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The charity sector: changing times, changing challenges

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The charity sector is unique; very different from either the private or the public sectors in terms of orientation, motivation, activities, sources of funding and contribution to the public good. Charities exist to provide public benefit (such as the relief of poverty, the expansion of education, the advancement of religion or other purposes considered beneficial to the community); benefit that may perhaps not be provided, or not provided to the same extent, without charitable recognition. They are largely funded by individuals or organizations that receive no direct economic benefit from their funding. They exist in most countries and are encouraged and facilitated through the various legal and regulatory frameworks. Often they enjoy tax benefits over non-charitable organizations and, in some cases, differing, and possibly lighter-touch, legal and regulatory frameworks. The charity sector makes a distinctive and widely-recognized contribution to the public good by building social capital in civil society. As such, it is a sector to be valued, nurtured, protected and encouraged by the whole of society; by those who receive the benefit of charitable activity, by those who work or volunteer in charitable organizations, and by those who, in the spirit of altruism, seek to provide much-needed funds to generate public benefit.

Worldwide, expansion in charitable activity has been recognized, with, over time, increases in the numbers of people giving money and volunteering (Charities Aid Foundation, 2014). In the UK, the sector is vast, growing and has substantial assets at its disposal. At the time of writing there are approximately 200,000 registered UK charities with an estimated total annual income of over £60bn. This is in addition to many exempt charities (mostly universities, educational institutions and national museums) and excepted charities (including religious charities), which are not required to register. The sector is represented by a relatively small number of large charities accounting for a significant proportion of the total sector income, and a large number of small charities generating limited amounts of funding. For example, in England and Wales, 1,990 large registered charities (just over one per cent of total number of registered charities) account for 70% of the total income of registered charities, with 75% of registered charities (approximately 123,000) accounting for just over three per cent of total income (House of Commons, 2015). In terms of volunteering, it is estimated that over 40% of adults volunteer ‘formally’ at least once a year; and in terms of income, giving by individuals represents the largest proportion of the sector’s total income (44%), while government grants account for just over one-third (NCVO, 2016).

It is also a sector in which the fact and perception of the linked concepts of accountability, legitimacy, transparency and ethical behaviour are particularly important. In a similar way, it is a sector where trust and confidence by the general public are crucial as a basis for ensuring its health and growth. Calls for increased sector visibility and scrutiny have been persistent and widespread for many years; with the need for charities to operate transparently, discharge accountability appropriately and act ethically being widely articulated. Indeed, under the Charities Act 2006, the Charity Commission in England and Wales (the largest UK regulator) was charged with the responsibility of: enhancing charity accountability; increasing public trust and confidence; and promoting the effective use of charitable funds. In Scotland, Northern Ireland and the Republic of Ireland, major recent changes in the regulatory environment have emphasized similar themes.

Changing times
But it is a sector that is changing, or perhaps, more correctly, it is a sector that is being changed by the external pressures that it faces. For example, pressure on funding and demands on services have intensified. These, often triggered by the financial crisis and subsequent programmes of austerity with respect to public spending, have created a ‘perfect storm’ for charities, whereby they try to do more with less (Charity Finance Group (CFG), 2012). Such has necessitated, among other things, major changes in strategies for seeking and using precious funds (CFG, 2013), although the ethical stance of certain charities in this regard is not always
viewed as of the highest standard. In addition, particularly in the last twenty years, many
governments have engaged in reform processes aimed at bringing business concepts, techniques
and values into the public sector. For various reasons, at times relating to funding and influence,
such ideas have tended to migrate to the charity sector. Whether these ideas are appropriate,
whether their adoption risks undermining the distinctive mission focus of charities, and whether
such ideas could (or should) be read-across without significant adjustment, are critical issues.

Furthermore, expansion of the charity sector has frequently been openly endorsed by
government, sometimes based on policy objectives related to a perceived 'appropriate' balance of
government and non-government activity. In addition, the financial constraints and crises of the
last few years have encouraged government to engage more with the charity sector (not always in
the most considered and controlled manner) in relation to services previously provided by
government. Indeed, the withdrawal of certain public-sector services has often put pressure on
charities to respond to increasing beneficiary needs. Such factors make the risk of inappropriate
interference and steering by government greater, with potential negative consequences to a range
of stakeholders, including the public at large.

Recent scandals, of various hues, have undoubtedly undermined trust and confidence in
the UK sector (and elsewhere). Some charity regulators have moved quickly to recognize the
potential for damage and the need to respond by adjusting regulatory and control processes.
Such changes reflect shifting expectations regarding regulation, accountability, trust and
transparency (although each of these terms is capable of a variety of interpretations), and the
trend towards strategic regulation. Whether such is required, or whether it reflects moves
towards a 'big-brother'-type audit society, remains uncertain and debated. However, it does
suggest, at the very least, a degree of momentum towards greater engagement with a variety of
stakeholders.

At a time of such change, this themed issue explores management, accountability and
governance processes within the charity sector. While a broad variety of important concerns are
debated in the subsequent articles, I briefly mention three that particularly attract my attention
(and come to the fore in several of the articles): trust, accountability, and the related topics of the
rise of New Public Management (NPM) and mission drift.

Three big issues: trust, accountability and NPM/mission drift

Trust

Trust is concerned with the reliability, truth or honesty of someone or something. Charities rely
on trust to build confidence between themselves and key stakeholders (be they beneficiaries,
donors, regulators or the public at large). Trust can be established (or undermined) by a range of
factors such as actions, ethical stance, openness (or lack of openness) and accountability
processes. These can help to align (or decouple) the charity with the norms and expectations of
key stakeholders. In terms of donors and funders, trust can build confidence, and confidence can
be seen as a desirable (or even necessary) condition for continuing, and even possibly expanding,
support from providers of finance. This is especially the case because, in charities, the providers
of funds usually receive no direct economic benefit to themselves (unlike a business transaction).
Trust by beneficiaries can enhance their engagement with the charity, help to sharpen service
delivery and assure other stakeholders (who frequently take a beneficiary-focused view) of the
merits of the organization. Trust by regulators can encourage a lighter-touch regime that
prevents the 'crowding out' of valuable charitable activity with unnecessary controls and audits,
allowing the regulator to be more 'on the side of the angels' (Hind, 2011).

Given this, and given the rise in the visibility and influence of the sector, recent major
adverse publicity surrounding a number of high-profile scandals (Grierson, 2015; Morris, 2016;
Hind, 2017) has highlighted the need for charities to behave in ways that are acceptable to the
society in which they operate, and the society from which they receive their funding. This is
likely to be a much higher ethical standard than that expected from businesses. Not to behave in
such ways risks major negative consequences for the charity itself (and its beneficiaries), and, more widely, for the sector as a whole. Indeed, the turbulence of recent scandals has already had a pronounced negative effect on public trust in the sector (Charity Commission, 2016). An acknowledgement of past questionable behaviours, and a desire to eliminate them from the sector through whatever means necessary, is required so that charities can ‘step back from the abyss’ (Hind, 2017). At such a time, the importance of charities building trust relationships that go far beyond disclosure and reporting, and the potential for large funders to support and facilitate such processes, has been highlighted in recent research (Yang et al., 2017).

Accountability

A leitmotif in a range of charity publications has been that accounting and reporting is an important aspect of how a charity engages with its stakeholders (Charity Commission, 2004a, 2004b, 2014; Charity Commission for Northern Ireland, 2016, Mack et al., 2017). A key argument is that good accounting and reporting underpins good accountability, good accountability supports the building of trust between the charity and its stakeholders, and trust is essential to ensure the continuing health of the charity (including its ability to access funding). Conversely, poor accounting and reporting undermines accountability, undermined accountability damages trust, and damaged trust weakens a charity (and makes it more difficult to access funding).

Accountability can be viewed as being related to the requirement to be answerable for one’s conduct and responsibilities. While accountability is wider than accounting (no matter how widely we define accounting), good accounting and reporting is a key aspect of a good system of accountability. In this regard, since the early 1980s the UK has developed (in 1988) and periodically ‘refreshed’ (in 1990, 1995, 2000, 2005 and 2014) a Statement of Recommended Practice (SORP) relating to charity accounting and reporting. This has emphasized both the important ‘financial account’ and the even more important ‘performance account’ (or telling the charity story – see Connolly et al., 2013). While the original (1988) SORP largely sought to reduce diversity in charity financial statements (based almost entirely on applying business accounting principles), subsequent revisions required financial statements to be much more charity specific (and very distinctive when compared with business financial statements) and focused attention on the content of narrative information (in recognition of its significance in discharging accountability).

A key feature of this process has been the way stakeholder engagement has been utilized, as a way of improving reporting, and as a means of legitimizing the SORP itself and the charities that use it (Connolly et al., 2013). While it may be the case that tensions exist between the differing stakeholder groups in terms of information needs (and the possibility exists for resource providers to be in a privileged position), this may be less problematic in a charity context than in businesses due to close alignment between, for example, donors’ interests and beneficiary needs (Connolly and Hyndman, 2017). Moreover, key stakeholders (such as large institutional funders) have been identified as instrumental in driving developments in non-financial (including impact) reporting through their ‘institutional work’ (Yang et al., 2017), a feature capable of serving a wide range of stakeholders, particularly beneficiaries and donors (McConville, 2017). Indeed, the increased highlighting of non-financial performance measures (with ‘impact’ seen as the ultimate expression of performance) as a means of discharging appropriate accountability has been a continuing and developing theme of recent years (Charity Commission, 2014; McConville, 2017). While the difficulties of measuring performance in such terms is acknowledged as being fraught with challenges (indeed, the concept of performance in charities is frequently viewed as a contestable notion), the potential for performance reporting, not only to support the discharge of accountability, but also to improve charity management focus, has been widely recognized (Connolly et al., 2013).

NPM/Mission drift
Particularly in the last twenty years, many governments have engaged in reform processes aimed at bringing more business practices into the public sector, often by ‘reading them across’ from the private sector. Collectively referred to as New Public Management (NPM), these changes have been introduced in the public sectors of many countries. This movement has often resulted in major shifts in management, accountability and governance systems; such shifts often being associated with a ‘modernization’ agenda. These modifications are frequently promoted on the basis that organizations that are modern and business-like are ‘good’ (presumably suggesting anything other than this is ‘bad’), regardless of the fact that there is widespread questioning of the appropriateness of NPM ideas in non-business settings (Lapsley, 2009). During this time, and particularly as the public sector has provided more significant funding to charities (NCVO, 2016), similar ideas have tended to ‘migrate’ or ‘diffuse’ to the charity sector.

Such influences are inclined to support, among other things: the increase in the use of ‘contracts’ as the basis for funding (rather than grants); precision in performance measures and utilization of such measures to facilitate payment by results; and the adoption of corporate approaches to marketing and fundraising. However, charities are very different from businesses. They have missions other than to make money. Funding comes from donors who provide funds with no expectation of direct economic benefit to themselves. Recipients of goods and services often have no ability to pay or seek an alternative provider. Charities rely heavily on trust relationships and communal accountability, rather than market relationships and contractual accountability.

In a time where such NPM influences have found their way into the charity setting, care must be exercised by those in the sector (and those from outside the sector who hold dear to the charitable ethos) to reflect on possible adverse consequences. For example, embracing such NPM principles can result in significant mission drift whereby powerful and influential forces carry the charity away from its core mission. Given the ‘perfect storm’ of reduced funds and increasing demands on services (CFG, 2012), the temptation may be to ‘chase the money’ at all costs (Glennon et al., 2017), or allow a particularly powerful funder to exert undue influence (Craig et al., 2014). Furthermore, a contract funding regime (as opposed to grants being made to support activity) may influence the culture and actions of those within a charity (and have a negative impact on the experiences of beneficiaries). In addition, it may undermine a broader and more reflective (and necessarily judgemental) view of performance. Moreover, the adoption of corporate fundraising techniques, which are perhaps aggressive and intrusive (note the use by established charities of ‘chuggers’ – charity muggers – to raise funds), and which make extensive and intensive use of fundraising strategies of contacting ‘hot targets’ on a regular basis via a range of media platforms, runs the risk of inflicting major damage to trust (Hind, 2017). Indeed, such practices can quickly and easily move over into the unethical arena.

Concluding thoughts
Charities are voluntary organizations established to serve specific purposes of a charitable nature. They have a long history dating back many centuries. They exist within society and they serve the society within which they operate. Society decides what is charitable, and society affords benefits (often including financial and reputational benefit) to organizations that meet a charitable status threshold. They are non-for-profit and have a mission focus that is related to delivering public good. They convey benefits to specific needy groups, or to the wider general public, without any market transaction. Donors and funders provide funds with no direct economic benefit to themselves. Their standards and ways of operating are (or perhaps should be) heavily influenced by their mission imperative and their aligned ethical standards. Their strength comes from the value society places on the social capital that they generate, and the trust and confidence that society has in them and their employees.

Having said this, they also operate in a society that is constantly changing. Societal and business norms, legal and regulatory frameworks, and economic and social pressures are
constantly in a state of flux. Charities react and adjust to such change. Appropriate response to these changes can cement, solidify and provide further legitimation of their roles; it can also help build trust and confidence in the sector. Conversely, inappropriate response can jeopardize their lofty and valuable roles, and undermine focus, value and trust. This themed issue, and this article, gives an opportunity to reflect on changes taking place in charities and in wider society, and explore the issue of what is an appropriate response. Overall, it is hoped that such reflection by those in the sector and in wider society (that ultimately influences action), will support the continuing development of a more legitimate, more trusted, better managed, more accountable and healthier charity sector. Such should be the objective of all those with a heart for the varied, valuable and socially-desirable activity engaged in by charities.

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