaging?*

Methodology

Australia's 40 largest charities were identified and the composition of their video advertisements was analysed, providing us with a range of causes to examine (see Appendix for full list of charities included). The Australian Charities and Not-for-profit Commission (ACNC) database (https://www.acnc.gov.au/) confirmed that all were registered Australian charities that received donations from individuals in 2015. Based on their 2015 revenue, all were of a sufficient size to engage in advertising, 25 were classified as ‘massive’ by ACNC, 12 as ‘large’ and three as ‘medium’ sized charities. A desktop review of social media activity in 2017 showed all charities operated on Facebook and Twitter, with 35 also having Instagram accounts. Ads were collected in January, August and September of 2017 through a range of online sources including social media (Facebook, Instagram, Twitter), official charity websites, and through the online search engine Google. The resulting collection of ads ensured a broad range of advertising formats were covered.

The video advertisements were organised into subcategories due to the pricing differences associated with different ad-lengths; 30-second advertisements are 60-80 % more expensive than 15-seconds advertisements (Newstead & Romaniuk 2010). In total, 215 video advertisements were collected, made up of: 15-second (n=39); 30-second (n=132); and >45-seconds (n=44) ads. The longest video advertisement was 67 seconds. Three independent coders analysed the variables of interest: branding execution, presence of CTA, emphasis on the charity and cause, and message valence. Content analysis was deemed the most appropriate method for categorising the data as it provides *“scientific, quantitative and generalisable description of communication content”* (Kassarjian 1977: 10). Consequently, content analysis has been used by many researchers for quantifying information within charity advertisements (e.g. Bali & Bélanger 2019; Huhmann & Brotherton 1997), as well as public service announcements (e.g. Mink et al. 2010; Clayton, Cavanagh & Hettche 2012).

To evaluate the complete suite of branding tactics implemented by charities, both direct and indirect branding techniques were analysed. Direct techniques included visual and verbal brand mentions (i.e. where the words “The Red Cross” is shown or can be heard), as well as the timing of the first mention and total frequency of mentions (as per the method used by Romaniuk 2009). The indirect branding elements analysed included the logo well as any other distinctive brand elements that could signal the brand in the mind of viewers (e.g. distinct colours, taglines, jingles, as outlined by Hartnett et al. 2016). Where a logo was evident within an advertisement, coders also recorded the timing and frequency of mentions and also its size (expressed as a percentage of the screen area), as well as whether the logo appeared in a static or dynamic (moving) format.

With regards to messaging, CTA’s were only considered to be present if a direct action was outlined. For example, an ad explaining the symptoms of heart disease with the charity’s website shown at the end has no CTA as no direct request is presented. However, the same ad with the message, ‘*Visit our website to check your symptoms*’ does contain a CTA as a direct action is encouraged. Additionally, it was also noted if the CTA was static (i.e. present on screen for the majority of the ad). The timing of CTA's within an ad was recorded in line with ad length. Also coded was whether the CTA was audio, visual or dual in order to consider if timing has any correlation to what is presented at one particular point.

Message emphasis was recorded in order to consider the overarching purpose of the ad. If the charity was not mentioned until the end and acted only as a vehicle for donations, the message emphasis was recorded as the cause. Likewise, if the focus was on a specific campaign for a charity (e.g. 'Million Paws Walk') or if it was clear that supporting a specific charity was the goal, the message emphasis would be on the charity itself.

Coders also took note of the overarching commentary and imagery depicted on screen alongside the key message; being either positive (e.g. the outcome of donating) or negative (e.g. the consequence of not donating), both positive and negative (e.g. before and after donations), or neither positive nor negative (e.g. if the emphasis was deemed more neutral such as education around a given cause).

The presence of multiple coders helped reduce any systematic and interpretation errors that a single coder may have had. As more than one coder was used, it was essential that consistency was checked across all coders to ensure inter-coder reliability (Neuman, 2011). In order to assess the consistency between coders, coders were given the same subset of advertisements and asked to code these independently. The coefficient of reliability, which is the level of inter-coder agreement during this quality control process was, on average, 86 %. While there is no accepted standard for the level of inter-coder reliability in charity advertising research, similar levels of agreement have been reported for past studies in the non-profit and public service announcement space (e.g. Clayton et al. 2012). Where necessary, ads were viewed a third time by both coders and 100 % agreement was eventually reached. This was primarily concerning the interpretation of the emotions evoked by the ad or whether the purpose was to build links to both the cause and the charity or to one only.

Results

Overall, our results for RQ1 show that the advertisements belonging to Australian Charities follow a similar format to commercial brands. We find that visual branding was most prevalent and occurred almost three times per execution, more than double the rate of verbal branding (see Table 1, which presents the mean frequencies of brand mentions). Surprisingly, longer ad durations only slightly increased the frequency of any brand mention. With regards to indirect branding, logos were the most utilised distinctive brand element followed by colour, font, tagline, characters, and celebrities. In terms of logo size, most occupied less than 25% of the total screen space within ads. In addition, static logo use in videos more than doubled non-static logo use. These results suggest that branding within charity advertisements are less frequent compared to that for commercial brands (where the average number of times a brand is shown or spoken is 5.5, according to Romaniuk's review in 2009).

Verbal and dual mentions slightly decreased from 30 to >45 second ads. Even with increased duration, half of advertisements in the >45-second category had no verbal mentions. Almost half (45%) of videos included visual and verbal brand mentions simultaneously, but dual-mentions occurred at a lower frequency than visual or verbal only. We find that the proportion of dual-mode branding within charity advertising is half that found for commercial brands (i.e. 90 % of TV advertising contained dual-mode branding in Romaniuk's 2009 research).

Table 1: Average Brand mentions in charity video advertising (times)

	Branding by Ad-length			**BrandingAve.**	**Messaging %**
	15s n=39	*30s n=132*	*>45s n=44*	*n=215*	*n=215*
Visual mode	2.18	2.71	2.71	2.53	25
Verbal mode	0.85	1.15	1.13	1.04	9
Dual mode	0.59	0.62	0.47	0.56	66

Brand mentions were generally made in the last third of an ad, for example 31% of ads withheld a verbal mention of the brand until the very end (compared with 20% in the first third). The proportion of charities that introduced the brand early is significantly lower than that reported in Romaniuk's research (2009), where 59% of ads featured a brand in the first one-third of the ad.

Table 2: CTAs in charity video advertising (times)

	CTAs Ave. % *n=215*
None	14
One	72
Two	12
Three	2

In relation to RQ2, the majority of ads featured at least one CTA (86%, see Table 2). Ads without a CTA were more likely to have the cause as its main emphasis (60%) compared with those with one CTA (24%). Of the ads with no CTA, 68% attempted to purely educate and 32% were still seeking support, just indirectly (e.g. showing the benefits of giving support without a direct ask). Two-thirds of CTA's were presented both visually and verbally. Only 3% of the time was the CTA static, with the vast majority of CTA's presented at the end of the ad (82%).

In response to RQ3, the majority of the advertising emphasis was on the charity itself (41%), with a further 28% being on the cause only and 30% emphasising both charity and the cause (Table 3). In addition to this, 85% of the time the creative *was* related to the charity or cause. Table 3 also reports findings for RQ4, where two-thirds of charity ads contained a positively-valanced message at some point in time. Around one in five charity ads required more complex processing, containing both positive and negative message framing.

Table 3: Promotion of the Cause & Emotional Appeals

	%. *n=215*
Emphasis on charity	89
Emphasis on cause	59
Emphasis on both charity/cause	65
Emphasis on neither charity/cause	1
Positive	44
Neutral	24
Negative	13
Both Positive & Negative	19

Conclusion, implications & future research

Overall, our evaluation shows that while charities are following the effective branding tactics recommended in the literature, the level at which these are being implemented is lower than the benchmark recorded for commercial brands (as per Romaniuk, 2009). More specifically, charities are not utilising verbal brand mentions, resulting in fewer opportunities to simultaneously show and say the brand; which has been identified an effective technique to aid brand recall compared to purely visual or verbal mentions (Hartnett et al. 2016). A longer advertising duration does not increase dual mentions, suggesting that charities are not maximising their branding opportunity with increased screen time. In addition, few charities introduce the brand within the first third of the advertisement, going against the literature that suggests brand mentions should be introduced early (Crommelin et al. 2014; Romaniuk 2009).

The prevalence of indirect branding techniques was evident, with logos and colour being the most utilised distinctive brand elements within charity advertising. This aligns with Gaillard, Romaniuk and Sharp's (2005) findings that consumers have the most brand associations related to symbols and colours. The majority of logos in the advertisements occupied less than 25% of total screen space and, therefore, charities may want to introduce larger logo sizes to gain more attention from the viewer without negatively affecting attention to other elements (Pieters & Wedel 2004). Further, the use of static logos was more common than non-static use; the dominant use of static branding mirrors findings for commercial brand use of logos in both television commercials and online banner ads (Guido et al. 2016). Whilst logos with movement are suggested as being more beneficial than static versions, more research is needed on how animated branding is processed and its response effects (Guido et al. 2016). There is an opportunity for further research incorporating the movement of brand elements within an ad to investigate if this helps or hinders the processing of the brand.

Around one third of ads emphasise both the cause and the charity. As charity brands often compete with other non-profit organisations for support, strengthening memory links to the charity is needed to improve the likelihood that the specific charity advertised will be recalled. However, when examining the presence of two brands, including pairing of charities with commercial brands (Nguyen 2018), results show that the brand most aligned with the ad's creative context is the one more likely to be retrieved. Further research is needed to examine scenarios where both the cause and the charity are congruent with the contextual setting of an ad. Branding execution may be even more important in such scenarios, as the brand can act as the anchoring point for information specific to the cause or CTA behaviour.

Positive CTA content, whether purely positive or both positive and negative accounts for two-thirds of all ads. As the literature disagrees on whether negative (Chang & Lee 2010) or positive (Nelson-Field et al. 2013; Murphy & Muderrisoglu 2017) message framing is most effective, further research is needed on the consequences of valence within charity advertisements in terms of encouraging donation levels. Further, we know memory is dynamic, with memories reconstructed depending on the context of retrieval, and that brands are only important to individuals for the fractional moments people interact with them (Gordon 2006). Therefore, further research is needed to investigate if multiple CTAs might cause interference and distraction rather than increasing the likelihood of an individual taking action.

The framework developed in this study could be compared with the results of charity campaigns to analyse brand presentation and determine what is successful. The literature agrees that further study should be undertaken into the consequences of advertising execution on donation levels (Parsons & Lepkowska-White 2010; Nelson-Field et al. 2013; Chen et al. 2016). Therefore, the question becomes: when charities follow the strategy presented by the literature, are they more likely to be successful? Or, does the current literature need an overhaul in terms of the suggestions posed versus real-world results?

Further replication and extension of this research is needed to answer such questions and to also overcome several known limitations of the study. Video advertising located via online sites for 40 Australian charities formed the basis of the study. Whilst this provided 215 distinct ads for review, it is only a sub-set of all charity advertising and reflects the techniques available in 2017. Replication with advertising from other countries and times, as well an examination into how different sized charities perform in effective branding and messaging tactics will help to document more wide-spread patterns in charity advertising. Extension to also cover other media formats and how campaign elements work together will also be helpful to develop guidelines for integrated communication campaigns.

In summary, this study provides a benchmark for charity marketers to guide branding execution tactics within advertising collateral. Our findings demonstrate that there is some room for improvement when it comes to increasing the effectiveness of advertising for charities, particularly in the domain of branding execution. Given the increasing costs associated with advertising and the limited resources of most charities, this research highlights the need for charities to review their branding tactics for more effective outcomes. If charity marketers succeed in creating advertising that makes it easy for supporters to know and remember which brand is advertised, then the subsequent appeal and CTA will be more effective in the long run.

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APPENDIX:

Table 4: List of charities included in the analysis

Charity Name
Amnesty International
Animal Welfare League
Australia United Nations High Commissioner for Refugees
Beyond Blue
Cancer Council
CanTeen
CARE Australia
Cerebal Palsy Alliance
Compassion Australia
Dementia Australia (formerly Alzheimer's Australia)
Dry July
Guide Dogs Australia
Kidney Health Australia
Lifeline
Make-A-Wish Australia
McGrath Foundation
Médecins Sans Frontières Australia | Doctors Without Borders
Movember
Oxfam
OzHarvest
Plan International Australia
Red Cross
Redkite
Ronald McDonald House Charity
Royal Flying Doctors Service
RSPCA
Salvation Army
Save the Children
Smith Family
St Vincent de Paul Society / Vinnies
Starlight Foundation
Stroke Foundation
The Fred Hollows Foundation
The Heart Foundation
UNICEF
Variety
Vision Australia
Wilderness Society
World Vision
World Wildlife Fund

Social enterprises in the European Union and the Italian 2017 Social Enterprises Reform Act: A legal framework for other jurisdictions?

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Abstract

In Europe, social enterprises have gained unprecedented attention over the last two decades. As to the European Union, Directives and Social Funds Programmes have provided an enabling legal framework that has helped social enterprises to grow, especially as providers of welfare services. Many Member States of the EU have passed statutes providing for the legal features and the role of social enterprises, especially in the delivery of welfare services. As a member state of the European Union and hence pursuant to EU law, the Republic of Italy passed the 2017 Social Enterprises Reform Act. This includes some innovative provisions of social enterprises that may be of some interest to other jurisdictions.

Keywords

Social enterprise; EU law; Italy; regulation; health and social care services; public authorities; social impact assessment

Introduction

Social enterprises are hybrid organisations that combine social aims and private legal organisation (Haigh & Hoffman 2012). Social enterprises pursue public interest through the carrying out of economic activities on a steady and permanent basis (Ridley-Duff 2008; Petrella & Battesti 2014).

Social enterprises usually accomplish their social goals by delivering services of general interest (SGIs), including health and social care services (Roy et al. 2017), and integrated care services (Ham & Curry 2011; Ham 2019). These services are mostly delivered to local communities, either as an alternative or as a complement to mainstream public provision, thus making a significant contribution to the overall health system (WHO 2019).

Social enterprises may also support the employment of people with disability through "Work Integration Social Enterprises" (WISEs) (Borzaga & Defourny 2001; Spear 2002; Davister et al. 2004; Vidal 2007; Gidron 2014; Anastasiadis & Mayr 2010; Anastasiadis 2016; Anastasiadis & Lang 2016;).

Since social enterprises pursue the public interest, regulation of their activities is expected to be effectively promoted (Orbach 2012; McGregor-Lowndes 2016; McGregor-Lowndes 2018; Stefanelli 2019). In this context, a set of principles specific to social enterprises (Garton 2018) has shaped the relevant legal framework, their organisational pattern as well as their relationships with public authorities worldwide (Kendall & Knapp 1993; Dunn 2000; Archambault 2015; Morris & Morgan 2017).

In Europe, the regulation of social enterprises is the direct consequence of a two-fold supporting legal framework that combines EU law and Member States' powers. On the one hand, the European Union has adopted both cross-border financial programmes and Directives to enhance the growth of social enterprises. Whereas the former has supported best practice in social enterprise to be spread across Europe, the latter has set out the EU legal environment for social enterprises. On the other hand, not only have Member States incorporated those Directives into their own legal systems, they have also autonomously enacted specific statutes to promote the development of social enterprises (Nicholls 2010), since Member States retain their own regulatory power over private organisations, including social enterprises, among others.

Against this background, the Italian 2017 Social Enterprises Reform Act is thus the outcome of the independent will of the Italian Parliament to revise and improve the legal regulation of social enterprises and of the commitment of Member States to comply with EU law.

This article endeavours to understand how both EU law and Italian regulation have shaped the organisation, the legal features and the role of social enterprises. Although the article will briefly refer to some differences between social enterprises and other non-profit organisations, it does not deal with the comparison between social enterprises and commercial for-profits competing in the market.

In detail, the article consists of seven sections. Section two sets out the role and the features of social enterprises. Section three analyses how social enterprises and their specific legal features have been recognised in Europe. Section four contains a brief analysis of how the role of the non-distribution constraint in social enterprises is carried out. Section five identifies the links between the regulation of social enterprises and the powers of the European Union. Section six is concerned with the Italian Act that has reformed social enterprises. Finally, Section seven includes some concluding remarks.

Social enterprises in Europe: Legal definition and features

In most European jurisdictions, social enterprises are legally recognised as business-driven organisations or entrepreneurial non-profit organisations pursuing social goals (Dart 2004; Leff 2018). This legal recognition is the effect of a special EU legal framework that has been elaborated along four key points (Lavišius 2016). The first point refers to the organisational features of social enterprises. The second relates to the legal definition of social enterprises and the necessary link between the entrepreneurial activities carried out and the pursuit of social goals that social enterprises must demonstrate (European Commission 2016). The third point deals with the legal notion of Services of General Interest (SGIs), which constitute a specific role for social enterprises in their provision. The fourth point of the EU legal framework is concerned with the recognition that municipalities and local health authorities are empowered to entrust public functions and tasks to social enterprises (Nicholls 2010; Macaulay et al. 2018).

As far as the first point is concerned, social enterprises are defined by a productive, entrepreneurial and market-oriented behaviour directed to mandating social good prioritization (Brakman-Reiser & Dean 2018). In this perspective, social enterprises also have a high propensity to innovate in the supply of integrated care services in areas such as the types of services provided, the target groups (often the more marginalised) benefiting and the organisation of the service provision itself (high attention to active policies and to the empowerment of users) (Metallo et al. 2016). In this respect, social enterprises show a particular attention to the creation of new jobs, especially for people with disability and the long-term unemployed. Moreover, social enterprises pay a great deal of attention to the local dimension of their activity and are therefore strongly linked with well-defined communities and understand their needs. Social enterprises are also defined by a high degree of financial autonomy deriving from their capacity to sell goods and services to the market.

Finally, social enterprises are characterised by a multi-stakeholder arrangement and by democratic governance: they consist of different categories of members, such as workers, volunteers and service users, and their membership is based on the “one head, one vote” principle.

As to the second aspect, social enterprises fall under the legal category of small and medium enterprises (SMEs) (EU 2008 Small Business Act; European Commission 2013; European Economic and Social Committee 2016). This legal definition allows for social enterprises to be considered as operators in the social economy whose main objective is to have a social impact on local communities rather than making a profit for the benefit of their owners/shareholders (European Commission 2011). Local communities may be directly involved in the decision-making process regarding the production and provision of health and social care services. The community dimension of social enterprises, and the fact that they use their profits primarily to achieve social objectives, make these organisations particularly suitable to create new, inclusive employment programmes, to fight against poverty and social exclusion (Fonseca et al. 2018) and to promote social cohesion (Midiri 2017). Embedding the stakeholder dimension helps create close relationships with communities (Haigh & Hoffman 2012) and an overall supporting ecosystem (Carnini-Pulino, Maiolini & Venturi 2019).

The abovementioned goals fall under the EU legal definition of SGIs (European Commission 2004; 2011), which identify the third aspect that the EU legal framework has set out. SGIs are services that national governments and local authorities identify as benefitting the community at large and to ensure the realisation of individuals’ fundamental rights, such as the right to health. These are to be easily accessible, affordable and guarantee an adequate level of user/patient protection (European Parliament 2016).

According to Article 14 of the Treaty on the Functioning of the European Union, which provides for the distribution of powers between the European Union and the Member States, Member States are responsible for outlining the legal and organisational framework for SGIs. Because the organisation and delivery of integrated care services fall under Member States’ powers, Member States’ legal systems have created a favourable legal environment within which social enterprises are preferred to deliver SGIs especially due to their legal and organisational features (Pirvu & Clipici 2016).

Social enterprises and the role of the non-distribution constraint

When compared to traditional non-profit organisations, social enterprises are characterised by a more relaxed non-profit distribution constraint in the mind of the community. Notably, the non-distribution constraint binds traditional non-profit organisations not to share any profit among their directors, members or beneficiaries. Accordingly, the non-distribution constraint has traditionally provided assurance to donors, investors and other stakeholders about the pursuit of public interest thus increasing their reliability and reputation (Salamon & Anheier 1997, Mori 2018).

Yet over the last two decades, the non-distribution constraint has progressively faded away as the most important feature of non-profit organisations. These have increasingly been identified either with their social aim or their capacity for integrating persons with disability into economic and social participation. One of the reasons for the decreasing importance of the profit non-distribution constraint may be related to the organisation of welfare systems, in which the role of non-profit organisations and of governments significantly vary.

In the US, the role of private, non-profit organisations has been historically promoted (Salamon 1999), and reflects a long-standing American pattern of individualism. This approach has implied a minor role of government in ensuring social welfare protections and in the provision of welfare services (Salamon & Anheier 1997).

By contrast, in Europe, public authorities both organised and directly provided health and social care services for a long time. It is only with the 1970s crisis of traditional welfare state regimes that non-profit organisations started to gain an independent status. Accordingly, they have begun to take up different legal forms to provide health and social care services, either autonomously or in partnership with public authorities.

The different role of the government in the organisation and supply of health care services has affected the legal evolution of not-for-profit organisations and, consequently, of the non-distribution constraint. In the U.S. non-profits have been largely incorporated under the legal form of charitable foundations and corporations, which are defined by a stringent non-distribution constraint (Horwitz 2003; Hirth 1997). This has allowed them to be granted the tax-exempt status (Brody 1998) and thus to develop in many fields of community services, especially in the health care sector. However, even in the U.S. the progressive commercialisation of many non-profit activities (Fox 2015; Langland-Orban et al. 2015; Giannelli 2016), along with a stronger emphasis on the purpose pursued, have ended up seeing a questioning of the actual capacity of the non-distribution constraint to satisfactorily differentiate between non-profit organisations and for-profits (Frank & Salkever 1994; Hansmann 1995). In recent years, closer analysis of the non-profit phenomenon has revealed that at least two other aspects distinguishing these organisations need to be considered, namely, their active role in delivering SGIs and the birth of new organisational forms. In the U.S. too, not only have some legislatures blurred commercial and charitable activities by permitting for-profit corporations to "pursue a social or environmental mission" (Reiser 2011; Brakman-Galle 2013; Fox 2015; Fici 2015; Murray 2015; Maier et al. 2016), there are also statutes that legally recognise the specific form of social enterprises where these organisations have significantly developed (Kerlin 2006; Defourny & Nyssens 2010).

In Europe, on the contrary, associations and co-operative societies have traditionally developed legal forms that are less grounded on the non-distribution constraint than on other organisational characteristics, such as democratic governance and multi-stakeholder membership, as is the case with social enterprises. The European legal framework concerning social enterprises proves that the loosening of the non-distribution constraint does not prevent SGIs being carried out, as long as the social and community mission of the organisation is clearly stated and pursued. This explains why social enterprises are recognised as organisations that pursue public interest by carrying out innovative health and community services on an entrepreneurial basis (Brakman-Reiser & Dean 2018).

In Australia, too, the non-distribution constraint represents one of the distinguishing features of charities (Charities Act 2013): it couples the pursuit of charitable purposes and of public benefit (McGregor-Lowndes 2016). This amounts to an obligation on the part of charities to use any profit made to further the aims or purposes of the organisation, which are supervised by a national regulatory agency (Murray 2014). Social enterprises have also significantly developed and they perform a wide set of activities and services, creating opportunities for community participation, among others (Barraket 2016). As in Europe, and in Italy particularly, the services that social enterprises carry out include projects and actions generating jobs and employment pathways for those most disadvantaged in the labour market (Barraket et al. 2017).

Social enterprises and EU law: SGIs, the internal market rule and public procurement

The fourth aspect of EU enabling legal framework for social enterprises relates to the relationship between social enterprises and public authorities. This aspect deserves particular attention and understanding because it is genuinely European.

According to EU law, any economic activity is potentially subject to competition rules and public procurement law. Accordingly, health and social care services too might have an economic consideration. Yet the very same EU legal framework allows for some exceptions to competition rule, especially when services and activities are carried out to achieve public interest, like in the case of SGIs (Sauter 2012).

These services, which include health and social care services as well as the work of integration services, pursue a social mission that makes them fall out of the province of competition law (EU Directive 163/2006; Baeyens & Goffin 2013).

This exclusion implies that these services are neither subject to privatisation, liberalisation nor deregulation policies in the same way other services are. However, not only is public interest taken into account by EU law to justify the exception to market rules, the EU legal framework and many national legal systems are also aware that public procurement procedures must be consistent with public interest (Van de Gronden & Szyszczak 2014; Reynaers 2014; Marique & Van Garsse 2018).

In this perspective, Directive 2014/14/EU relating to public contracts has provided for a specific recognition of the peculiar features of SGIs. These allow national contracting authorities to reserve the provision of integrated care services to social enterprises, which then fall outside EU competition rules (Addicott 2011; Doherty et al. 2014; Grieco et al. 2015; European Commission 2015; 2013; Ramus & Vaccaro 2017). According to article 77, para. 2 of Directive 2014/14/EU social enterprises are regarded as organisations that comply with the following requirements (Ferroni 2018):

a) their objective is the pursuit of a public service mission linked to the delivery of social, health and cultural services;
b) their profits are reinvested with a view to achieving the organisation's objective. Where profits are distributed or redistributed, this should be based on participatory considerations;

c) their structures of management or ownership are based on employee ownership or participatory principles, or require the active participation of employees, users or stakeholders.

To ensure a minimum degree of competition, Directive 2014/24/EU provides that the selected social enterprise must not have been awarded a contract for the services concerned by the contracting authority within the previous three years. Furthermore, the maximum duration of the contract cannot be longer than three years. The combination of these two last provisions risk endangering the delivery of integrated services especially in the case of users/patients who need steady-basis care programmes.

In the light of the above, Member States are required to award public contracts according to the most economically advantageous tender (EU Directive 2014/24). This criterion implies a significant emphasis on service quality as well as on social and environmental clauses. These clauses may vary from the use of environment-friendly materials to the obligation on the part of the awarded organisation to keep a number of the incumbent employees. All of these criteria are considered to be consistent with the pursuit of public interest, which public authorities may decide to delegate via public procurement tenders.

Added to the provision of integrated care services, Directive 2014/24/EU also supports social enterprises carrying out work-integration projects for disadvantaged people by reserving to them the delivery of public contracts implying the development of sheltered workshops programmes.

This EU enabling legal framework has increasingly encouraged public authorities to involve social enterprises in supplying SGIs, either through outsourcing or by entering public-private partnerships (PPPs) with them (Auby 2010; EU Directive 2014/24; Ludlow 2014; Peterson et al. 2015).

The legal recognition of social enterprises in Italy: The 2017 Social Enterprises Reform Act

The Italian non-profit sector (as of October 2017, there were 16,918 social cooperatives, 1,874 social enterprises and 11,940 market-oriented non-profit organisations: Venturi 2017) long awaited a comprehensive reform. In particular, Italian non-profits called for a legal framework allowing them to be more upfront in organising, managing and delivering SGIs. The 1942 Civil

Code, which partly still encompasses a number of legal provisions concerning foundations and associations, does not expressly allow these non-profit entities to carry out economic activities or deliver welfare services (Santuari 2018).

The legislative response to this demand came with the passing of the 2017 Social Enterprises Reform Act that resulted from the comprehensive 2016 Third Sector Organisations Reform Act. The 2017 Act provides for non-profit organisations to pursue social aims, such as the delivery of welfare and community services among others, by carrying out steady and clear-cut economic activities.

The 2017 Act sets out a clear legal framework by which both companies and associations/foundations can be incorporated under the legal form of social enterprises to pursue a social mission while performing a wide range of activities of general interest. These include healthcare and social services, work-integration for disadvantaged people, social housing, social tourism, services for migrants, social campaigning and international cooperation, among others. Social enterprises are requested to implement a democratic and multi-stakeholder governance model as well as to disclose a social balance-sheet and to be willing to undertake a social impact assessment. Moreover, social enterprises cannot either distribute any profit or, alternatively, can only distribute it to a very limited extent.

Pursuant to EU law, the 2017 Social Enterprises Reform Act intends to empower and, accordingly, to entrust social enterprises with the accomplishment of all those activities that may have a significant impact on local communities (European Commission 2011). In this regard, not only may public authorities involve social enterprises in the co-provision of SGIs, social enterprises may also be requested to take part in commissioning public interventions. It is noteworthy that commissioning is usually a unique responsibility of public bodies, thus leaving to non-profit organisations the role of contracted-out providers. By contrast, the possibility for social enterprises to be engaged in the co-programming function enables them to contribute to the definition of the health and social needs. In this perspective, through co-provision, social enterprises and public authorities jointly decide the services to deliver, the actual ways of supplying them, as well as the financial resources needed. The combination mix of co-programming and co-provision of welfare services allows public authorities to engage social enterprises in legal and administrative procedures whereby they can perform innovative and experimental activities and projects. Within the EU law framework, the 2017 Act empowers local health authorities to directly invite social enterprises operating and rooted in a given area to enter public-private partnerships or to be entrusted with a public benefit function, mainly through licensing. In this respect, article 55, para. 3 of the 2017 Third Sector Organisations Code provides licensing as the preferred legal solution for the selection of social enterprises since it allows for a better assessment of quality and skills, along with the capacity of social enterprises to estimate their own investments in the health and social care sectors.

The intention of the 2017 Act is to secure the engagement of social enterprises provided that they are capable of proving a democratic governance model. This implies that all the different stakeholders are involved in a democratic decision-making process. The 2017 Act refers to co-management and to the multi-stakeholder dimension of social enterprises as essential features of their legal status (Adams & Deakin 2017). Accordingly, a social enterprise by-law must provide for the direct engagement of workers, users, financiers, volunteers, private companies and public authorities. All these categories of stakeholders are to be heard, consulted and called upon to take part in the decision-making process, especially when the decisions affect work conditions and the quality of the services supplied (Fici 2018; Gori 2018). Needless to say, the implementation of this model, which has no comparison with other enterprises except for social co-operatives, is no easy task. In the delivery of SGIs, for example, workers may seek pay increases, whereas users'/patients' families may by contrast aim to reduce the costs of services, which could have a negative impact on workers' wages.

Furthermore, the Act under consideration requires social enterprises to subject their activities, projects and programmes to a social impact assessment system. This measures how and what kind of social outcomes social enterprises generate for local communities. In this respect, social enterprises are called upon to prove that their activities produce and distribute both economic and social value; efficiency alone is no longer sufficient to build competitiveness and sustainability (Carnini-Pulino, Maiolini & Venturi 2019).

The 2017 Social Enterprises Reform Act provides that public authorities implement social impact assessment systems to engage social enterprises in the delivery of SGIs, given their complexity, durability and economic relevance.

Finally, the 2017 Act includes a significant innovation which consists of the possibility for social enterprises to distribute profits among their shareholders up to a limited cap. Such a provision warrants that a partial distribution of profits can be consistent with meeting the general interest and may represent an effective driver to attract private investors to support the public purposes of social enterprises (Fici 2016). Together with the legal recognition of a relaxed non-distribution constraint, the 2017 Act also provides for a “no-tax” area for any profit that is re-invested in the organisation’s activities and a 30% return on investors’ revenue.

Overall, the 2017 Social Enterprises Reform Act strikes a balance between two rights that are enshrined in the Italian Constitution and which are usually interpreted as being opposed to each other. On the one hand, Article 2 sets out the solidarity character of the Italian welfare state, namely, the obligation on the part of both public bodies and agencies and non-profit organisations to remove any obstacle that might prevent citizens/users from accessing equitable and affordable social and healthcare services. On the other hand, the 2017 Social Enterprises Reform Act recognises freedom of private enterprises, which is included in Article 41 of the Italian Constitution. In particular, the 2017 Act provides that private enterprises can also be engaged to pursue the public interest. Due to their social mission and internal organisation, social enterprises contribute to the social achievement that Article 2 provides for.

This reconciliation between economic drivers and public interest within a legal form enables social enterprises to represent an adequate legal solution in which entrepreneurial risks couple with actions, projects and activities that are aimed at strengthening and enforcing individuals’ social and health rights (Balduzzi 2012; Belletti 2014). In accomplishing this purpose, social enterprises, especially thanks to their economic nature, are apt to be partners of local health authorities, which can contract out services to them or enter steady partnership agreements with them. In this regard, it is noteworthy that the 2017 Social Enterprises Reform Act provides that the entrepreneurial nature of social enterprises is preserved and guarded even if they include public authorities and private companies as members. In fact, these stakeholders can neither take over social enterprises, nor have control over them. This represents a remarkable legal provision because it allows the build-up of steady partnerships within the same legal form without hampering the genuine nature of social enterprises.

Some concluding remarks

This article endeavoured to demonstrate that the 2017 Social Enterprises Reform Act represents a piece of legislation that, firstly, allows local health authorities to discriminate between different organisational and governance models to select the most appropriate one to comply with their public obligations. Secondly, the 2017 Act empowers public authorities to develop innovative tender arrangements and procurement procedures. These can be simultaneously fully respectful of the non-profit form and of the social aims that these organisations are called upon to accomplish. Thirdly, the 2017 Act makes social enterprises subject to an overall system of social impact assessment. Fourthly, it enlarges the sphere of activities that only social enterprises are entitled to carry out in pursuing the public interest, thus offering legal and organisational models with which to match citizens' social and health needs. Lastly, the Act helps to depict a legal pattern that allows for the growth of "relationship independence", which is aimed at ascertaining equal relationships between different public and private interests within a plural society.

Overall, the 2017 Act favours the development of social enterprises and nudges their performances as economic and social operators. In this respect, the 2017 Social Enterprises Reform Act definitely marks an important step on the progressive legal recognition of the role and functions of entrepreneurial non-profit organisations sharing with public authorities the responsibility to accomplish social and community goals.

In the light of the aforementioned provisions, it is reasonable to question whether the 2017 Social Enterprises Reform Act constitutes a benchmark for other jurisdictions? The answer is in the affirmative for at least three distinct reasons. The first is to be identified with freedom of choice: namely that all non-profit organisations and companies can adopt the social enterprise model. On the one hand, this is an incentive for those non-profit organisations that "feel" ready to switch over to something more entrepreneurial. Although not all non-profit organisations may be ready or be willing to adopt the social enterprise form, which often requires a move from volunteer-based structures to running some economic risks, this freedom of choice might be an effective driver for many traditional non-profits to scale up, strengthen and improve their activities, thus contributing to improve local welfare systems.

On the other hand, commercial companies that decide that their ultimate aim is not to make a profit or, if any, only to a limited extent, might decide to take on the social enterprise form to blend a structured and organised legal model to the pursuit of the public interest.

The second reason is in supporting public authorities to overcome red tape procedures and sometimes false competitions to engage in legal and administrative techniques whereby they can properly assess and evaluate the contribution of social enterprises. This does not have to amount to a breach of their obligations of transparency and accountability.

The third reason deals with social impact assessment. This might turn out to be a powerful tool in the hands of both public authorities and of the various stakeholders. They will be capable of measuring the actual benefits and outcomes that social enterprise activities produce for local communities. Such a measuring system is also expected to overcome the strict and often disproportionate public procurement procedures. The social impact assessment system may actually help contracting authorities in evaluating effectiveness, sustainability and efficiency, which usually cannot be assessed through the ordinary legal provisions included in public tenders.

Finally, the 2017 Act may stand a closer comparison with different jurisdictions that share almost the same characteristics of this specific kind of non-profit organisation (Fici 2016).

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Measuring and accounting for outcomes in Australian human services charities

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Abstract

In this paper, we investigate the practices of outcomes measurement and outcomes reporting among charities in the Australian human services sector. Motivated by a succession of regulations around the world that promote outcomes-based reporting and decision-making, we investigate, in the case of human services charities: (1) the users of outcomes measurement; (2) the purpose of outcomes measurement; (3) the readiness to measure outcomes; and, (4) the public reporting on outcomes. Our analysis draws on a survey of human services charities in Western Australia. We show that outcomes reporting is driven by identity and upwards accountability rather than downwards accountability, particularly among small charities. While measuring outcomes was common in our sample, especially among large organisations, these outcomes are not often publicly reported. We suggest that practical barriers may be impeding progress on improving outcomes reporting, raising issues about reporting quality. These findings raise important questions about the role and implications of standardisation for outcomes measurement and reporting, which may help to inform future regulatory efforts.

Keywords

Accounting standards, outcomes measurement, performance assessment, outcomes reporting, human services charities

Introduction

There is growing pressure from funders, regulators and beneficiaries on charities to demonstrate how their efforts ‘make a difference’ to those they serve, and to prove that their actions are both effective, and efficient (Martin et al. 2010; Wimbush 2011; MacIndoe & Barman 2012; Flatau et al. 2015). One approach to addressing this pressure is by introducing or expanding upon outcomes measurement, which can be used by organisations to better understand the impact of their operations and to improve effectiveness and cost-efficiency (Houchin & Nicholson 2002; Sowa et al. 2004). There is an emerging international literature pointing to an increased use of outcomes measurement in the charity sector (Hall al. 2003; Carman & Fredericks 2010; LeRoux & Wright 2010; Mayhew 2012; Harlock 2013; Ebrahim & Rangan 2014; Benjamin et al. 2018).

We seek to contribute to this literature by addressing an important gap; namely, the external reporting and public disclosure of outcomes measurement by charities. Our study is prompted, in part, by movements by regulatory agencies and accounting standard-setting bodies around the world to promote an outcomes-based approach to funding and managing not-for-profit organisations. In the UK, the *Public Service (Social Value) Act (2012)* requires commissioners to consider social value alongside value-for-money when making procurement decisions. The US *Government Performance and Results Modernization Act (2010)* requires agencies to define and make decisions using outcomes-based measures linked to their goals and objectives. In New Zealand, new charity reporting requirements were introduced by the External Reporting Board in 2015 that compel some not-for-profits to disclose ‘performance reports’ to maintain their charitable registration. Each of these developments places new demands on not-for-profit organisations to provide information about their performance beyond the limits of financial statements. They also reflect broader efforts by government agencies to encourage or formalise outcomes-based modes of managing and measuring the performance of not-for-profit organisations. As much of the extant literature concentrates on patterns of outcomes measurement in voluntary settings, our study explores outcomes reporting as it moves toward standardisation and formalisation.

In particular, using a survey we gather evidence on outcomes measurement and outcomes reporting among human services charities in Western Australia (WA). In the WA context, our interest was prompted by the 2011 *Delivering Community Services in Partnership (DCSP) Policy* adopted by the WA government, which (in part) sought to link funding of community services by government with measured outcomes instead of measures of activity or outputs. In addition, our study was also motivated by the *Exposure Draft 270 Reporting Service Performance Information* (*ED270*) by the Australian Accounting Standards Board (AASB 2015) which sought to formalise an accounting standard on extended reporting about 'service performance objectives' among not-for-profit organisations. We identify that outcomes are one type of reporting information that could be disclosed publicly under this new standard. In this study, we match our survey data with information from the national charities register (the Australian Charities and Not-for-Profit Commission), and publicly reported information by the human services charities.

We use this data to respond to four questions. First, who are the main users of outcomes measurement information provided by human services charities? Second, what are the purposes and reasons driving human services charities to undertake outcomes measurement? These research questions are motivated by previous literature which has shown that there are multiple users of outcomes information, and that different users are associated with different patterns in outcomes measurement practices (Barman & MacIndoe 2012). Third, we ask what is the status in terms of human services charities readiness and capacity for measuring and reporting on their outcomes? Finally, we ask whether human services charities are reporting on their outcomes, and, if so, to what extent and through what medium is reporting occurring?

Our findings provide evidence that calls into question assumptions about the user of outcomes measurement information, and identifies systematic barriers that impede the ability of human services charities to measure outcomes. This provides valuable evidence to policy makers as they continue efforts to encourage and formalise this new form of reporting. Our study also contributes to the broader academic scholarship of charities by extending research on outcomes measurement into how, why, and to what extent outcomes are measured and subsequently reported in this sector.

Background

External financial reporting in Australia is predominately guided by accounting standards developed by the Australian Accounting Standards Board (AASB) which adopts a transaction-neutral approach to accounting standard-setting[1] and which generally requires private not-for-profit entities to apply the standards if they are 'reporting entities' as determined by the existence of external users of the entity's financial report (Carey et al. 2014). These reporting entities face more onerous financial reporting requirements than their counterparts[2] (Gilchrist & Simnett 2019).

In this context, in 2015, the AASB released Exposure Draft standard *ED270* proposing that private and public not-for-profit reporting entities present a range of service performance information about the efficiency and effectiveness of their activities in achieving their objectives. We are concerned here with the impact of the proposed standard on private not-for-profit entities. The AASB justified the proposed standard by claiming that “many existing disclosures focussed on financial aspects of performance, whereas non-financial aspects of private not-for-profit entities are often important to users”, and that there is a risk that “information specific to private not-for-profit entities and needed by users was not being disclosed” (AASB 2015: 8).

ED270 draws heavily from a ‘recommended practice guideline’ developed by the International Public Sector Accounting Standards Board *RPG3: Reporting Service Performance Information* (IPSASB 2015). Following public consultation, the AASB is currently considering feedback and re-drafting the standard.

However, this exposure draft is of note as it represents an effort by the traditional accounting standard setter to formalise extended reporting beyond basic financial statements for not-for-profit entities (Gilchrist & Simnett 2019). It proposes that not-for-profit entities report on their objectives (referred to as ‘service performance objectives’), and input, output and outcome data on the performance a not-for-profit seeks to achieve. That is, it is proposed that (in part) not-for-profit organisations publicly disclose the outcomes they wish to influence and their success in doing so through indicators of outcomes, efficiency and effectiveness.

Prior literature

Users of and purposes for outcomes measurement

Financial accounting has developed around the principle that the primary user of financial reports is the capital provider and that the purpose of these reports is to provide relevant and reliable performance information about the financial performance of an entity (Zeff 2013). However, the public benefit purpose of charities has required a reimagining of the role of reporting in this context (Laughlin 2008; Ryan et al. 2014). In particular, it has been noted that it is hard to clearly identify who the users of measurement and reporting in the charitable sector are, and what their informational needs may be (Gilchrist & Simnett 2019).

Instead, the reporting practices of charities tends to be conceptualised through the lens of accountability, which focuses on the reciprocity of relationships between an organisation and other parties in a social context. These relationships can, and do, vary in character and, therefore, the consideration of what is appropriate behaviour between these parties can also be different (Gray al. 2014). Each of these relationships has a moral dimension governed by the nature of that relationship, the actions expected by parties to the relationship and the context in which the relationship exists. This forms what Dillard (2007) describes as 'an ethic of accountability'.

One element of the ethic of accountability is the requirement to offer accounts which "explain oneself, to articulate one's intentions and aspirations, to offer detailed explanations of one's actions" (Gray et al. 2014: 267). This is the essence of accountability. Reporting represents a formal way that organisations may discharge this accountability to different stakeholders.

Several key accountability relationships have been highlighted in the previous literature with respect to the reporting practices of charities. Firstly, *upward accountability* (or patron accountability) suggests charities are primarily accountable to those who provide necessary resources required to be sustainable; this perspective implies that the primary user of accounts include donors, funders and regulators (Unerman & O'Dwyer 2010). The informational needs and preferences of funders have been shown to shape the outcomes measurement practices of charities in a variety of settings (Barman & MacIndoe 2012, Connolly & Hyndman 2013).

Previous studies have also shown that charities also undertake reporting and performance assessment practices because of *downwards accountability* – organisations are accountable for ensuring funds are spent effectively and towards societal improvement; implying that the primary user of reports is the beneficiary or communities in which organisations operate (Bagnoli & Megali 2011; Benjamin 2012). Unerman and O'Dwyer (2010) suggest that organisations responding to both upwards and downwards stakeholders are engaged in holistic accountability.

Third, *identity accountability* refers to values-based accountability about the purpose and activities of a charity (Ebrahim 2005, Unerman & O'Dwyer 2006, 2010). The user identity is less clear, but may be considered to be internal to the organisation and include those charged with the responsibility to deliver an organisation's social mission or purpose such as internal staff and the board.

Previous literature has tended to emphasise the role of reporting as a function of upwards accountability, particularly towards large funders and donors. As most not-for-profits are reliant on external funding for their ongoing survival, the needs and wants of external funders have been shown to shape reporting including non-financial performance measurement practices such as outcomes measurement (MacIndoe & Barman 2012; Connolly & Hyndman 2013; AbouAssi 2014). The notion of the funder being the primary user of charity financial reporting remains dominant, despite calls for more attention to be placed on how reporting can be made more inclusive of other user needs, including downward accountabilities such as beneficiaries (Rasche & Esser 2006; Benjamin 2012).

Interestingly, the AASB *ED270* conceptualises the users of service performance reporting as "those stakeholders who cannot typically demand the information from the entity [including] resource providers such as taxpayers or donors and recipients of the goods and/or services provided" (AASB 2015: 31). Therefore, according to this standard, the primary user of the proposed new reporting will be those with downwards accountability, and small private funders (i.e. taxpayers and small donors) who are not able to demand reports individually.

Therefore, there are a variety of potential user groups of outcomes measurement information, with the proposed standard targeting users that have not been strongly linked to outcomes measurement in previous literature. We seek to empirically examine the concept of the user in the context of outcomes and the purposes surrounding outcomes measurement with the following research questions:

Research Question 1 (RQ1): What are the main purposes and users of outcomes measurement and reporting according to human services charities?

Research Question 2 (RQ2): What are the main purposes of outcomes measurement and reporting according to human services charities?

Readiness to report on outcomes measurement

We also explore the extent to which outcomes are understood, measured, and, publicly reported by human services charities. This is important as the preface to *ED270* suggests that "[nonfinancial] information… needed by users <u>was not being disclosed</u>". We investigate if this information is available: if it is being disclosed, or if it is not being prepared at all. This is an important contribution to an *ex ante* proposed standard like *ED270* – where there is limited evidence about the nature of current practice.

In a survey-based study of charities, Barman and MacIndoe (2012) examine this by exploring the unevenness of outcomes measurement through the lens of new institutionalism. They find that the adoption of outcomes measurement is driven by isomorphic pressures such as promulgation by key actors (consistent with resource dependency). However, they also find that organisations with capacity and specialised knowledge are better able to respond to these isomorphic pressures. This points to the importance of internal resourcing and capacity with respect to the practice of outcomes measurement, echoing the broad literature expressing concerns over resource limitations (Lecy & Searing 2014).

The existing literature also suggests that outcomes measurement can be challenging and complex for many organisations. Indeed, there has been rapid growth in the variety of tools, guides and methodologies to support outcomes measurement practice. Previous research has shown that this landscape of tools can be difficult to navigate due to diversity (Liket & Maas 2013). Cordery and Sinclair (2013) suggest that this is because different tools employ different measurement techniques while Willems et al. (2014) conceptualise these differences as a series of different judgements or 'trade-offs'. Others suggest this variation is driven by fundamentally different needs and philosophical positions about the value and role of evaluation and measurement in organisations (Hall 2012).

This is a significant issue as the accounting literature has well-established the importance of *quality* of information (Lambert et al. 2007). With such variation in practice, it is difficult to develop meaningful understanding of what quality may be in the context of outcomes measurement (Liket & Maas 2013). It is hard to ascertain the significance of these theories and challenges in the Australian context prior to standardisation because of the distinct lack of empirical data, despite the policy interest and possible future standardisation (Flatau et al. 2015). To contribute to the literature in these areas, and explore the foundations of practice in Australia prior to standardisation (if it occurs), we investigate the following research questions:

> **Research Question 3 (RQ3):** Are outcomes being measured by human services charities, and what may be holding back the measurement of outcomes?
>
> **Research Question 4 (RQ4):** Are measured outcomes being reported by human services charities? And if so, how are they being reported and to what extent?

Research methodology

Research approach

To investigate our four research questions, we survey outcomes measurement practices among human services charities in WA and evaluate the extent to which outcomes are reported in publicly available documents by the responding organisations. We selected a survey approach as there is no extant data on the nature of outcomes measurement in this context, and a survey approach allows us to explore multiple dimensions of this practice. This is particularly important in the human services context, and in a geographically disperse location like WA, where diversity and fragmentation of organisations can mean organisations are easily excluded from face-to-face participatory methods. We supplement this data with publicly reported data from each organisation and data collected by the ACNC.

WA is a useful site to explore outcomes measurement because of a policy context conducive to outcomes measurement. In 2011, WA adopted the *Delivering Community Services in Partnership (DCSP) Policy*, which represented a whole-of-government approach to rebalancing the relationship between the public and not-for-profit sectors. One element of this policy is to promote the use of outcomes measurement in WA generally (Government of Western Australia 2011).

Sample

Our population was identified using the Australian Charities Register developed by the ACNC. This register collates data submitted via an Annual Information Statement (AIS) from each registered charity (ACNC 2016a). We collected the most recent data available at the time of undertaking the study, namely, data from 2013/14 that was reported in 2015. Ethics approval for the study was granted by the University of Western Australia Human Research Ethics Committee RA/4/1/7233.

To identify human services charities from the broader population of charities, we also filter by their self-declared 'main activity' listed on their AIS In developing our sample of human services charities, we follow the approach adopted by the Australian Council of Social Service (2014). They include organisations with main activities in the areas of: aged care activities; civic and advocacy; economic social and community development; emergency relief; employment and training; housing activities; income support and maintenance; international activities; law and legal services; mental health and crisis intervention; other education; other health service delivery; and social services.

As the format for dissemination of the survey was email, we collected a contact email for each organisation. We supplemented missing data with manual search on each Australian Business Number (ABN) located on the ACNC 'Find a Charity' website (ACNC 2016b). Following this process, organisations with no email address were removed; organisations that were excluded from the public register were also not included. This yielded a potential population of 2,117 organisations. Our approach ensured that as many organisations as possible within our defined scope were given the opportunity to complete the survey.

Each of these human services charities were sent an email with the online survey link to be completed; the survey was open from December 2015 – April 2016. Follow up reminder emails were sent and follow-up phone calls were made using public information to encourage organisations to complete, or to follow-up on email bounce-backs.

A total of 407 surveys were started. However, 234 did not fully complete the survey, thus we received a total of 173 completed surveys from a total of 2,117 targeted organisations, yielding a survey completion rate of 8.2%. Four respondents were removed as we could not match the information to the ACNC register information, leaving a sample of 169 as the basis for all subsequent analysis. In the context of the diverse nature of charities, the survey completion rate of 8.2% is a reasonable response rate as a majority of Australian charities are considered economically insignificant as they have very low annual turnover and employ no staff (Productivity Commission 2010, Cortis et al. 2016). These resource-limited organisations may not have the capacity to spend time completing a survey.

Table 1, below, provides some basic descriptive information on the profile of our survey respondents compared with the corresponding annual data on charities provided by the ACNC. Our sample achieves coverage across the different sizes and areas of activities of our desired population. In Table 1 we split our organisations according to the small, medium and large categories used by the ACNC in 2016. This shows that 37.9% of organisations in our sample are considered small (with turnover under $250,000 p.a.), underrepresenting the relative proportion of these organisations in Australia (at 67.0%). A further 21.3% are medium-sized with turnover of $250,000 - $1 million compared to the national percentage of 15.8%. Large organisations are over-represented in our sample, with 40.8% of our sample with annual income over $1 million, whereas the national value is 17.2%. This overall skew towards large organisations can be explained by the resource-limitations of small not-for-profit organisations.

Table 1. Respondent profile.

	Sample		Australia*
	n	**%**	**%**
Annual Turnover			
Small: annual income under $250,000	64	37.9	67.0
Medium: annual income $250,000 - $1 million	36	21.3	15.8
Large: annual income over $1 million	69	40.8	17.2
Main area of Activity			
Aged care activities	14	8.3	6.9
Civic and advocacy activities	10	5.9	3.5
Economic, social and community development	16	9.5	13.2
Emergency relief	21	12.4	8.4
Employment and training	10	5.9	3.0
Housing activities	10	5.9	4.6
Income support and maintenance	2	1.2	1.1
International activities	1	0.6	2.7
Law and legal activities	5	3.0	1.1
Mental health and crisis intervention	9	5.3	3.3
Social services	21	12.4	20.2
Other education	23	13.6	20.5
Other health service delivery	27	16.0	11.3
Total sample	*169*		

*Data drawn from the corresponding annual data from the ACNC provided in Powell et al. (2017)

Survey development

Survey topics included organisational practices in outcomes measurement; views on outcomes measurement in the sector; barriers and challenges to outcomes measurement; reporting on outcomes; users and reasons for reporting; and demographic information including size, financial information, organisational age, staff levels, activities, nature of reporting entity, and organisational information. We drew directly from the content of *ED270* for some questions and formulated our response fields for many descriptive characteristics from the demographic information used across the sector. Finally, to ensure the relevance of topic areas with little coverage in prior literature (i.e., barriers to practice in Australia) we also drew from a series of four roundtable discussions with 31 key stakeholders to discuss current practice and barriers for human services charities (these results were analysed qualitatively). These discussions included participants from community organisations (13 participants); peak bodies (7 participants); and state government (9 participants). Further, we pilot tested the survey with two peak bodies prior to dissemination.

In terms of research questions one and two (RQ1 and RQ2) we included in the survey the following questions:

Who are the users of information on your organisation's outcomes?

Respondents were asked to select for each user identified one option from: "NOT a user", "A CURRENT user", and "A POTENTIAL user". The list of identified users included options such as "Our front-line staff", "Our clients and/or beneficiaries", "Our Board", "Funders (i.e. grants and donors)", "Government" and "The General Public".

How important to your organisation's WA operations are the following reasons for using outcomes measurement?

For each identified reason, respondents were asked to select one of "Not at all important", "Somewhat Important", "Important", "Very Important", "Extremely Important". The list of reasons included options such as "For external reporting", "To meet funder needs", and "For internal decision-making and resource allocation". The survey also included questions relating to the extent of their outcomes measurement and the barriers to outcomes measurement which were relevant to RQ3.

Reporting data

For each respondent organisation, we also manually collected information on their public reporting practices. We collected all publicly available documents from the 2014/15 financial year including their AIS, financial statements, annual report, newsletters and webpage information. We sourced this information from the ACNC website, the organisations' websites, and the office of the registrar of Indigenous corporations (ORIC). From this data, we hand-coded the types of information that is disclosed by each human services charity – including financial information, outputs and outcomes. The way that this information was disclosed was also collected in five categories: (1) the ACNC regulator report; (2) Annual Report; (3) Financial Report; (4) Webpage; (5) Newsletter. We then cross-referenced organisations that claimed to measure outcomes in the survey against those that publicly reported these outcomes according to our analysis. To examine the key determinants of whether organisations reported their outcomes in the public arena, a binary logistic regression analysis was conducted for those that had a website (n=137). The dependent variable was equal to 1 if the organisation reported their outcomes in the public arena; zero otherwise.

Findings

RQ1 and RQ2: Users and Purpose of Outcomes Measurement

To answer these research questions, we firstly investigate views of respondents as to the current and potential users of outcomes information. Table 2 below, summarises the responses to this question. In this table, we also classify each user as internal or external, indicate if they are specifically identified as a user by *ED270* and rank them according to the percentage of the sample that deemed the user 'not a user'.

Our results show that human services charities prioritise different user groups. Five of the user groups are identified as a user by the majority (i.e. 50% or more) of the sample as current users – including our board (82.2%), our managers, senior managers and executives (81.7%), funders[3] (68.6%), government (60.9%) and our front-line staff and employees (58.0%). The importance of this group of users across the sample shows the significance of both identity accountability (represented by internal users such as the board and staff) and also upwards accountability (represented by funders and government), suggesting that these human services charities strongly experience these two forms of accountability which can be discharged by the transfer of information about outcomes.

Table 2. Users of outcomes information.

User	Direction	Can command private information	All (n=169) Not a user (%)	Current User (%)	Potential User (%)
Our board	Internal	Yes	10.7	82.2	7.1
Our managers, senior managers and executives	Internal	Yes	12.4	81.7	5.9
Funders (i.e. grants and contracts)	External	Yes	21.3	68.6	10.1
Government	External	Yes	23.1	60.9	16.0
Our front-line staff and employees	Internal	No	30.2	58.0	11.8
Our members	Internal	Yes	40.2	43.2	16.6
*Our clients and/ or beneficiaries	External	No	43.2	29.6	27.2
Regulators	External	Yes	44.4	44.4	11.2
Our volunteers	Internal	No	45.0	37.9	17.2
Peak bodies	External	No /Yes	48.5	25.4	26.0
Other community organisations	External	No	49.1	24.9	26.0
Sponsors	External	Yes	56.2	23.7	20.1
*The general public	External	No	56.2	17.2	26.6
Large, individual donors	External	Yes	58.6	19.5	21.9
*Small donors (i.e. public fundraising)	External	No	61.5	16.6	21.9

*identified as specific user in *ED270*

Also of note in Table 2 is that the three user groups targeted by *ED270* were far less likely to be identified as current users of outcomes information, including clients/beneficiaries (29.6%), the general public (17.2%) and small donors (16.6%). One possible explanation for this finding is that human services charities do not see the provision of outcomes information as an important mechanism by which to discharge downwards accountability.

Given these user groups are a significant focus for the impending standard, we investigate this data further by breaking down the results by size. Table 3, below, compares the results for these three questions by size of annual turnover. This shows that large organisations tend to classify clients as a current or potential user statistically significantly[4] more often than smaller organisations. That is, 65.6% of small organisations deem them ‘not a user’, compared with 27.5% of large organisations. Similar results are seen among the other two users identified in the standard – small donors and the general public – with small organisations more likely to identify them as ‘not a user’. Together, these results show that while downwards accountabilities were less likely drive the identification of as users of outcomes information by human services charities, this effect is more pronounced among smaller organisations.

Moreover, Table 3 also shows that large human services charities are more likely to rate these three user groups as ‘potential users’ than smaller organisations. For example, 40.6% of large organisations classified ‘our clients and beneficiaries’ as ‘potential users’, compared with smaller organisations, of whom only 12.5% considered them ‘potential users’. Together with the earlier results, this shows that smaller organisations are more likely to consider these three user groups as ‘not a user’, but are also less likely to consider them as ‘potential users’. Overall, this provides evidence to suggest that users associated with downwards accountability are less likely to be considered users of outcomes information, but that this result is particularly strong for smaller human services charities while large organisations see these as potential users.

Table 3: Users identified in *ED270*.

	Small (<$250,000 p.a.) (n=64)			**Medium ($250,000 - $1 million p.a.) (n=36)**			**Large (> $1 million p.a.) (n=69)**			**Significant Potential User**
	Not a user (%)	**Curr-ent User (%)**	**Poten-tial User (%)**	**Not a user (%)**	**Curr-ent User (%)**	**Poten-tial User (%)**	**Not a user (%)**	**Curr-ent User (%)**	**Poten-tial User (%)**	
Our clients and/ or beneficiaries	65.6	21.9	12.5	33.3	38.9	27.8	27.5	31.9	40.6	*
Small donors (i.e. public fundraising)	70.3	20.3	9.4	52.8	16.7	30.6	58.0	13.0	29.0	*
The general public	70.3	20.3	9.4	50.0	19.4	30.6	46.4	13.0	40.6	*

We further investigate the issue of the user of outcomes measurement information by asking human services charities about the purposes of measuring outcomes. Our findings across the full sample are presented below in Table 4. This table shows that the top three reasons for measuring outcomes are ‘improving services and programs’, ‘planning and strategy’, and ‘internal decision-making and resource allocation’. These are all internal uses of this information, which align well with identity accountability where outcomes measurement is used as a way to improve performance and achieve better performance against mission. At the same time, however, an internal accountability such as improving services and programs can be viewed as a proxy for achieving better outcomes for the final beneficiaries of programs.

The two reasons linked to external accountabilities in this question – namely 'external reporting', and 'to meet funder needs' – were less important overall than the internal reasons related to identity accountability. Even less important were those reasons linked with individual staff accountabilities, with the reasons of 'internal reporting', 'motivating front-line staff' and 'for staff appraisal' rated overall as the least important. This suggests that identity accountabilities are currently a more important motivator for measuring outcomes than external reporting, and provide further support for our earlier conclusion.

Table 4. Reasons for measuring outcomes.

		Importance (n=169)				**%**
Reason	**Orientation**	**Not at all**	**Somewhat**	**Important**	**Very**	**Extremely**
To improve services and programs	Internal	8.9	4.1	17.2	26.6	43.2
For planning and strategy	Internal	10.1	8.3	23.1	28.4	30.2
For internal decision-making and resource allocation	Internal	11.2	11.8	21.9	30.2	24.9
For external reporting	External	19.5	8.3	14.8	20.7	36.7
To meet funder needs	External	20.1	8.9	15.4	18.9	36.7
For internal reporting	Internal	14.8	13.6	26.6	26.0	18.9
For motivating front-line staff	Internal	20.7	12.4	34.3	17.2	15.4
For staff appraisal	Internal	25.4	21.3	31.4	14.2	7.7

We further explore the notion of the user through the concept of the reporting entity by asking "Is your organisation a reporting entity? (select Yes if there are external users that rely on your financial statements to make decisions, and don't have access to other reporting channels)". This is a useful addition to our analysis as it provides a third mechanism by which to explore whether there is demand for information on the human services charities (whether they have external users that require information). Less than half (40.8%) of our sample classified themselves as reporting entities, suggesting there were external users of information about their organisation. Smaller organisations are significantly less likely to characterise themselves as a reporting entity than large organisations: 62.5% of the smaller organisations in our sample do not consider themselves as reporting entities, compared with 28.2% of large and 36.1% of medium sized organisations. This supports earlier findings about the external user that suggests that smaller human services charities are less likely to identify external users of information about their organisation (see Table 3).

RQ3: Measuring Outcomes

We approach RQ3 with data from three different survey questions that explore the readiness for outcomes measurement from different perspectives. First, we ask our respondents to describe the extent of their outcomes measurement; we supplement this with a subjective question about views on measurement of outcomes in the sector more generally. Finally, we investigate the barriers to further outcomes measurement. To assess the readiness of organisations for reporting on outcomes measurement, human services charities were asked to indicate how extensive their current outcomes measurement activities were. The results of this question are presented below in Table 5.

Table 5. Extent of outcomes measurement

	Size			
We measure outcomes for…	**Small (%) (n=64)**	**Medium (%) (n=36)**	**Large (%) (n=69)**	***Total (%) (n=169)***
… all activities	14.1	30.6	21.7	*35(20.7%)*
... most activities	17.2	25.0	42.0	*49(29.0%)*
... about half of activities	6.3	19.4	18.8	*24(14.2%)*
… a small proportion of activities	4.7	11.1	5.8	*11(6.5%)*
… none of our activities	57.8	13.9	11.6	*50(29.6%)*

Most organisations reported undertaking outcomes measurement in some way, with only 29.6% of organisations not measuring outcomes for any of their activities while 20.7% claim to measure outcomes for all of their activities and 29.0% report measuring outcomes for 'most' of their activities.

Table 5 also shows that size is significantly[5] associated with the extent of outcomes measurement. Over half of the smaller organisations (57.8%) do not measure outcomes for any of their activities; this is a far higher proportion that the relevant values for the medium (13.9%) and large (11.6%) organisations. Further, large organisations are more likely to measure outcomes more extensively, with 63.7% of large organisations claiming that they measure outcomes for 'all' (21.7%) or 'most' (42.0%) of their activities.

We further investigate the extent of outcomes measurement by presenting findings on four subjective questions probing views on outcomes measurement across the sector. These questions are scored on a five-point Likert scale (strongly disagree = 1, strongly agree = 5). Overall, there is a high level of confidence in how well their organisation understands its outcomes with 28.4% strongly agreeing, and 41.4% agreeing with the statement "our organisation understands its outcomes well". Interestingly, organisations believe they understand their outcomes significantly more (M = 3.88, SD = 0.94) than the community sector understands its own outcomes (M = 2.90, SD = 0.89); $t(168) = 13.65$, $p < .001$.

It was also found that, at both the organisational level and the sector level, the quality of measurement is perceived to be problematic. While 69.8% of the sample agree that they understand their outcomes (with 28.4% strongly agree and 41.4% agree), only 49.6% of those organisations that measure outcomes (n = 119) believe they do so well. This message is also carried over into responses on outcomes measurement in the sector generally. Those who reported measuring outcomes, on average, believe they do so better (M = 3.43, SD = 1.02) than the community sector in general (M = 2.70, SD = 0.86); $t(118) = 8.00$, $p < .001$. Overall, only 13.1% of the sample believe the community sector measures its outcomes well.

We further explore this issue by studying what is holding human services charities back from doing more outcomes measurement. To do this, we ask two sets of questions about the significance of a series of internal (i.e. organisational) barriers to outcomes measurement and the significance of broader (i.e. sector-level) barriers (Table 6).

Table 6. Internal barriers

	Full sample (n=169)		
Significance to organisation	**Not a barrier (%)**	**A small barrier (%)**	**A big barrier (%)**
Internal barriers			
Lack of funding or access to resources	8.9	27.8	63.3
Lack of staff skills and capacity	18.3	42.0	39.6
Lack of established methodology or tool	28.4	36.7	34.9

Significance to organisation	Full sample (n=169)		
	Not a barrier (%)	A small barrier (%)	A big barrier (%)
Support and enlistment of all staff	34.9	45.6	19.5
Client, service and funder diversity	35.5	38.5	26.0
Participation of clients/ beneficiaries	39.6	36.1	24.3
Lack of interest or support from board/ senior management	68.6	20.1	11.2
Sector barriers			
Fragmentation of funding, accountability and outcomes	8.9	34.9	56.2
Lack of access to quality data	10.1	32.5	57.4
Measuring long-term change in the short term	11.2	30.8	58.0
Lack of guidance or standards on measurement	14.8	37.3	47.9
Inconsistent language and terminology	17.2	45.0	37.9
Participation by smaller organisations	24.9	46.7	28.4
Not safe to report or disclose negative outcomes or poor results	26.6	41.4	32.0
Growing importance of individualised funding mechanisms	27.8	43.2	29.0

According to the findings in Table 6, the biggest barriers for outcomes measurement are those of internal resourcing, capacity and skills. Specifically, the lack of funding or access to resources is identified as a big barrier by 63.3% of our sample. Two more themes also relate to the capacity of the organisation to measure outcomes including 39.6% who consider a lack of staff skills and capacity as a big barrier for their organisation. Taken together, these two top barriers show the challenges of the limited resources facing community sector not-for-profit organisations.

Table 6 also explores the relative importance of a range of 'sector' barriers. The most important barrier is a systemic, structural one: the fragmentation of funding, accountability, and outcomes sought in the not-for-profit sector where 56.2% of the sample identify this as a big barrier and 34.9% identify as a small barrier. Of similar significance to this sample are a range of barriers that may be interpreted as relating to the immaturity of the broader outcomes measurement ecosystem. This includes the 57.4% of respondents that consider the lack of access to quality data as a big barrier, measuring long-term change in the short-term (a big barrier for 58.0% of the sample) and the lack of guidance or standards on measurement (identified by 47.9% of the sample as a big barrier).

RQ4: Reporting Outcomes

We next extend our study into the public reporting of outcomes measurement among human services charities. As evident from Table 7, 51.5% of the organisations publicly reported some form of outputs or outcomes (44.4% and 34.3%, respectively). The most common vehicle for reporting outputs was the annual report (33.7%), while for outcomes it was the organisation's website (19.5%). Both quantitative and qualitative forms of outcomes were reported, including case studies (9.5%), testimonials (18.9%), client feedback and outcomes statistics (13.6%). Over half of large organisations (50.7%) reported outcomes or outputs compared with only 14.1% of smaller organisations. Interestingly, not all organisations that had publicly reported outcomes identified that they measured outcomes. Of those organisations that claimed to measure outcomes, only 39.5% publicly reported these outcomes according to our analysis (Table 8). Stated alternatively, the majority of respondents who measure outcomes do not publicly report these outcomes (60.5%; at least in the channels we identified). This may suggest that there is some information on outcomes being prepared by not-for-profits in our sample that is not being publicly disclosed, providing some support for the *ED270* conclusions. Further, the concept of outcomes measurement appears to not be well understood by some not-for-profit entities, as 22% of organisations that had responded that they did not measure outcomes, did in fact publicly report them.

Table 7. Extent of outcomes reporting

	Size			
	Small (%) (n=64)	**Medium (%) (n=36)**	**Large (%) (n=69)**	***Total (%) (n=169)***
Outputs publicly reported in:				
ACNC Annual Information Statement	12.5	13.9	15.9	14.2
Annual Report***	6.3	44.4	53.6	33.7

	Size			
	Small (%) (n=64)	**Medium (%) (n=36)**	**Large (%) (n=69)**	***Total (%) (n=169)***
Financial Report	1.6	2.8	7.2	4.1
Webpage	10.9	11.1	17.4	13.6
Newsletter	3.1	2.8	8.7	5.3
*Publicly reports outputs****	18.8	50.0	65.2	44.4
Outcomes publicly reported in:				
ACNC Annual Information Statement	0.0	2.8	0.0	0.6
Annual Report***	1.6	16.7	33.3	17.8
Financial Report***	0.0	0.0	1.4	0.6
Webpage*	9.4	25.0	26.1	19.5
Newsletter	3.1	5.6	4.3	4.1
*Publicly reports outcomes****	14.1	38.9	50.7	34.3

Note: *p<.05, ***p<.001

Table 8. Outcomes measurement and reporting

	Measures Outcomes* (full sample n=169)	
	Yes	**No**
Publicly reports outputs	62(52.1%)	13(26.0%)
Does not publicly report outputs	57(47.9%)	37(74.0%)
Publicly reports outcomes	47(39.5%)	11(22.0%)
Does not publicly report outcomes	72(60.5%)	39(78.0%)

	Measures Outcomes* (full sample n=169)	
	Yes	**No**
Publicly reports outputs or outcomes	71(59.7%)	16(32.0%)
Does not publicly report outputs or outcomes	48(40.3%)	34(68.0%)

*Survey question: Does your organisation measure outcomes in its WA operations?

To predict whether organisations reported their outcomes in the public arena, a binary logistic regression analysis was conducted for those organisations that had a website (n=137). Predictors of the model were self-reported variables including whether the organisation: identified their clients/beneficiaries, small donors (i.e., public fundraising), and/or the general public to be current users of their outcomes; operated in the Perth metropolitan area; operated nationally; and the extent to which they considered outcomes measurement to be important for external reporting. Organisation size was also used as a predictor, based on whether they were classified as large organisations by the ACNC. A test of the full model against a constant-only model was statistically significant, indicating that the predictors as a set reliably distinguished between organisations that publicly report on their outcomes and those that do not ($\chi^2 = 26.27$, $p < .001$ with $df = 7$).

Nagelkerke's R^2 of .234 indicated a moderate relationship between prediction and grouping. The model predicted 75.2% of cases (84.8% of those that did not publicly report outcomes and 62.1% of those that did publicly report outcomes). The Wald criterion indicated that operating in the Perth metropolitan area, identifying small donors as current users, and large organisation size made significant contribution to the model. Organisations that operated in the Perth metropolitan area were 3.3 times more likely to publicly report outcomes than those that operated elsewhere in WA. Additionally, large organisations were 2.5 times more likely to publicly report their outcomes. Further, organisations that identified small donors contributing via public fundraising campaigns as current users of their outcomes were 4.4 times more likely to have outcomes that were publicly available.

Table 9. Summary of logistic regression analysis for variables predicting whether organisations publicly reported outcomes

Variable	***B***	***SE B***	***p***	***β***
Considers outcomes measurement to be important for external reporting	0.24	0.13	.065	1.27
Operates in Perth Metropolitan Area	1.18	0.48	.014*	3.27
Operates Nationally	-0.18	0.54	.743	0.84
Classified as Large by the ACNC	0.93	0.40	.021*	2.53
Identified clients and/ or beneficiaries as users of outcomes measurement	0.53	0.44	.222	1.70
Identified small donors (i.e. public fundraising) as users of outcomes measurement	1.47	0.55	.007**	4.36
Identified the general public as users of outcomes measurement	-0.57	0.58	.331	0.57
Constant	-3.12	0.82	<.001***	0.04

Note: $*p < .05$, $**p < .01$, $***p < .001$

Discussion and conclusion

Prompted by a wave of prospective regulation emerging in recent years, this study seeks to further investigate outcomes measurement among charities, and how these measures are reported on publicly. Drawing from survey data and publicly collected reporting on a sample of human services charities in WA, we focused our study on four key issues: (1) the users and (2) purposes of outcomes information by human services charities; (3) if and how these organisations are measuring their outcomes; and (4) the extent of public reporting of outcomes by these organisations.

Our first two focal areas were the users and purposes of outcomes measurement according to human services charities. Our findings showed that human services charities mainly identify internal decision-makers (board and management) and powerful external resource providers (funders and government) as the primary users of information on their outcomes. Small donors contributing via public fundraising campaigns, the general public and clients/beneficiaries were less likely to be considered users of this information. Further corroborating this, the most commonly identified reasons for outcomes measurement were internal in orientation such as improving services and programs, planning and strategy, and internal decision-making and resource allocation. In our sample, the use of this information for external reporting and meeting funder needs was slightly less important. Using the reporting entity concept, we also found that nearly 60% of our sample do not believe there are external users of information of their human services charity.

Our findings also suggest that organisational size is an important variable in understanding the users of outcomes measurement. Small organisations were less likely across all the different measures to identify external users of information on their outcomes, or to identify groups like small donors, the general public and clients/beneficiaries as users.

Using an accountability lens, these findings do suggest that internal, or identity, accountability appears to be the dominant driver of outcomes measurement and reporting among the respondents. Internal users, and their requests for outcomes measurement were most strongly identified as shaping outcomes reporting among this sample of not-for-profits. Consistent with prior literature, the second most dominant form of accountability was upwards accountability, towards funders and governments which control access to resources. This finding emphasises the dominance of upwards accountability with respect to performance measurement practices (e.g. Connolly & Hyndman 2013). However, our results also suggest that within human services charities, internal accountabilities are perceived to be more important with respect to outcomes measurement than upwards accountability. Overall, downwards accountabilities were considered less significant in driving outcomes measurement practices. Large organisations, however, were more likely to see potential users in groups associated with downwards accountability, with smaller organisations much less commonly identifying small donors, beneficiaries and the general public as users of their reports on outcomes.

It is these groups associated with downwards accountability that are identified in *ED270*. This finding could be interpreted in two ways. Firstly, it could signal a mismatch between the objectives of standard setters and the reality of information demands on human services charities. That is, focusing a standard on the needs of these user groups is inappropriate given this data suggests that these users are not considered by human services charities to be users of outcomes information, and the benefits to these users of a new standard may not outweigh the costs to human services charities of its implementation. It may also be that other accountability mechanisms and engagement are considered more apt for these types of user groups, and that formalised outcomes measurement and reporting may be less useful to these types of users.

An alternative interpretation is that while human services charities are fundamentally concerned with users such as beneficiaries (making a difference in their lives), they do not completely appreciate the demand for information from these user groups. That is, there is unmet demand by these downward accountability user groups, but that human services charities fail to recognise its potency. In this context, the creation of a standard may be necessary to correct this misperception on the part of human services charities. Either way, these findings do suggest that further investigation and evidence is required to ascertain the real information demands of these user groups and whether formalised outcomes measurement and reporting is an appropriate vehicle to meet their needs.

The third focal area of our research was the prevalence of outcomes measurement among our sample of respondents. We found that most organisations undertake some form of outcomes measurement, with large organisations more likely to measure outcomes. This does suggest that WA human services charities are indeed responding to the mounting pressure to perform outcomes measurement. However, we also document concerns about the quality of outcomes measurement, which has implications in the context of meeting the demands of users. In particular, resource constraints and capacity and skills limitations are seen to be considerable barriers to outcomes measurement, alongside the fragmentation of funding, outcomes and accountability in the sector. Given our study was conducted 5-6 years after the adoption of the *DCSP* policy (introduced in 2011), this does point to the practical implications and challenges associated with encouraging organisations towards outcomes measurement. Therefore, our findings echo those of Gilchrist (2016), who suggested that the shift from outputs to outcomes measures as a result of the *DCSP* policy created increased contracting costs and administrative burdens on funded organisations.

The fourth focal are of this study is the readiness of human services charities to report on their outcomes. We found that a sizeable proportion of our sample (60.5%) measure outcomes but do not report on them. Large organisations appear to measure and report outcomes more commonly, and more extensively, than smaller organisations. This is likely because large organisations have greater capacity for outcomes measurement and reporting. In addition to organisation size, operating in the Perth metropolitan area and identifying small donors as users of outcomes measures also increased the likelihood that the organisation publicly reports on their outcomes. This is not surprising, as those who identify small donors through public fundraising as current users of outcomes should be making these outcomes publicly available for them to do so.

Taken together, these findings do provide some support for the assertion contained in *ED270* that there is information available in organisations which is not being publicly reported human services charities. Our study results also document clear concerns about practical challenges to undertaking outcomes measurement, such as resourcing issues (financial resources and internal staff capacity) and practical issues like accessing data, and a lack of standards and guidance. These concerns may underpin the low levels of confidence in the quality of outcomes understanding and measurement across the sector.

These results may suggest that outcomes measurement and reporting is emergent and developing across the Australian charitable sector. Serious practical constraints may impede the quality of this measurement. The role of a formal standard in this context (as opposed to allowing natural growth and development of this practice) is uncertain. Moreover, the impact of a standard mandating outcomes reporting in this context is an open question: is a standard mandating reporting a necessary prompt to improve the overall practice of outcomes measurement? Or, is such a standard premature given the underdeveloped nature of the practice among human services charities and concerns over the quality of the information being generated?

In conclusion, our findings show a mixed picture with respect to outcomes reporting for human services charities. We show that outcomes reporting is driven by identity and upwards accountability, and that downwards accountabilities were less important human services charities. Most human services charities in WA are undertaking some form of outcomes measurement, particularly large organisations. However, this measurement is often not publicly reported. We suggest that practical barriers to measurement may be impeding progress on improving the quality of outcomes measurement. Our findings may help to inform future regulatory efforts both in Australia and throughout the world as regulators grapple with the role and implications of a standard for outcomes measurement and the content and intended audience of outcomes reporting.

Finally, our study is subject to some limitations that provide useful opportunities for further research. Firstly, we concentrate on WA human services charities as a research site, expanding the scope of research may begin to uncover the nature of outcomes measurement and reporting across a more diverse charity landscape or more broadly across not-for-profit organisations. Our study is also subject to the limitation of being based only on the perceptions of the human services charities completing the survey. Further studies could extend these findings by considering the views of other stakeholders in the sector, particularly users. The implications of reporting in the emerging quasi-market settings such as those formed as part of the institution of the National Disability Insurance Scheme may also shed light on how reporting implications of charities continues to evolve. Finally, findings around the reporting of outcomes were limited to those that were publicly available online, which excluded any other avenues human services charities may have used to report on their outcomes.

NOTES

1. Sector neutrality, also known as 'transaction neutrality' in Australia, means that all accounting standards developed by the AASB should apply to all organisations. Sector neutrality is a long-standing principle of the AASB; justification for this is that the substance of economic transactions is the same, regardless of the type of organisations that are engaged in the transaction (Stevenson 2005)
2. Specifically, reporting entities must prepare more detailed 'general purpose financial accounts', while non-reporting entities prepare shorter and less complex 'special purpose financial statements'. *ED270* is an example of the translation of this financial reporting concept into the area of non-financial reporting (such as the reporting of not-for-profit outcomes), wherein the proposed standard mandates that all reporting entities must be compliant with the new service performance reporting requirements.
3. Interestingly, the sample drew a clear delineation between funders (grants and contracts) and large, individual donors who were considered a current user by only 19.5% of the sample.
4. We tested this in two ways. Firstly, using Welch's F statistic with Games-Howell tests between groups (at the $p<0.05$ confidence level). We also condensed the two larger sample size groups together (i.e., contrasting Small vs Medium/Large) and tested using Chi-square at the $p<0.05$ confidence level. We undertook this additional test as the medium sample group was smaller than the others and cell sizes were small in some cases.
5. These results are significant at the $p<0.05$ level using the tests outlined above.

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Charity hoarding in a COVID-19 time of need: The role of activity-based regulation

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Abstract

The COVID-19 pandemic has highlighted the urgent need for charities to expend their 'rainy day funds' now, rather than hoarding for the future. For charities lucky enough to have endowments or material investments, such as universities, philanthropic foundations and some schools and hospitals, the collapse in many investment markets and in current income may nevertheless generate reluctance to realise and utilise investments. This article examines the role of activity-based regulation in encouraging charities to spend now, when it is needed.

Keywords

Charity law; charities; accumulation; reserves; activities; regulation

Introduction

Arguably, COVID-19 represents the greatest health and economic crisis since the Great Depression. If ever there were a time for charities to dip into their 'rainy day funds' of accumulated reserves, now is it. Yet, as with the Global Financial Crisis of 2008 (Fishman 2014: 205; Halperin 2011), some charities, especially universities and philanthropic foundations, seem to be wrestling with whether to expend accumulated assets or instead cancel projects and reduce operating budgets (Johnson et al. 2020; Hanmer 2020; The Economist 2020; Rooney & Bergdoll 2020; compare Bell & Dubb 2020).

Many Australian charities do hold material reserves, though it should be emphasised that asset levels vary significantly. In 2018, charity sector net assets amounted to $222 billion, with most of these assets held by education providers, hospitals and aged care providers, religious organisations and housing providers (ACNC 2020). Data from several years earlier also indicates that over 21.5 percent of charities had net assets exceeding 5 years' expenditure and that 4.5 percent of charities not only had 5 years' expenditure worth of assets, but were growing those net assets at more than 10 percent per year (Cortis et al. 2016: 77-80). Philanthropic intermediaries, such as grant-making foundations, are prominent in this regard, with 85 percent of these charities having net assets exceeding 5 years' expenditure and around 59 percent increasing their net assets annually. That is consistent with the anecdotal evidence about licensed trustee companies discussed later in this article and with taxation data for public and private ancillary fund intermediaries, despite the application of minimum annual distribution requirements (Australian Taxation Office 2018).

This article investigates the role of activity-based regulation in tempering hoarding by charities, including other charities which have the potential to accumulate, such as private schools and hospitals (O'Neil & Hatch 2017; Eales 2017). Perpetuities rules, tax requirements and governance duties also impact on charity accumulation. For example, duties to act upon genuine consideration and to act in the best interests of a charity's purpose(s) may apply to excessive hoarding, while duties to use powers for proper purposes may be relevant to matters such as accumulating assets to enhance charity prestige or to increase fees due to charity controllers. Minimum annual distribution requirements that apply to deductible gift recipients in the form of public or private ancillary funds also restrict rates of accumulation by requiring some expenditure[i], though there is some evidence that, once in place, such rules tend to cap actual distribution rates at about the mandated rate (Deep & Frumkin 2005: 19-21). However, these restraints have been explored elsewhere (Murray 2014; 2015; 2017; 2020) and are largely found wanting, other than at the extreme of very material accumulation and limited current expenditure.

This article instead focuses on the accumulation rules that attach to certain charity activities. The first part considers regulation based on fundraising activities, with the second part of this article then analysing government funding. That is because fundraising or the receipt of government grants can result in requirements as to timely expenditure or claw-back of unspent funds. Following this, the article investigates charities undertaking highly regulated services, looking at the delivery of education in the third part of the article and the provision of health services in the fourth part. The regulation of licensed trustee company services (e.g. in respect of philanthropic foundations) is then examined in the fifth part of this article.

Fundraising

While social distancing restrictions and the economic impact of COVID-19 have caused fundraising headwinds for charities, the pandemic has also spurred others to make donations (The Economist 2020; Cassidy 2020). The recent Australian bushfire appeals demonstrate the potential for controversy over (alleged) hoarding of such donations (Kidd 2020). Yet, fundraising activities result in duties and regulatory oversight at the federal, state and local government levels that go some way to addressing such concerns over hoarding. These include public fundraising requirements under the *Corporations Act 2001* (Cth) (***Corporations Act***); prohibitions on misleading or deceptive conduct under the *Australian Consumer Law*; local government permits for carrying out activities in public spaces; and state-based licensing and regulation of charitable collections (Productivity Commission (Cth) 2010: 135-136).

It is the state and territory regulation of charitable collections that is typically most significant for charities, and it reflects material divergence in approaches (Treasury (Cth) 2012: 3, 8; Senate Standing Committee on Economics 2008: 95-96). Indeed, the Northern Territory does not have laws regulating charitable collections and other jurisdictions exempt certain entities from some requirements. However, in the context of accumulation, three broad matters are relevant and are discussed below: the risk that deferral through hoarding amounts to use of funds raised for an alternate purpose, public interest and dormant funds curbs on hoarding, and charity reporting.

Before moving to these three matters, there has been recent impetus to repeal state and territory fundraising legislation. Recent reviews of the *Australian Consumer Law* and of the Australian Charities and Not-for-profits Commission (ACNC) have recommended that the *Australian Consumer Law*'s application to charitable fundraising be clarified and that consideration be given to whether it should be amended to expressly deal with such fundraising (CAANZ 2017: 6-7, 75-76; McClure et al. 2018: 96-103). However, the government's decision not to support this proposal (Seselja 2020: 19) means that the discussion in this part remains pertinent.

Deferral may amount to use for an alternate purpose

The manner in which fundraising occurs may suggest a time-limited purpose and, hence, restrictions on accumulation. For instance, an appeal for funds to assist the victims of a bushfire or those made temporarily unemployed by COVID-19 would necessitate a time-limited purpose, whereas an appeal to contribute to the general funds of a charity might not indicate any time limit on the provision of benefits. Seeking donations before the money is truly needed, simply to increase a charity's prestige and that of its controllers might also amount to using donated funds for a purpose different to the stated objective for which donations have been obtained. The governance duties applying to charity controllers regulate the latter example in that the charity controllers appear to be exercising their powers for an improper purpose. However, governance duties do not adequately address a situation where fundraising occurs for a time-limited objective, such as responding to COVID-19, but where a charity then retains the funds for its general purposes.[ii]

Fundraising obligations can fill in some gaps for the time-limited purpose example. First, if a donor makes a conditional donation, it may give rise to obligations under the general law principles of contract or trust.[iii] Those obligations might require the distribution of the donated funds and income within a certain time, as is the case for Warren Buffett's donations to the Bill and Melinda Gates Foundation (Buffett 2006). Where private law obligations do not arise (for instance, because donors merely express a non-binding wish) or where donor enforcement is muted, state and territory fundraising legislation is relevant, though universities are typically exempt. If donations are invested and the income accumulated, there may be some scope for regulators in New South Wales, the Australian Capital Territory and Tasmania to argue that donations have been 'used'[iv] or 'applied'[v] for a purpose other than the purpose for which they were obtained, thus enlivening regulatory enforcement powers such as the appointment of an administrator (*Collections for Charities Act 2001* (Tas) s. 16; *Charitable Collections Act 2003* (ACT) s. 52; *Charitable Fundraising Act 1991* (NSW) s. 33(2)).

Of course, terms such as 'apply' or 'use' can potentially encompass accumulation (compare '*FCT v Word Investments Ltd'* (2008) 236 CLR 204: [37]; '*IRC v Helen Slater Charitable Trust'* (1982) Ch. 49), a matter contemplated by the New South Wales and Australian Capital Territory legislation (*Charitable Fundraising Act 1991* (NSW) s. 21(1); *Charitable Collections Act 2003* (ACT) s. 46. The New South Wales provision is representative:

Money received in the course of a fundraising appeal which is not immediately required to be applied to the purposes or objects of the appeal may be invested only in a manner for the time being authorised by law for the investment of trust funds.

The outcome will likely depend upon the nature of the fundraising appeal and the extent to which it emphasises a time-limited purpose. Charities registered with the ACNC are also exempt from most aspects of the licensing regime in the Australian Capital Territory (*Charitable Collections Act 2003* (ACT) s. 14(2)).[vi]

Although slightly differently worded, the Western Australian and Victorian provisions and, potentially, the South Australian provisions apply in similar circumstances. The Western Australian commissioner may revoke a collections licence, including as a result of a recommendation by an advisory committee on the ground that funds have been 'substantially applied otherwise than for affording the relief for which the money or goods were collected' (*Charitable Collections Act 1946* (WA) ss. 8, 13(2)(a).[vii] In Victoria, the court can stop an appeal, or the director can deregister a charity, if the appeal is not 'conducted or administered in good faith for the purposes stated to those from whom money was, is being, or will be, sought' (*Fundraising Act 1998* (Vic) ss. 33A(c)(ii), 34A(1)(b).[viii] Further, the court can order the distribution of assets if the appeal assets 'are not being applied for the purposes stated to the people from whom the assets were obtained' (*Fundraising Act 1998* (Vic) s. 36(1)(b)). In South Australia, the ground is that donations have been 'misapplied' (*Collections for Charitable Purposes Act 1939* (SA) ss. 6(7)(a), 12(4)(a).

The text of the above provisions does not make a distinction between a donor imposing a legal condition and a donor merely expressing a non-binding wish. Nor would such a distinction promote the consumer protection purpose of the fundraising legislation. Accordingly, the provisions should apply even in the case of non-binding wishes. Further, in relation to consumer protection, the *Australian Consumer Law* and some state fundraising legislation may also indirectly restrict accumulation by regulating fundraising that is misleading or deceptive due to statements to donors that imply less accumulation than ultimately occurs.[ix]

Public interest and dormant funds – Curbs on hoarding

Some of the fundraising legislation enables access to enforcement provisions in a broader range of circumstances. The provisions apply if there is 'mismanagement'[x] or 'maladministration',[xi] which can be thought of as a failure of governance duties. The provisions also apply on public interest-focused grounds. For instance, in New South Wales and Victoria, that it is in the 'public interest' - to the satisfaction of a minister (NSW), an administrative officer or the court (Vic) - to appoint an administrator, to stop a fundraising appeal or stop a person fundraising (*Charitable Fundraising Act 1991* (NSW) s. 33(2); *Fundraising Act 1998* (Vic) ss. 33A(c)(iv), 33A(e), 34(1)(c)). A fundraising licence or authority can also be revoked in other jurisdictions on public interest grounds (*Collections Act 1966* (Qld) s. 22(1)(b)), or in 'other circumstances' or for 'other reason[s]' (*Collections for Charitable Purposes Act 1939* (SA) ss. 6(7)(d), 12(4)(c); *Charitable Collections Act 1946* (WA) s. 13(1)(e)), which are likely to capture public interest considerations. As the public interest ground goes beyond mere failure to comply with governance duties, it provides an additional curb on hoarding.

In considering when it might be in the public interest, some legislation refers expressly to whether the fundraising expenses exceed a reasonable proportion of the funds raised (*Fundraising Act 1998* (Vic) s. 6B). However, public interest tests typically permit broad recourse to a range of policy matters (for instance, see '*O'Sullivan v Farrer'* (1989) 168 CLR 210: 216). Relevant matters might include the consumer protection/public trust and confidence goal of fundraising legislation (for instance, see Treasury 2012 (Cth): 5-6), which would clearly be relevant to misleading or deceptive conduct or to a failure of charity controller duties. The objective of fundraising efficiency is also likely to be relevant (for instance, see Treasury 2012 (Cth): 6). This objective arguably extends to allocation efficiency (Treasury 2012 (Cth): 5-6), such that if a charity is collecting and accumulating more than it needs, efficiency may favour fundraising by other charities that are spending on more pressing needs – such as COVID-19 relief - where expenditure might have a larger impact. In addition, public interest grounds may also permit recourse to charity law's objectives. One such objective is to incentivise the production of goods for the benefit of the public in pursuing charitable purposes (Murray 2015: 546; Dal Pont 2017: 2.6, 3.1-3.2). This objective suggests some benefits should be produced before too distant a time and so might also be relevant where there is large scale, long-term accumulation. While the Victorian provisions focus more narrowly on stopping fundraising, the New South Wales ground for appointing an administrator could thus have a real impact on accumulation.

The *Dormant Funds Act 1942* (NSW) is also directed toward ensuring the 'effective use' of charitable funds (Martin 1942: 347). Although the legislation likely only applies to trusts (Dal Pont 2017: 16.17), it potentially enables the Commissioner for Dormant Funds to force the use of donated, collected or acquired property where, amongst other grounds, ‘for at least the immediately preceding 6 years, the trustees have not used the fund genuinely for the purposes for which it was donated, collected or otherwise acquired’, or ‘it is not practicable to use the fund for those purposes’, or ‘it is unlikely that those purposes will be achieved within a reasonable time’ (*Dormant Funds Act 1942* (NSW) s. 5A(1)). The legislation explicitly countenances that the mere retention of assets or income does not amount to a lack of genuine use.

Thus, a lack of ‘genuine use’ is likely to require some failure on the part of charity controllers in exercising their discretionary powers, such as a failure to consider exercising a power. If so, this ground is unlikely to apply in circumstances beyond breach of the governance duties of charity controllers. The associations incorporation legislation in most jurisdictions also contains dormancy grounds for winding up an incorporated association, which appear even narrower. The grounds apply if an association ‘has suspended its operations, or has in effect been dormant, for a whole year or more’,[xii] or ‘suspends its operations for a whole year’,[xiii] or is ‘defunct’.[xiv] They could potentially apply where accumulation occurs because charity controllers have ceased making decisions (*Johnson v Commissioner of Consumer Affairs* (NT) [2009] NTSC 4, 50).

The ‘practicable’ ground likely overlaps with the ‘impracticable’ ground for a cy-près scheme, being a mechanism by which a charity’s purposes can be varied. While cy-près principles need not be strictly followed by the Commissioner (*Dormant Funds Act 1942* (NSW) s. 18), they provide some guidance. The common law ‘impracticable’ ground permits variation where it is or has become ‘practically impossible’ to pursue a charitable purpose (*Re Weir Hospital* [1910] 2 Ch 124: 140). There is some breadth in the notion of practical impossibility, including situations where, ‘due to the lapse of time and change of circumstances, it is no longer possible beneficially to apply the property in the exact way that the donors directed it to be applied’ (*Parker v Moseley* [1965] VR 580: 583). Likewise, particular conditions of charitable gifts have been characterised as impracticable where they materially undermine the charitable purpose (Dal Pont 2017: 15.23-15.25; Mulheron 2006: 101-102), including accumulation conditions in some instances (*Epstein* [1984] VR 577: *Re Stillman Estate* (2003) 68 OR (3d) 777; *Re Fenton Estate* (2014) BCSC 39). South Australia and Queensland also permit collected funds to be appropriated to, or have their use directed to, another charitable purpose in circumstances which mirror cy-près grounds, although extending also to where it has become ‘inexpedient’ to carry out the purpose (*Charitable Funds Act 1958* (Qld) s. 5; *Collections for*

Charitable Purposes Act 1939 (SA) s. 16). 'Inexpedient' means that the original charitable purposes have 'become unsuitable, inadvisable or inapt',[xv] which can arise due to changed social and economic conditions (such as a pandemic) and changes in public policy,[xvi] though inexpedience will not inevitably result from such changes (*Re McElroy Trust* [2003] 2 NZLR 289). Inexpediency might, for instance, arise because the rate of accumulation is resulting in only nominal benefits for a class of potential beneficiaries, such as the present generation (see, eg, *Re Lepton's Charity* [1972] Ch 276).

The reasonable time ground under the *Dormant Funds Act 1942* (NSW) likely covers cy-près impracticability circumstances (eg *Wallis v Solicitor-General (NZ)* [1903] AC 173). However, it is broader in that there is no need to show that due to time and changed circumstances, the property can no longer be beneficially applied as directed in pursuit of the charitable purposes. The focus is on how long it will take to achieve the charitable purposes. Accumulation that is so significant that there is no material pursuit of charitable purposes for the benefit of current generations would likely fall within this ground. However, this is unlikely to be common.

Reporting

Reporting is a key monitoring mechanism. To the extent disclosed to donors and the broader public, reporting also permits donor enforcement of restrictions and the application of market mechanisms to curb accumulation in excess of that implied by the fundraising purpose.[xvii] For charities that must be registered to carry out fundraising activities, states and territories typically require a level of financial reporting, although some impose this under the registration licence conditions, rather than in the regulatory legislation itself (Treasury (Cth) 2011: 43).[xviii] Some jurisdictions have removed this requirement for charities that are registered with and report to the ACNC,[xix] though reporting then occurs to the ACNC. To the extent that charities raise finance by issuing investment instruments (rather than merely seeking donations) such as debentures or interests in managed investment schemes, financial reporting obligations may also exist at the federal level (for example, see ASIC 2016).[xx]

Government funding

Based on financial information provided by charities registered with the ACNC, government grants to such registered charities amounted to $74 billion in 2018, amounting to 47 percent of total revenue (ACNC 2020). Contractual obligations under government funding contracts for the delivery of services or under grants can also be viewed as a form of regulation (Productivity Commission 2010 (Cth): 115; Garton 2009: 214-17). These obligations can, and often do, involve extensive reporting requirements, of a financial, organisational, performance-based and activity-based nature (for example, see, Treasury (Cth) 2011: 46; Ernst & Young 2014: 22), although their scope differs between government agencies, as well as depending on the nature of the particular program. Government grants for an entity's general purposes, rather than for the provision of specified services, can also entail substantive financial and non-financial reporting.

As an indication of the manner in which obligations may be imposed, the Commonwealth Grants Rules and Guidelines set out requirements for the Commonwealth to follow in making grants and that potentially apply to contracts to fund the delivery of particular services, as well as general purpose grants (Department of Finance 2017: 2.3-2.4). The Guidelines do not mandate the claw-back of surplus funds, although principles of achieving value with relevant money and focusing on the achievement of outcomes clearly indicate that the efficient use of funds to achieve outcomes is to be promoted and monitored (Department of Finance 2017: 3.5, 10.1-11.5). However, the template grant agreements developed by the Commonwealth Department of Finance to help implement the Guidelines do include claw-back clauses. For instance:

> *If any of the Grant has been spent other than in accordance with this Agreement or any amount of the Grant is additional to the requirements of the Activity, the Grantee agrees to repay that amount to the Commonwealth unless agreed otherwise* (Department of Finance 2018a: sch. 1 cl. 10.1; Department of Finance 2018b: sch. 1 cl. 11.1).

The template agreements also provide an optional clause relating to the purchase of assets with grant funds, since assets will remain with the grantee at the end of the grant period. The optional clause includes a requirement to obtain Commonwealth approval for the purchase of assets over a threshold and mandates that assets be used for the purposes of the approved activities (Department of Finance 2018a: G7; Department of Finance 2019: cl. CB.5). This has the potential to restrain accumulation of grant funding via asset purchases.

Similar repayment and asset purchase provisions are applied in the template grant agreements utilised by some of the major departmental sources of funding. For instance, see the

Commonwealth Department of Social Services' *Streamlined Grant Agreement* and *Comprehensive Grant Agreement*.[xxi]

In addition, the provision of government-funded services or activities to the public can occur under a variety of relationships between government and the non-government entity that are not limited to contract (Verspaandonk 2001). For instance, the legislative obligations accepted on opting-in to a funding regime, as discussed for the education and health sectors in the following parts, can also impose expenditure and repayment requirements.

Education

This part examines the regulatory frameworks applying, first, to tertiary education providers and, second, to primary and secondary schools. It demonstrates that these frameworks ensure that teaching and research is carried out with a degree of quality and that the provider has a minimum level of organisational capacity, including financial viability. To the extent that providers rely on government funding, much, though not all, of that funding is tied to the relatively contemporaneous carrying out of teaching or research, although tertiary education providers have some flexibility to retain some funding. This promotes a minimum level of asset and income retention, along with promoting the delivery of a certain amount of quality research and education each year. However, student fees and donations represent significant alternate sources of income for many education providers and, subject to the need for a base level of expenditure to meet quality and capacity requirements, the regulatory regimes leave some scope for providers to accumulate fees and donations.

Tertiary education

The Australian tertiary education system comprises a range of providers: public universities, two private universities, a large number of non-university higher education providers and vocational education and training (**VET**) providers (Dow & Braithwaite 2013; Department of Education and Training 2015). The regulatory arrangements applying to these providers are diverse, involving a number of regulators and regulatory networks. However, there are certain key elements that are relatively unique to education providers, namely: the conditions imposed on Commonwealth funding for teaching and research; teaching quality accreditation and assurance; and international education accreditation requirements. The international requirements are not considered separately as they cover similar matters to the domestic quality assurance frameworks, as well as addressing discrete issues such as visa management.

While not all higher education providers receive Commonwealth funding, for those that do funding is largely linked to past or proposed research projects, to student completions or enrolments, to supporting specific infrastructure, or to activities that support these measures (see, e.g. Watt 2015: 8-26; Commonwealth of Australia, 2015). The arrangements also make funding contingent on compliance with aspects of quality standards and accountability requirements, as well as compliance with matters such as financial viability, fairness and, for higher education providers, compliance with a funding agreement and entry into a mission-based compact (*Higher Education Support Act 2003* (Cth) (***HESA***) ss. 16-25 (1)(f), (fa), div 19, s. 22-15, sub-div 36-F, s. 41-25, s. 46-25, sch. 1A ss. 6,33).

Of relevance to the question of accumulation:

- The financial viability condition requires that a provider is and is likely to remain financially viable (*HESA* s. 19-5, sch. 1A s. 14).
- Fairness includes that providers must ‘treat fairly’ or treat ‘equally and fairly’ all current students and all persons seeking to enrol as students (*HESA* s. 19-30, sch 1A s. 18; *Higher Education Support (VET) Guideline 2015* (Cth) s. 41). This may impose some very loose limits as to fairness of provision of benefits over the several cohort years of the enrolled and enrolling students – and hence be an initial step toward fair treatment over time.
- The mission-based compact articulates a higher education provider’s overall mission and strategies for teaching and research (*HESA* s. 19-110). The compact might therefore be expected to impact in general terms on the time that research is undertaken and that educational benefits are provided to students.

In addition, quality assurance is also directly imposed for teaching and research training by way of registration and accreditation of institutions and courses, on-going quality standards[xxii] and on-going monitoring by bodies, such as the Tertiary Education Quality and Standards Agency and Australian Skills Quality Authority (for instance, see Dow & Braithwaite 2013: 12-16). Quality assurance is also indirectly imposed for much research funding through the research grant application selection process, especially for competitive grants and through Excellence in Research Australia assessments (compare Dow & Braithwaite 2013: 21-22).

Accordingly, the funding and quality assurance arrangements require tertiary education providers to carry out a certain amount of quality research and teaching activities, particularly as the unspent portion of some grants[xxiii] may be clawed back (*HESA* ss. 41-10, 41-40, 46-35, pt. 2-5; *Australian Research Council Act 2001* (Cth) s. 58). Nevertheless, it is possible for providers to retain surpluses from Commonwealth grants scheme amounts for Commonwealth supported student places and many universities have traditionally used such teaching surpluses to cross-subsidise research (Watt 2015: 12-13; Department of Education and Training 2015: 22). Research block grants based on historical research projects/funding could also potentially provide a surplus over the cost of those outputs or the indirect support required for that funded research project. Increased solicitation of donations and (although prospectively less so, due to COVID-19 travel restrictions) fees from full fee paying domestic and international students suggests additional sources of income that are not subject to the Commonwealth funding requirements discussed above.

Many universities are also created by their own piece of legislation and so subject to specific requirements under that legislation. The objects provisions in some pieces of legislation explicitly provide for teaching, research and community service activities (for instance, see *University of Melbourne Act 2009* (Vic) s. 5; *University of Sydney Act 1989* (NSW) s. 6), which would mean that at least some level of such activities would need to be routinely engaged in so that the university senate or council members satisfy their duties. University establishment legislation or public body financial management legislation also commonly imposes financial administration, reporting and auditing requirements (See *University of Western Australia Act 1911* (WA) s. 41; *University of Melbourne Act 2009* (Vic) s. 47, pt. 6 div 6; *Financial Management Act 1994* (Vic); *Audit Act 1994* (Vic)). This could influence donors if a university already appears to have sufficient assets. Further, universities are typically subject to additional internal and external influences that regulate their behaviour (Dow & Braithwaite 2013: 20). External league tables that rank education providers on measures comprising a range of teaching and/or research matters are likely to be one such important influence. So too are community expectations around support for students affected by the COVID-19 pandemic and provision of research assistance to governments in devising public health responses.

Primary and secondary education

Non-government primary and secondary education providers are subject to state regulation relating to registration and to ongoing compliance and review in relation to a range of operational quality, safety and organisational capacity requirements regarding curriculum, staff qualifications and governance procedures (Varnham 2013: 160-165). In addition, to access funding provided by the Commonwealth via the States, non-government primary and secondary school providers must also be approved under the *Australian Education Act 2013* (Cth). This legislation requires, amongst other things, that providers be financially viable and have ongoing quality improvement processes in place; and generally within the year that it is received 'spend, or commit to spend' recurrent education funding, short term emergency assistance funding and capital funding (*Australian Education Act 2013* (Cth) ss. 78(2)(a), 85(2)(a), 93(2)(b); *Australian Education Regulation 2013* (Cth) ss. 29, 30, 31). Failure to comply can result in the claw-back of funding (*Australian Education Act 2013* (Cth) pt. 8). Significant financial and non-financial reporting is also imposed (*Australian Education Act 2013* (Cth) ss. 78(2)(b), 85(2)(b), 93(2)(c); *Australian Education Regulation 2013* (Cth) ss. 32-40). However, as for universities, privately sourced school fees and donations are also significant sources of income (Gonski et al. 2011: 37).

Health

This part focuses on private hospitals as a large number are NFPs (including charities) and they have been identified, at least in North America, as a potential accumulation source (O'Neil & Hatch 2017; Fricke 2015: 1153-1161). In Australia, the safety and quality standards applying to hospitals effectively require a minimum level of activities from year to year and ministerial approval of health insurance premium increases indirectly limits some fees. However, material scope for accumulation remains.

Individual states and territories have responsibility for licensing private hospitals and regulating the safety and quality of health services provided (Australian Institute of Health and Welfare 2018). In broad terms, the licensing arrangements set safety and quality standards and impose suitability requirements for operators and licence holders that typically include financial viability (see Australian Institute of Health and Welfare 2018: 41-47). Nationally agreed safety and quality standards in the form of the *National Safety and Quality Health Service Standards* also apply (Australian Commission on Quality and Safety in Health Care 2017). Safety and quality standards extend, to a degree, to matters such as staffing, to minimum numbers of patients for certain types of services and to on-going education and quality monitoring, thus requiring a certain level of activity by the private hospital (see Australian Commission on Quality and Safety in Health Care 2017: std 1; *Private Health Facilities Regulation 2017* (NSW) sch. 1 standards 11, 23, 24, sch 2 standards 2, 20, 31, 61, 72; *Health Services Act 1988* (Vic) ss. 42, 83(1)(h), (i), (j); *Health Services (Health Service Establishments) Regulations 2013* (Vic)).

Funding is primarily sourced from private health insurance funds and payments from individuals, though still with over 30 percent of Commonwealth and state government funding, including payments under the Medicare Benefits Scheme and Pharmaceutical Benefits Scheme (which may therefore involve some direct pricing caps) (Australian Institute of Health and Welfare 2018: 61, figures are for 2015-16). Private hospitals that receive funding from private health insurers or under the Medicare Benefits Scheme are required to be declared by the minister under the *Private Health Insurance Act 2007* (Cth). Matters that the minister considers in making a declaration include the nature of the facility and the range of services provided, as well as whether state licences and accreditations are in place (s. 121-125(7)). As private health insurers are required to obtain ministerial approval for premium increases under the *Private Health Insurance Act 2007* (Cth), this may result in an indirect constraint on fees, reducing the ability to hoard.

Licensed trustee companies

Based on data as at 2013, licensed trustee companies (LTCs) administered charitable trusts holding around half of all charitable trust assets; at the time amounting to $3.4 billion (CAMAC 2013: 17). LTCs are professional trustees prescribed by regulations to the *Corporations Act* and that are required to hold an Australian financial services licence (AFS licence) for the provision of traditional trustee company services, which include administering a charitable trust (*Corporations Act* ch. 5D, especially s. 601RAC). It appears that the 'vast majority' of the charitable trusts administered by LTCs have trust terms that seek to preclude distributions of capital (Financial Services Council 2012: 16), suggesting a significant number of permanently endowed philanthropic foundations for which accumulation is a potential concern.

The *Corporations Act* regulatory regime for LTCs requires an LTC to be a fit and proper person and to be capable of providing traditional trustee services (s. 601RAB(2A)), contains rules about LTC fees (pt. 5D.3), imposes duties on LTC officers and employees (pt. 5D.4) and restricts the level of voting power a person is permitted to hold in an LTC (pt. 5D.5). The AFS licence requirements bring further obligations. Some relate to the integrity, competence and organisational capacity of the LTC. Amongst other things, the LTC must have adequate resources (*Corporations Act* s. 912A(1)(d)), have office holders who are fit and proper persons and are competent (ss. 912A(1)(e), (f), 913B) and have adopted an appropriate risk management framework (s. 912A(1)(h)). Some requirements relate more directly to trust administration. For instance, the AFS licence requirements to do all things necessary to ensure that services are provided 'efficiently, honestly and fairly' (s. 912A(1)(a))[xxiv] and to provide a financial services guide to the charitable trust settlor (pt. 7.7 div 2).

The above requirements clearly go to the fitness and capacity of LTCs and their officers and employees and hence help reduce the accumulation-related agency costs of mission drift or loss of trust assets. Indeed, the duties imposed on LTC officers and employees relate to acting honestly, acting with due care and diligence, not making improper use of information or position and taking reasonable steps to ensure LTC compliance with the *Corporations Act* and AFS licence conditions (*Corporations Act* pt. 5D.4). They therefore reflect a number of charity governance duties, as well as extending to LTC specific requirements. The LTC requirements also help to ensure an LTC's capacity to give genuine consideration to intergenerational equity.

However, where LTC fees are based in some way on the level of trust assets, there is a lingering concern that LTCs might seek to maintain or increase trust capital to enhance their fees (compare Madoff 2010: 107-108). When reviewing LTC administration of charitable trusts, the federal government's Corporations and Markets Advisory Committee received divergent submissions on the reasonableness of fees charged by LTCs and ultimately recommended both 'stewardship audits' of the reasonableness of LTC fees and the addition of a 'fair and reasonable' fee requirement (CAMAC 2013).[xxv] Notably, post-ch 5D charitable trusts administered by LTCs appear to involve fees determined by private agreement between the LTC and settlor or based on a statutory percentage of the annual value of trust assets, rather than on the statutory income (and one-off capital) commission approach (CAMAC 2013: 23-4), suggesting a focus on maintaining accumulated assets.

Conclusion

This article has demonstrated that concerns about charity hoarding are ameliorated to a degree by activities-based legal restraints. For instance, charities undertaking fundraising are potentially subject to slightly greater constraints on retention of the solicited funds as a result of private law obligations or fundraising regulation. This might involve a Warren Buffett-style condition that donated funds be spent within a set period, or, as a result of fundraising legislation requirements that funds be used for the purpose raised, a charity assertion or donor wish that collected funds be spent within a certain time. The existence of any such assertion or wish will depend on the nature of the fundraising appeal. For example, it is more likely for a COVID-19 pandemic relief appeal than for a university's endowment fundraising drive.

However, the above fundraising restrictions are based on the private choices of donors in selecting an express or implied time limit for their donation, or of charity controllers in framing the specific fundraising purpose and its temporal nature. Only some jurisdictions go further. The New South Wales fundraising legislation does provide for appointment of an external administrator on public interest grounds, which permits greater recourse to considerations such as efficiency or intergenerational justice, and to the underlying goals of charity law. Dormant funds legislation in New South Wales, South Australia and Queensland, that applies where it is not practicable to use collected funds for the purpose collected, may also allow limited consideration of efficiency and intergenerational justice in a similar fashion to the cy-près scheme jurisdiction. Indeed, the New South Wales legislation focuses on the reasonableness of the time between collection and use of collected funds.

Those in receipt of government funding may also be subject to claw-back of unspent funds under the terms of the funding agreement. Further, the funding and quality and safety assurance legislative regimes for education and health providers such as universities and non-profit hospitals, impose a range of pertinent requirements. For instance, requirements as to financial viability and capacity, but also recoupment of unspent funds, as well as the obligation to provide a certain amount of contemporaneous quality teaching, research and care. Likewise, the LTC regime imposes fitness and capacity measures, along with some constraints on fees.

Thus, it is first worth noting that the requirements for education, health providers and LTCs, that go to viability and capacity, act as mechanisms to reduce governance risks such as mission drift due to an inappropriate focus on building up accumulated assets (compare Tuckman & Chang 1992: 79). As suggested by the LTC fee discussion, however, the measures do not appear to be entirely effective in eliminating governance risks of hoarding.

Second, the state's ability to intervene under fundraising or dormant funds legislation in some circumstances and to set expenditure and service-provision conditions for government funding does also mean that the current generation has some ability to alter accumulation approaches over time where funds have been raised by these means.

Third, activities-based regulation applying to sectors such as education and health does require a base level of activity for the benefit of present generations. Fundraising obligations may in limited circumstances also preclude indefinite accumulation of solicited funds.

Nevertheless, this activities-based regulation is somewhat piecemeal in its coverage of charities. Nor does it appear to be informed by any normative approach to the allocation of benefits between generations, albeit that it is possible to incorporate considerations of intergenerational justice and efficiency into service levels set for government funding, or within fundraising and dormant funds legislation public interest or practicability tests. Accordingly, while activity-based restraints do restrict hoarding, they still leave many charities significant opportunities for accumulation. Further, the lack of a clear normative approach to accumulation within the activities-based restraints is likely to dilute the general guidance that charity controllers might draw from the restraints. The once-in-a-lifetime COVID-19 pandemic therefore provides an opportunity for revisiting law reform options for the regulation of charity accumulation.

NOTES

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[i] *Taxation Administration (Private Ancillary Fund) Guidelines 2019* (Cth) r. 15; *Public Ancillary Fund Guidelines 2011* (Cth) r. 19.

[ii] Governance duties may, however, apply in limited circumstances if the fundraising objective results in a charitable trust for that fundraising purpose or if a donation obligation arises, such that the duty of care and diligence is enlivened.

[iii] The conditional gift may be characterised as subject to a trust, a condition or a charge, that the donated funds be used for a purpose. As to the differing bases, see, eg, *Countess of Bective v FCT* (1932) 47 CLR 417, 418-20 (Dixon J); *Muschinski v Dodds* (1984-1985) 160 CLR 583, 604-7 (Brennan J).

[iv] *Collections for Charities Act 2001* (Tas) s. 14.

[v] *Charitable Collections Act 2003* (ACT) ss. 44(1), (2); *Charitable Fundraising Act 1991* (NSW) s. 20(1).

[vi] In South Australia, ACNC registered charities are deemed to have a collections licence and hence to be subject to the collections legislation: *Collections for Charitable Purposes Act 1939* (SA) s. 6(3).
[vii] A further ground is that the charity 'has ceased effectively to carry out any charitable purpose': s. 13(2)(d).
[viii] In which case the Director can appoint an administrator in relation to the appeal assets: s. 61B.
[ix] A mere difference between the ultimate degree of deferral and an initial statement will not always render the making of the statement misleading or deceptive. As to application of the *Australian Consumer Law* to charitable fundraising (see, eg, CAANZ 2016: 13, 15-17; 2017: 75-76). As to the inclusion in state fundraising legislation of prohibitions on misleading or deceptive statements and/or conduct, see, eg, Dal Pont 2017: ch. 18.
[x] *Charitable Fundraising Act 1991* (NSW) s. 33(2) (appointment of administrator); *Collections Act 1966* (Qld) ss. 34(1), 35(1)(d) (potential vesting of donated property in the public trustee); *Collections for Charitable Purposes Act 1939* (SA) ss. 6(7)(a), 12(4)(a) (revocation); *Charitable Collections Act 1946* (WA) s. 13(2)(a) (revocation).
[xi] *Collections for Charitable Purposes Act 1939* (SA) s. 17(1)(b) (vesting of funds in the Minister); *Charitable Collections Act 1946* (WA) ss. 5, 17(1)(b) (vesting of funds in the Minister); *Collections Act 1966* (Qld) s. 35(1)(f) (vesting of funds in public trustee).
[xii] *Associations Incorporation Act 2015* (WA) s. 123, sch. 4 item 4.
[xiii] *Associations Incorporation Act 2009* (NSW) s. 63(1)(b); *Associations Incorporation Reform Act 2012* (Vic) s. 126(1)(b). Cf *Associations Incorporation Act 1981* (Qld) s. 90(1)(a); *Associations Incorporation Act 1991* (ACT) s. 90(c).
[xiv] *Associations Act 2003* (NT) s. 73(2)(e); *Associations Incorporation Act 1985* (SA) s. 44. Cf *Associations Incorporation Act 1964* (Tas) s. 34.
[xv] *Re McElroy Trust* [2003] 2 NZLR 289, [14] (Tipping J). See also *Knowles v A-G (Tas)* [2016] TASSC 25, [15]-[17] (Wood J); *Free Serbian Orthodox Church Diocese for Australia and New Zealand Property Trust v Dobrijevic* (2017) 94 NSWLR 340, [214] (Court of Appeal).
[xvi] *Re Radich* [2013] NZHC 2944.
[xvii] By addressing information asymmetry as a source of market failure (Treasury (Cth) 2012: 5-6).
[xviii] There are significant exceptions in some states and territories. For instance, Tasmania expressly excludes some categories of charities, such as charitable trusts: *Collections for Charities Order 2001* (Tas) s. 4. Some religious bodies are exempt from the *Charitable Fundraising Act 1991* (NSW).
[xix] For instance, South Australia (*Statutes Amendment (Commonwealth Registered Entities) Act 2016* (SA) pt. 3) and the Australian Capital Territory (*Red Tape Reduction Legislation Amendment Act 2017* (ACT) s. 18).
[xx] Charitable fundraisers are able to access relief from some requirements.
[xxi] Department of Social Services (Cth), 'DSS Streamlined Grant Agreement – General Grant Conditions' (November 2014) cl. 10.1; Department of Social Services (Cth), 'Streamlined Grant Agreement' (May 2014) G7; Department of Social Services (Cth), 'DSS Comprehensive Grant Agreement – Terms and Conditions' (July 2014) cl. 10, 11, 13 (the Comprehensive Grant Agreement sets out more detailed rules for asset purchasing approval and asset ownership).
[xxii] Such as the Higher Education Standards Framework and the VET Quality Framework.
[xxiii] Commonwealth grant scheme amounts for commonwealth supported places are not subject to a claw-back of this nature other than in limited circumstances.
[xxiv] As to the scope and impact of this requirement, see Latimer (2006).

[xxv] The existing requirement to ensure that services are provided 'efficiently, honestly and fairly' would already appear to offer some bulwark against unfair or unreasonable fees.

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FROM THE FIELD

What does the next generation of Christian not-for-profit leaders need?

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Abstract

This paper reports on a project funded by the Genesis Foundation to interview CEOs of Australian Christian not-for-profits about the leadership needs of organisations, as part of the development of a new not-for-profit leadership specialisation within the Master of Leadership at Alphacrucis College. This program fills a gap in leadership education by integrating the skills the next generation of Christian not-for-profit leaders need to run large and complex organisations with the capacity to maintain the Christian identity and mission of the organisation. Those interviewed emphasised the importance of character formation, the need for programs tailored to a particular context of the organisation, and the intense time and resource pressures on programs for their future leaders. It is hoped these and other findings reported will be useful for practitioners in the sector.

Introduction

This paper reports on a project funded by the Genesis Foundation to ascertain the leadership needs of Christian not-for-profit organisations in Australia, as part of the development of a new not-for-profit leadership specialisation within the Master of Leadership at Alphacrucis College. The sector is undergoing rapid change and its health is crucial for many disadvantaged Australians it serves (Gilchrist & Pilcher 2018). It is hoped that the findings will be useful for practitioners in the sector.

The new program at Alphacrucis fills a gap in leadership education in Australia. Many not-for-profit organisations, especially in social services, disability, and international development are connected with Christian churches. In social services, for instance, more than half of services are delivered by organisations connected with Christian churches (the terminology varies – sometimes faith-based organisations or religious organisations – see Hynd 2017), often involving government contracts (Oslington 2015). In developing their leaders, the historically driven separation between theological education and universities in Australia (Oslington 2014) means that Christian not-for-profits in Australia looking to develop leaders who can guard their Christian identity and mission as well as have the skills to run complex, sometimes very large, organisations in a rapidly changing environment are faced with a difficult choice. Our theological colleges remain focused on preparing congregational ministers for the respective church denominations, and while they may do a good job of that, their programs provide little in the way of business and leadership skills. Moreover, the training they offer does not equip their graduates to connect theology with the business and leadership in a way that meets the challenges of organisational leadership in Christian not-for-profits. If the offerings of our theological colleges are not helpful for future leaders of our Christian not-for-profits then the alternatives are Master of Business Administration (MBA) programs offered by most of our universities and programs focused on not-for profits such as those offered by the Centre for Philanthropy and Nonprofit Studies at QUT, and the Centre for Social Impact at UNSW/UWA/Swinburne.

These alternatives at secular universities don't include theology and so leave their students without the intellectual background for the crucial leadership task of maintaining the Christian identity and mission of Christian not-for-profit organisations. This task is crucial not just for appropriate Christian witness, but for the long-term health of the organisations, and hence their capacity to serve disadvantaged Australians of all religious persuasions. The title chosen by the sub-editor for a recent article I was invited to write for the *Australian Financial Review* on NFP leadership (Oslington 2019) perhaps too starkly captures the choice faced by Christian NFPs: "Sharp-Suited MBA or Incompetent Minister?". Another way of putting this is the choice between mission drift (Greer & Horst 2014; Grimes et al. 2019) and leadership which lacks the necessary skills, potentially putting the survival of the organisation at risk (Menefee 2009; Anheier 2014).

The grant Alphacrucis received from the Genesis Foundation enabled myself as project leader, Master of Leadership Program Director Dr Mulyadi Robin and facilitator Naomi Nash from New River Leadership to interview CEOs and other senior leaders of Christian not-for-profit organisations. Co-design of the program with practitioners was our aim as we wanted to ensure the new program met the actual needs of the sector rather than needs as imagined by a group of academics, albeit academics who had spent considerable time studying the sector.

Interviews were conducted with approximately thirty senior leaders of Christian not-for-profit organisations in Sydney, Melbourne, Perth, Brisbane and Hobart over a twelve-month period in 2018-19. Many of the not-for-profits were social service organisations, with some international development focus and other mission foci. Hospitals and schools were excluded. The organisations were mostly large. As part of the interviews we undertook not to identify individuals or organisations in any public reporting of the findings.

Our approach was to begin with questions about the operating environment and strategy, and then focus on the leadership development needs that flowed from these. We were particularly interested in the backgrounds of the current leaders of the organisations and the ways the organisations sought to develop future leaders. We took particular note of the resources available for leadership development.

Findings

The strongest message from our interviews was concern about where the next generation of Christian not-for-profit leaders would come from. Organisations currently struggle to find appropriately formed and skilled senior leaders and the expectation is that this will get worse rather than better in the years to come.

A problem raised by some CEOs was that those with training in health, counselling, social work or similar fields who rise through front-line operations, though excellent practitioners, are often ill-equipped for senior leadership roles. The problem described was not just lack of skills such as finance, which can be remedied through training, but a problem of professional cultures. Training in the helping professions often comes with an ideological ingrained suspicion of markets and authority, leaving those who do rise to managerial positions deeply conflicted about their new leadership and management responsibilities (the issue is also discussed by Hwang & Powell 2009 and Hoefer 2009). There are exceptions, and even the CEOs describing the problem could point to successful leaders who had risen through the ranks. If a social service organisation instead bypasses those within the organisation and hires from outside there are other problems, such as disconnection of the organisation from those who it serves. Leaders hired from outside with a corporate or government background often struggle with the service ethos of the organisation, and with the Christian mission and identity of the organisation. We heard many stories of disastrous cultural mismatch for hires from the corporate or government worlds into Christian not-for-profit organisations.

The development needs of those promoted through the organisation tend to be finance, governance and leadership, whereas for external hires the issues are adjusting to the culture of the Christian not-for-profit and learning to tell the Christian story of the organisation.

Another theme of the interviews was the extreme time pressure on leaders of Christian not-for-profit organisations, and the lack of resources for leadership development. Government contracts usually only cover the direct costs of service delivery leaving the organisations to somehow finance leadership development and maintenance of the Christian identity and mission. This observation has previously been made by others including Hynd (2016), Gallet (2016).

Organisations varied greatly in their understanding of Christian identity and mission. Some understood their Christian mission as providing high-quality services to the disadvantaged with little or no explicit reference to the Christian faith. Leaders occasionally referred to restrictions placed on Christian witness by accepting government contracts, but on the whole, it seemed that the minimalist understanding of Christian mission was culturally entrenched in the organisation and that government restrictions were the excuse rather than the driver of this understanding. At the other end of the spectrum some organisations saw communication of the Christian basis of their work as essential, and the reason for the continued existence of the organisation.

In conjunction with interviews we spent some time studying the governance arrangements of the different organisations and there seems to be a strong association between the Board representation and other influences of the church the organisation is associated with and the understanding of Christian mission and identity. This is a topic which warrants further systematic investigation.

In terms of the skills and character that organisations were looking for in their leaders, and thus in any educational program for them, the need for personal character formation came across very strongly. We heard very often that skills can be acquired more easily than character, and that failures of the latter tend to be much more damaging for the organisation. There is of course debate about the extent to which character can be formed in a degree program, but we will be paying great attention to character and spiritual development in the educational design. Our proposed program includes the existing core Master of Leadership units

- Christian Worldview,
- Introduction to Leadership,
- Governance Law and Ethics,
- Finance,
- Organisational Leadership,
- Intercultural Communication.

These core units were affirmed as important. The new units we were proposing in the not-for-profit leadership specialisation are:

- The Social Policy Environment for NFP Leadership
- Maintaining Christian Identity and Mission
- Evidence Based Evaluation.

The importance of the evidence-based evaluation unit was affirmed in an environment where Christian not-for-profits are called to justify their existence. There was particular interest in the component of this unit where we discussed techniques for measuring and valuing the Christian dimension of the organisations' services. The Christian identity and mission unit is something that sets the program apart from those offered by our Australian secular universities and was strongly affirmed by most of the CEOs we interviewed. They were particularly interested in practical guidance informed by the history of organisations that have succeeded or failed in maintaining their Christian identity and mission.

Two existing electives in the Master of Leadership program attracted strong interest

- Spiritual Life of the Leader
- Church and Not-For-Profit Law

The interest in the first reflects the importance the CEOs placed on character for their future leaders and this unit, together with the compulsory capstone unit in the Master of Leadership focus on cultivating the personal and communal spiritual disciplines to sustain fruitful long-term leadership. The capstone unit is also particularly concerned with integrating a Christian worldview with the more skills-based business and leadership units in the program.

The interest in our church and NFP law unit reflects the complex and changing environment that our Christian not-for-profits operate in. The concern of this unit is not just compliance with legal and ACNC governance requirements, but capacity of leaders to contribute to the political debates over religious freedom, taxation and other privileges enjoyed by religious organisations (Judd, Robinson & Errington 2012). And of course the issues flowing from the Royal Commissions into child sex abuse, disability, and aged care.

There was a concern among many of the leaders regarding the absence of women at the senior levels of these organisations. This, in many cases, flows from the lack of encouragement of women in leadership in the denominations with which the organisations are associated, and there is a need for subjects which attend to the particular needs of women leaders. As well as offering particular units for women leaders we were conscious that mentoring and other initiatives outside the classroom were important in raising women leaders. Addressing gender and diversity issues also involves men, and this needs to be reflected elsewhere in the new program.

The CEOs we talked with wanted programs that were flexible, practical, and oriented to the particular needs of their organisation. This means programs that are offered on-site to cohorts of future leaders selected by the organisation, at times which fit the organisational work patterns. It also means having practitioners from the organisation teaching alongside academics in the program. Pricing also has to fit the budget constraints of the organisations.

One conundrum was the conflict between the desire for flexibility and the emphasis that the CEOs placed on formation of their future leaders. Prioritising flexibility would prioritise online delivery whereas prioritising formation would emphasise face-to-face intensives, probably residential. Balancing flexibility and formation has been an ongoing struggle in other programs and the emerging answer seems to be not to try to replicate the face-to-face experience over the internet while building face-to-face learning communities where the students are geographically located. For a not-for-profit leadership program this means making an offer to cohorts of students within an organisation or a group of organisations and devoting resources to building learning communities there—this remedy also allows for increased flexibility with respect to timing and location of face-to-face delivery.

We are conscious that our interview sample was heavily weighted towards larger social service organisations, and those with a stronger commitment to maintaining their Christian identity and mission.

Comparison with other Australian studies

At the most recent Australian and New Zealand Third Sector Review conference Craig Furneaux (2018) presented preliminary results of a similar project surveying the leadership needs of Australian not-for-profits as part of a review of the QUT Master of Business (Philanthropy and Nonprofit Studies) curriculum. Furneaux's study focuses on the needs of not-for-profits generally rather than the particular needs of religious NFPs. However, like this project, there is a concern to design programs that meet the needs of the sector rather than needs as perceived by academics or agendas within the administration of the institution offering the program.

Furneaux also made the important point (drawing on Di Maggio 1988) that there is huge diversity of not-for-profits by sub-sector of activity, size, and other features that mean the leadership needs vary greatly. For instance, leaders in small organisations have to be generalists and much more hands-on. In some sectors where government contracts and funding predominate leaders need to be able to develop tenders, manage compliance, as well as make strategic judgments about the organisation's relationship with government. I would add, based on the findings of the current project, that religious identity and mission is another dimension of leadership that varies greatly across Australian not-for-profits and requires special attention. This dimension of diversity has received less attention than it warrants in the research literature, especially in Australia where not-for-profits sectors such as social services, overseas aid & development, and education are dominated by religious organisations.

In terms of leadership skills required, the literature review stage of Furneaux's project, mostly drawing on US literature, suggested the core skills were strategy, HRM, conflict resolution, finance, fundraising, marketing, communication, and cross-cultural analysis. Various context specific skills were also identified.

The most significant recent published work on leadership needs of Australian not-for-profits is Wenzel and De Klerk (2016) and Wenzel (2017), developed as part of the Learning for Purpose project based at the Centre for Social Impact at University of Western Australia. His organising concept was human capital in the sector while the project dealt with all ranks of employees not just senior leadership.

Findings emphasised strategy, fundraising and people management, including managing volunteers, among a longer list of competencies needed in the social sector: "strategy; governance; leadership and management of employees and volunteers; program and service design; impact measurement and evaluation; risk management and legal issues; enlisting funding; financial management and accounting; integrated reporting; attracting, developing, retaining talent; information and technology management; community outreach and marketing; advocacy and public policy; ethics; diversity" (Wenzel 2017: 122). This list accords with Furneaux's literature review findings.

As well as considering the content of a leadership training program, Wenzel argues that attention is needed to emphasise motivation and transferability if learning is to be effective. For organisations and educators this means care about the timing and location of programs in the annual and weekly rhythms of leaders. Some of the CEOs we interviewed as part of the current project felt that weeklong intensives, preferably offsite, were the best way of getting participant focus on the course, though we have found at Alphacrucis that weeklong intensives mean that participants feel swamped with material and would like more time for reflection. There are always withdrawals before weeklong intensives as senior staff find themselves unable to be away for a whole week. We've found that breaking courses up into two-day blocks, incentivising pre-reading through early assessment based on the course readings, and enhancing opportunities for on-line interaction between the blocks helps. Part of the plan for the new NFP leadership program is teaching courses on the NFP site if they have enough participants, or teaching hubs for participants from NFPs in an area. This model as well reducing travel time makes the program fit better into the rhythms of the working week for leaders. Having cohorts of leaders from an organisation or organisations in an area studying will also likely increase motivation and application of learning.

An important point Wenzel makes is that funding models need to change to address the leadership gaps, and workforce training more generally. Government contracts for delivery of social services cover only the direct costs of programs, and not the indirect costs. Where there is competition for contracts between providers, the price is often driven down to the direct program costs as providers market position and scale. The result is that leadership development misses out, to the long-term detriment of service delivery. Dealing with this in an environment of tight government budgets is not easy. It requires co-ordinated action from providers and the making of the political case for funding of indirect costs in order to secure the future of the program, and the continued efficient delivery of quality services to Australians who need them. One of those indirect costs highlighted by the current project interviewees and germane to this article is investment in the maintenance of mission and identity of the organisations.

Issues for practitioners and educators

Issues for not-for-profit leaders with responsibility for developing the next generation of leaders are discussed throughout the paper. However, here I would like to highlight several issues, especially those that also involve educators, governments, and philanthropy.

The particular history of Australia's higher education system has contributed to the gap in leadership training identified in this project. In Australia, in contrast to Britain and the US, there is a separation between theological training in church colleges and leadership, and management training in our universities. Religious not-for-profits play a much larger role in delivering social services, schooling and so on in Australia than in Britain or the US, with our historically non-ideological and utilitarian relationship between government and religious organisations providing services (Oslington 2015). Whether it is programs like the new Alphacrucis NFP leadership Masters in Leadership specialisation or leadership and MBA programs in secular universities that pay greater attention to the religious dimensions of not-for-profits, we need this gap filled if the mission and identity of these organisation is to be developed.

Besides identifying this gap, which is important for the future of Christian not-for-profits and those they serve, we have presented the findings of our interviews with CEOs of these organisations about what they value in an educational program for their future leaders. These findings provide a point of comparison for Christian not-for-profits assessing what needs to be done to develop future leaders in their organisation, as well as the sorts of internal programs and external courses that meet these needs. Any discussion of development needs for leaders in Christian not-for-profits rests on understandings of their Christian identity and mission and I hope this article will stimulate debate about that issue also.

The bottom line though for leadership development to happen is funding, and we need either new models of government contracting or philanthropy to focus more on capacity building than program delivery.

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