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McConville, D., & Cordery, C. (2018). Charity performance reporting, regulatory approaches and standard-setting. *Journal of Accounting and Public Policy*, 37(4), 300-314.  
<https://doi.org/10.1016/j.jaccpubpol.2018.07.004>

### **Published in:**

Journal of Accounting and Public Policy

### **Document Version:**

Peer reviewed version

### **Queen's University Belfast - Research Portal:**

[Link to publication record in Queen's University Belfast Research Portal](#)

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# Charity performance reporting, regulatory approaches and standard-setting

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## Abstract

Internationally, there are strong calls for charities' formal annual reporting to include non-financial performance information. Without the international standards common in other sectors, national accounting standard-setters often regulate charities' reporting. Lacking evidence on approaches to encouraging/ mandating charity performance reporting, and the effectiveness of these approaches, we ask: "How have different jurisdictions responded to calls for increasing performance reporting?"

We conduct a benchmarking study that indicates differences in current reporting practices between Australia, New Zealand, the United Kingdom and the United States. By discussing both current regimes and proposed projects, we develop and illustrate a typology of regulatory approaches to performance reporting. These range from command and control, where standard-setters mandate specific performance reporting standards, through to market regulation, where charities and/or sector bodies acting as regulatory entrepreneurs determine what is to be reported. Between these extremes, the typology describes new governance approaches, with standard-setters partnering and collaborating with other actors. These approaches lead to different requirements with potentially significant implications for performance accountability in the respective jurisdictions. We argue that our regulatory typology contributes useful insights for the many jurisdictions grappling with how to regulate their charity sector and encourage performance reporting.

**Key Words:** Performance accountability; 'Telling your story'; Charity regulation; non-financial reporting; regulatory policy

**Acknowledgements:** We are grateful for feedback from colleagues and participants in seminars at the University of Edinburgh and Queens University Belfast and the following 2017 conferences: BAFA Edinburgh, EAA Valencia, Accounting, Society and the Environment Workshop and the IE/LSE/Smith School JAPP Conference. We also appreciate support from the Journal's Special Issue editors and reviewers.

## **I. Introduction**

Increasingly, charities in many countries are subject to regulation. A key purpose is to increase the public's trust and confidence and therefore, to increase philanthropy (Cordery et al., 2017). In order to ensure this trust is not misplaced, among other actions, governments and regulators require annual reporting by charities, often drawing on accounting standards that regulate such reporting. Hence, the development of reporting requirements and recommendations sits at the intersection of accounting and public policy.

In for-profit entities, the financial result is the primary signal of performance to the providers of capital, however this is not the case in charities (Kendall and Knapp, 2000). Providers of funds to charities usually do so in expectation not of personal benefit, but of positive impact on society and the lives of beneficiaries. Accordingly, charity accountability requires not merely financial accountability, but also accountability for their performance towards mission (Cordery and Sinclair, 2013; Dhanani and Connolly, 2012). Therefore, there has been an increasing interest, over a number of years and internationally, for charities to 'tell their story' in terms of their performance, in addition to traditional financial (accounting) disclosures (Connolly and Hyndman, 2003; Cordery and Sinclair, 2013). Support for such an approach is evidenced by 72% of respondents to an international study stating that performance reporting should be included in any international accounting standards developed for charity reporting (Crawford et al., 2014).

Despite a strong rhetoric in support of performance reporting, such information is not necessarily included in publicly-available annual reports (Hyndman and McConville, 2018, 2016; Morgan and Fletcher, 2011). There may be a disconnection between advocated benefits of performance reporting and charities' challenges, which are seldom aired in public (MacIndoe and Barman, 2013; McConville, 2015). Standard-setters' differing approaches to encouraging or mandating charities to report on their performance, and the effectiveness of these approaches, have not been previously explored. This is an important research topic, as Sunder (2016) suggests that even developing 'better' financial reporting can be challenging due to different approaches to quality. Therefore, we assume that the development of standards for non-financial reporting will also face challenges.

In this paper we ask, 'how have different jurisdictions responded to public calls for increasing performance reporting?' Our response is two-fold: firstly, we conduct an exploratory, benchmarking content analysis which highlights differences in current reporting practices in the four jurisdictions under study: Australia, New Zealand (NZ), the United Kingdom (UK) and the United States (US). Among these Anglo-American jurisdictions, only the UK currently mandates performance reporting and our empirical data identifies more extensive, more transparent, performance reporting in this jurisdiction than in any other. We then conduct a cross-jurisdictional analysis of current and proposed regulatory projects on performance reporting. Combining this with literature on regulatory approaches and the charity sector, we develop and illustrate a typology of regulatory approaches. As noted by Morley (2016) 'bad rules' can emerge from standard-setting and therefore the regulatory approach is important to ensure that reporting improves, rather than declines in quality.

Our typology contributes both to regulatory theory and to practice by showing the impact of regulatory policy on this emerging area of performance reporting.<sup>1</sup>

This paper continues as follows. Following an introduction to performance reporting, why it is important and the challenges it brings (section 2), we explore the previous literature on regulatory approaches and the charity sector (section 3). The method and our benchmarking study of current reporting practice follows in sections 4 and 5. The discussion and conclusions are presented in sections 7 and 8, and include limitations and opportunities for further research.

## **2. Charity performance reporting**

### **2.1 Exploring charity performance reporting**

Charity performance has been explained using production terms: receiving inputs and carrying out a process to produce outputs, with these outputs having a broader outcome, impact or result. Inputs are defined as the resources used in providing products or services, including monetary cost or staff hours (Connolly and Hyndman, 2003). Outputs are the immediate or direct products and services generated by the organisation, such as the number of children fed, or research projects completed (Connolly and Hyndman, 2003).<sup>2</sup> Outcomes, and the associated terms of results and impact, describe the impact or effect of charitable activities on individual beneficiaries or groups, or on society as a whole (Connolly and Dhanani, 2009). These can be referred to as individual and societal outcomes (Hyndman and McConville, 2018). Based on this production model, efficiency is described as the relationship or ratio between inputs and outputs, while effectiveness compares what has been achieved (either in terms of outputs or outcomes) to the objectives that were previously set (Connolly and Hyndman, 2003). Similar bases are often used in large funders' monitoring frameworks: referred to as 'intervention logic', 'results-based accountability' (RBA) and 'logical frameworks' (logframes) (Cordery and Sinclair, 2013) or 'theory of change' approaches (Inspiring Impact, 2013).

Beyond the production model, conversion ratios have long been used as proxies for efficiency, expressing charitable activity, fundraising or administration/ support/ governance costs as a proportion of total costs or revenue (or cost per dollar raised for fundraising cost ratios) (Tinkelman, 1998; Tinkelman and Mankaney, 2007). Recent years have also seen greater experimentation with single measure valuation methods, including social return on investment (SROI) and contingent valuation (Lyon and Arvidson, 2011). Some larger charities have used balanced scorecards based on multiple measures and dimensions of performance as a means to control performance (Saj, 2013; Tucker and Thorne, 2013). It is important that users of performance reporting understand what these measures mean and how they are calculated.

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<sup>1</sup> Such a typology could also be applied to other areas of not-for-profit regulation, for example, governance disclosures.

<sup>2</sup> Examples of these and other measures are provided in Table I.

## 2.2 Importance and challenges of public reporting on performance

As indicated, charities in many jurisdictions have faced calls to publish information on their performance. Often these calls suggest that such information is useful to, and demanded by, the range of stakeholders on which charities depend to carry out their charitable mission. As examples, performance information has been suggested as being useful to those making substantial funding decisions (Lumley et al., 2011), as well as smaller donations (Tinkelman and Mankaney, 2007). Research shows that donations are positively influenced by impact-related information (McDowell et al., 2013) and conversion ratios (Tinkelman, 1998). Surveys of the general public (who may also be beneficiaries, donors and taxpayers) across a range of jurisdictions also indicate the importance of demonstrating how money is spent, and the difference made, in driving public trust and confidence (ChantLink, 2013; Horizon Research, 2014; Populus, 2016). Thus, a wide range of stakeholders is interested in charities' performance information, and may withdraw support if charities fail to provide it (Prakash and Gugerty, 2010).

Moreover, it is suggested that charities themselves benefit from publicly reporting performance, as a means to evaluate progress towards their mission (Inspiring Impact, 2013), identify areas of good practice/ areas for improvement, and to allocate resources more effectively (Lumley et al., 2011). The argument commonly made is that reporting on performance deters corruption and poor performance (O'Neill, 2006). These and other benefits have been amplified by a range of sector bodies in various jurisdictions, including Inspiring Impact and New Philanthropy Capital (NPC) in the UK (Inspiring Impact, 2013; NPC, 2010), Charity Navigator in the US<sup>3</sup>, and in Australia, The Institute of Chartered Accountants Australia (2016).

However, charities face a range of challenges in reporting on performance, not least the difficulty of measuring performance and appropriately attributing it (Cordery and Sinclair, 2013). These also include: inherent complexity (Carnochan et al., 2014); the challenge of measuring long-term impacts on an annual basis and lack of preparer skills and guidance (Boswell and Kazimirski, 2016). Similarly, measuring efficiency and effectiveness is difficult when organizations aspire to multiple objectives, outputs and impacts at differing levels (Sargeant and Kähler, 1998). Facing these difficulties, developing information systems to capture accurate, objective information on performance is highly costly and often insufficiently resourced (Carnochan et al., 2014; MacIndoe and Barman, 2013). Moreover, diverting funding from charitable activities or fundraising can lead to staff resistance (especially for externally imposed performance reporting) (Lyon and Arvidson, 2011).

Beyond these logistical concerns, it is also important to consider the potential for harm from publishing information. Charities use publicly-available communications both for accountability and 'marketing' and tend to avoid reporting 'bad news' (Dhanani and Connolly, 2012). This suggests a reluctance to voluntarily report performance information that creates new uncertainties or is open to negative interpretation and comment, particularly from critical opponents (Mayer, 2016). Where reporting is required, there is a

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<sup>3</sup> Charity Navigator's current approach to charity rating is discussed at: <https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=1284#> (accessed 14 August 2017).

risk that it may become overly formalised or ‘tick-box’ in nature (Hood, 2006); or involve mere disclosure rather than effective communication (O’Neill, 2006). This reduces the likelihood of organizations realizing the benefits of performance reporting. It may also lead to actions that improve reported measures but are detrimental to the charity’s effectiveness (Tinkelman, 2009).

Taken together, while it is clear that charities face pressure to report publicly on their performance, challenges and disincentives to do so abound. Hence, it cannot be taken for granted that, without regulation, such information would be voluntarily provided, nor that regulating reporting will necessarily lead to the provision of useful information. These factors highlight the importance of research into the regulation of charity performance reporting.

### **3. Regulatory approaches for performance reporting**

The regulation of charities is increasingly a focus of charity and not-for-profit sector research, for example, considering regulators’ institutional arrangements (Mayer, 2016; Mayer and Wilson, 2010; Phillips, 2012), and international comparisons and options for convergence (Cordery et al., 2017). There is also recent research into accounting standard-setters’ charity financial reporting standards (e.g. Crawford et al., 2014; Sinclair and Bolt, 2013). However, despite increasing interest in regulation, and the importance and challenges of performance reporting (see section 2), there is a paucity of research into the approaches taken to encourage or mandate performance reporting. With the objective of this paper to explore different jurisdictions’ approaches, this section considers the regulatory options suggested by the literature.

#### **3.1 Command and control regulation**

Hepburn (n.d.) notes that ‘command and control’ is the traditional regulatory course of action. This regulation may be a legal requirement or a mandate with the force of law, such as the need for charities to register and to comply with accounting standards. The benefits of command and control include that: (i) detailed specifications can simplify conformance and can easily be audited (e.g. fundraising metrics: Neely, 2011); (ii) compliance is assured, as the regulator can impose penalties on miscreants; and (iii) the regulator can expect to achieve their objectives (be it protection of the public, fair distribution of resources, etc.) (Hepburn, n.d.). Nevertheless, such regulation can also be inflexible, costly and ineffective, especially when it fails to take into account different sized entities or the interests of different communities (Hepburn, n.d.).

Command and control approaches to performance accountability may result from increased governmental contracting-out to charities. Government purchasers, as the contracting principal, often require outputs to be reported (Bies, 2010; Gugerty, 2010; Nowland-Foreman, 1997). However, government funders prioritise numerical data (to measure efficiency), but are less likely to require data measuring effectiveness (Cordery and Sinclair, 2013). Recent attempts in some jurisdictions to move towards information on outcomes (for example, in the UK: HM Treasury, 2014) have not necessarily been successful in

improving performance accountability (McConville, 2015). Further, even when charities are required to report fulsomely to their public sector funders, such data typically is not made public (Connolly and Hyndman, 2013). A further issue is that requirements to publish performance data do not necessarily lead to better performance accountability. Research into mandated performance reporting in the public sector finds poor compliance and 'boiler-plate' reporting that reduced performance accountability in Australia (Kloot, 2009), NZ (Neale and Pallot, 2001; Thompson, 1995) and the UK (Boyne et al., 2002).

Standard-setters that seek to mandate performance accountability in a command and control environment should recognise the impact of performance reporting on individual behaviours, and ensure that the standards are set to enable (rather than disable) government policy and to meet national goals (Solomons, 1986). Yet government policy may not respect regulated charities' aims, as Reiser (2011, p. 2) notes:

*Public enforcement threatens undesirable government influence on the content of charities' missions. Moreover, public enforcement of mission undermines charities' autonomy, the characteristic that enables them to be innovators, to take counter majoritarian positions, to serve the underserved. Ultimately charities must be trusted to police mission themselves.*

Despite the risks to achieving their mission, owing to agency and resource dependence theory, charities in regulated environments must comply with any command and control requirements if they are to continue to maintain their tax-free status and to attract public donations (Bies, 2010; Cordery et al., 2017).

### **3.2 Regulation as a market-based opportunity**

At the other extreme, governments, regulators and accounting standard-setters may choose not to regulate, and leave it to the market to decide appropriate levels of regulation and reporting. In such contexts, Sidel (2005, p.809) observes a wave of regulation emerging within Asia and the US "to satisfy social and market needs for better self-regulation". Self-regulation requires collective action (Sidel, 2010), and is typically voluntary. Often developed as 'clubs', this self-regulation sets members apart from those who cannot or choose not to join (Gugerty, 2010; Gugerty et al., 2010).

Self-regulation includes third-party quality certification (as observed in parts of central Europe from as early as 1893 - Bies, 2010) which may result in a formal 'seal of approval' requiring ongoing monitoring to ensure compliance (for example, as introduced in Germany in 1992 - Bies, 2010). Third-party seals are also evident in Austria and the Netherlands, although recent research indicates possible weaknesses in the monitoring of compliance and sanctioning of members in those jurisdictions (Tremblay-Boire et al., 2016) which could weaken the reputational benefit of such seals. Further, Bies (2010) suggests the Swiss seal has developed into an aggressive third-party regulatory 'watchdog' instrument (more akin to command and control).

Other self-regulatory tools include codes of conduct, as introduced in Poland, many African and Asian countries and elsewhere to ensure professionalism and diversity of staff and board members (e.g. US) (Bothwell, 2001), to encourage giving (e.g. India) (Sidel, 2005), to unify

the sector (e.g. Cambodia), and to enhance its credibility (Bies, 2010). These tools may be relatively formal and driven by third-party standards, or more informally arise from the networked partners' feedback (Bies, 2010).

Alternative self-regulatory approaches are also being developed by new institutional actors, termed by Sidel (2005) as 'associational entrepreneurs' who perceive an opportunity to expand their influence. These entrepreneurs push privately-organised regulation as a solution to government, assuming government requires or desires regulation, but is unable or unwilling to undertake command and control (Sidel, 2005). Entrepreneurs compete with traditional self-regulatory associations and make further alliances with government to instigate new (experimental) incentives to encourage compliance. They are driven by the belief that charity accountability operates in a market (for donations) and performance disclosures are legitimate to feed the market's demand for this information (Cordery et al., 2017). Thus, rating agencies score charities, with some research suggesting that donors heed such rating agencies' advice (Gordon et al., 2009; Tinkelman, 2009). These entrepreneurs may publish data that is not readily available from a regulator, as well as additional information they demand privately from charities. They may also focus on conversion ratios as a way to project impact (Tinkelman, 2009). Examples of market-type regulators include the US Better Business Bureau's (BBB) Wise Giving Alliance and Charity Navigator (Bies, 2010; Breen, 2013). These agencies also spawn consultants who provide advice to charities as to how to respond to the market's needs.<sup>4</sup>

Market-based instruments are typically developed to change behaviour, although drawbacks of the market-based view to increasing charities' performance accountability are: (i) that it is cost-prohibitive for smaller charities that miss out on a certification (Sidel, 2005); (ii) smaller charities may not be 'followed' and their information not provided to the donating public (Breen, 2013); and (iii) it may also "discourage innovation and risk-taking in governance, programs, and fundraising" (Sidel, 2005, p. 834). Concerns have been raised that the metrics provided by regulatory entrepreneurs are often limited to simplistic conversion ratios which provide only a narrow view of 'performance' and can have dysfunctional consequences for achieving charitable objectives (Tinkelman, 2009).

### **3.3 New Governance regulatory styles**

To respond to the perceived inadequacies of command and control-styled regulation and market-based regulation, 'New Governance' uses regulatory tools differently and engages more participants (Trubek and Trubek, 2007). New governance utilises self-regulation and co-regulation (Hepburn, n.d.) in tandem with legislation and command and control approaches (D. Sinclair, 1997; Trubek and Trubek, 2007).

Phillips (2012, p. 814) notes that co-regulation is "a collective action by a significant number of non-state actors to shape their own behaviour and that of others in a (sub)sector through the establishment of norms, standards and credible commitments...". Her example is Imagine Canada's development of their code of fundraising ethics into a certification process to assist the Canada Revenue Agency in its charity regulation. A further co-

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<sup>4</sup> For example, Charity Financials in the UK (see section 6.3).

regulatory example is the UK Fundraising Standards Board: funded by government and operated by the charity sector, although later disestablished (Bies, 2010). Funding, empowering state support and legitimacy are ongoing challenges with self-regulatory and co-regulatory tools (Black, 2008; Gugerty, 2010; Gugerty et al., 2010).

New governance is a complex balancing act (Mayer and Wilson, 2010) of command and control along with self-regulatory and co-regulatory approaches. Rather than a dichotomy, this combination, and the potential variety of mechanisms, reflects blurring regulatory boundaries (Solomon, 2010). New governance may also be more 'light-handed' than command and control approaches, focusing on information and education, rather than mandating practice (Hepburn, n.d.). With enforcement often remaining as a potent fall-back option (Harrow, 2006; Trubek and Trubek, 2007), new governance has the potential to combine the benefits of voluntary (market) regulation (such as flexibility and cost-effectiveness) with the positive aspects of command and control approaches. Innovative and flexible regulation succeeds when it develops regulation alongside knowledgeable stakeholders who are committed to and comply with the regulatory intent, and encourage others to do so (Harrow, 2006; Hepburn, n.d.; Phillips, 2012; Trubek and Trubek, 2007). This requires not merely a competent regulator, but also a well-connected charity sector (Phillips, 2012).

In summary, a range of regulatory approaches are available to those who would seek to regulate charity performance reporting. The next sections outline our method and a benchmark of current reporting practice in the four jurisdictions, before we explore the approaches taken by these jurisdictions in attempting to regulate charity performance reporting.

#### **4. Method**

To meet the purpose of this paper - to understand how different jurisdictions have responded to calls for increasing charity performance accountability - four jurisdictions were chosen from the Anglo-American cluster. Our criteria for selection included that the jurisdictions: were English-speaking; operate a charity regulator; have accounting standard-setters empowered to develop and/or approve financial reporting standards for not-for-profit/charitable entities; and have engaged in a project on performance reporting. We deliberately sought jurisdictions which have a shared cultural heritage and political tradition, suggesting possible homogeneity in approach (as argued by Stroup (2012) in relation to the US and UK). Ultimately, we selected Australia, NZ, the UK, and the US.

For our exploratory analysis of performance reporting in the four jurisdictions, we focussed on large charities with significant resources at their disposal, as they are expected to be at the forefront of good reporting practices (Dhanani and Connolly, 2012). We chose the sample from the top 100 fundraising charities in each jurisdiction by donation revenue<sup>5</sup>,

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<sup>5</sup> Thus, we excluded registered charities that are entirely funded by endowed funds, trusts or similar. Such charities are subject to different stakeholder pressures than charities which must generate income in the form of donations or payments for services; thus their reporting is likely to be significantly different.

matching similar organisations across the four jurisdictions that were primarily involved in overseas aid. While acknowledging the wide range of activities in which such organisations engage, a common factor with these charities is the inability of donors to observe the impact of donations on geographically distant individuals or societies. In some cases, the same charity operated in each jurisdiction (e.g. WorldVision), in others, charities shared similar missions (e.g. those focussed on child sponsorship, wildlife, or religious group-based aid). Appendix I lists the charities used.<sup>6</sup>

The data analysed included the major publicly-available communications from charities. For the Australian, NZ and UK charities this was the annual report, while for US charities the annual report was augmented by their Form 990 (each jurisdiction is discussed in more detail in section 6). All such data was accessed from either the organisation's or regulators' websites. A framework was developed from previous studies and literature into a checklist to facilitate the analysis, and is presented in Table I. Documents were manually analysed in full to identify performance disclosures, with mechanistic content analysis (Beck et al., 2010) applied to detect reporting items (Table I) and whether these were quantitative or narrative in form. Rules of analysis were developed and are available from the authors on request. Strategies to maximise reliability of the analysis included: developing shared meanings of the checklist items from previous literature (Krippendorf, 2013); independent, then agreed coding by each author (Schreier, 2012); and on-going checklist revision (Schreier, 2012).

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<sup>6</sup> Note that in the subsequent analysis of these charities' reporting, there was no statistical difference in the scores between the same charities and those with similar missions (using a t-test). Detailed analysis of the differences in specific charities by country is not presented for reasons of length, but broadly speaking it followed the pattern of differences between countries, e.g. WorldVision UK had more measures and more transparency information than WorldVision Australia/NZ/US.

**Table 1: Framework used for undertaking content analysis, adapted from Hyndman and McConville (2018, 2016)**

Framework items	Explanation and example
Reporting items	
Efficiency measures	A ratio or calculation comparing inputs to outputs, for example: 'cost per student was £15.60 per week'.
Conversion ratios	Cost (charity activity, fundraising, etc.) as a percentage of total costs or income, for example: '87 pence in every £1 is spent on charitable activities'.
Output	A measure of the immediate, or direct, products or services of the charity, for example: 'during the project, 650 children were fed'.
Individual outcome	A measure of the impact of the outputs (above) on individual beneficiaries or beneficiary groups, for example: '63% of participants found employment'.
Case study example	Case studies identify impact on specific individuals or communities, for example: 'Alex feels safe for the first time since...'
Societal outcome	A measure of the impact of the outputs (above) on society, for example: 'youth reoffending in the area decreased to 22%'.
Output-based effectiveness	A comparison between a measure of output and a specific, pre-set target, for example: 'during the project, 650 children were fed, compared to our target of 500 children'.
Outcome-based effectiveness	A comparison between a measure of (individual or societal) outcome and a specific, pre-set target, for example: 'youth reoffending decreased by 10%, against our target of 15%'.
Examples of 'bad news'	Examples of poor performance, project failures, negative effects or missed targets, for example: 'we expected to place 70 volunteers this year but placed 65...'
Transparency information	
Method used to gather/ calculate	Evidence on how information was gathered or calculated, for example: 'we asked a random sample of 400 beneficiaries to complete a questionnaire... We received 70 responses and found that...'
Explanation	Explanation and/or additional contextual information on the reason for the result, for example: 'our success rate was 76%. This means that... a factor influencing that...'
Prior-year comparatives	Comparison to same measure in the previous year, for example: 'this decreased from 720 children fed last year'.
External comparatives	Comparison to an external target or organisation, for example: '... compared to charity X, which reported a 54% employment rate'.
Evidence of independent preparation or verification	Information on external, independent preparers or evaluators, for example: 'this measure has been prepared/verified by XYZ ...'.

As presented in section 6, in order to ascertain the jurisdictions' regulatory approaches, we analysed documents, literature and the standard-setters' websites (including submissions to exposure drafts and meeting agendas in the case of Australia and NZ). Our analysis focussed both on explaining what is happening in each jurisdiction and developing and illustrating a typology of regulatory approaches, referencing the existing literature on regulatory approaches (section 3).

## 5. Exploration of current performance reporting practices across the four jurisdictions

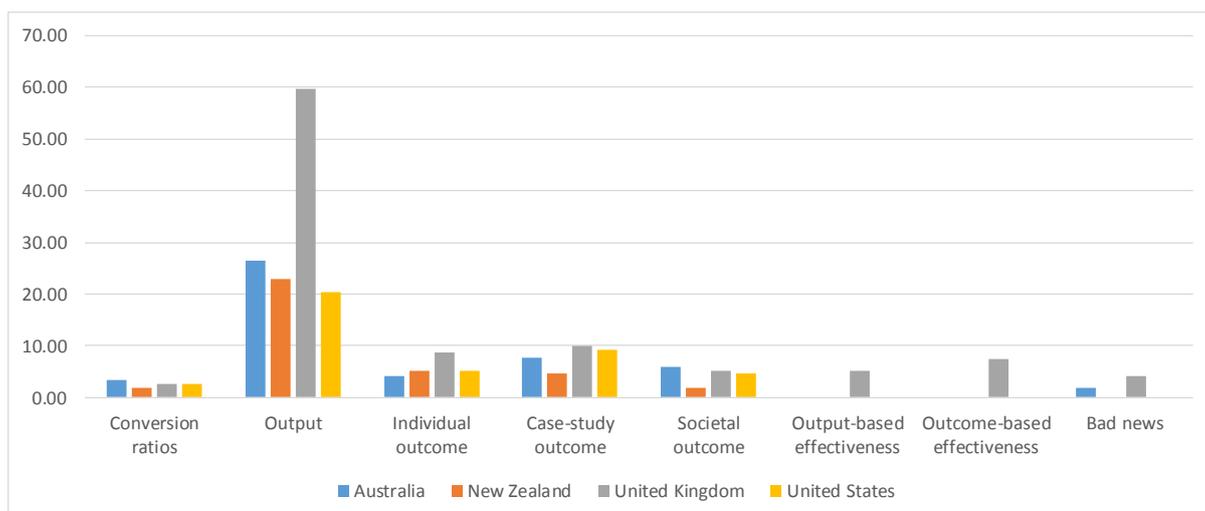
Our exploratory analysis of ten charities in each of the four jurisdictions was executed to create an initial benchmark of current performance reporting practice. Table 2 shows that charities across all jurisdictions report measures such as outputs (see Table 1 for explanation of the measures analysed), with the highest number of outputs in UK reporting. Conversion ratios are also seen across all jurisdictions: these are commonly used as a proxy for efficiency (but efficiency measures were not reported in any jurisdiction: Table 2). Levels of conversion ratios reported may impact donations (Tinkelman, 1998).

**Table 2: Total number of measures reported by jurisdiction**

Measure	Australia	New Zealand	United Kingdom	United States
Efficiency measures	0	0	0	0
Conversion ratios	35	18	27	27
Output	266	229	597	205
Individual outcome	42	53	87	26
Case-study outcome	77	33	81	37
Societal outcome	6	2	36	19
Output-based effectiveness	0	0	26	0
Outcome-based effectiveness	0	0	15	0
Bad news	2	0	29	0
<b>Total</b>	<b>409</b>	<b>329</b>	<b>890</b>	<b>305</b>

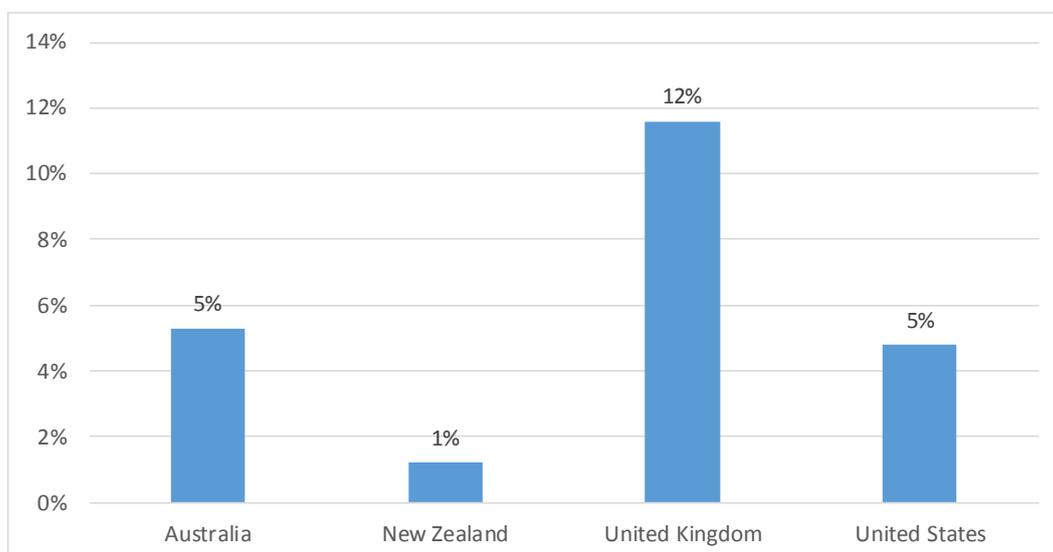
It was previously noted that outcome reporting is also likely to impact donations (McDowell et al., 2013) and is increasingly sought by public funders (HM Treasury, 2014). Table 2 shows we observed not only individual and societal outcomes being reported, but also case-study ‘stories’ providing outcome-related information. Again, the UK reported the most. Further, only the UK charities in this sample provided data on effectiveness. In addition (and reflecting the general avoidance of reporting ‘bad news’: Dhanani and Connolly, 2012), Table 2 shows that there were two references in Australian reports to bad news and 29 from the UK. Figure 1 shows the average number of measures reported by charities sampled across these jurisdictions (from Table 2), further highlighting the differences between the UK and other jurisdictions.

**Figure 1: Average number of measures reported by jurisdiction**



Overall, 44% of Australian measures, 55% of NZ measures, 64% from the UK and 59% from the US were presented quantitatively (data not shown). Information on the method a charity uses to calculate the measure, an explanation of the result, prior-year or external comparatives, or third party preparation or verification may increase transparency, and assist readers in understanding and contextualising the measures reported (see Table 1). Figure 2 shows the proportion of measures from Table 2 accompanied by any such transparency-related information. For example, of 890 measures reported by UK charities, 104 (12%) were accompanied with such information.

**Figure 2: Percentage of measures that were supported by accompanying transparency information by jurisdiction**



Overall, the data shows a notable difference in current reporting practices between the UK and other jurisdictions. We recognise that more reporting is not always better reporting, but by reporting a broader range of measures and including ‘bad news’ as well as good, UK

charities arguably provide the reader with a more comprehensive sense of organisational performance. They are also able to quantify more of their performance measures, and the transparency information provided could help a reader to better understand and contextualise the measures reported. As the UK is currently the only jurisdiction mandating performance reporting (see section 6), these results (while small scale) suggest that regulation has had a role in leading to improvement in performance reporting.

## **6. Empirical research into regulation of charity performance reporting**

From the empirical analysis of current performance reporting, we now analyse the current and emerging regulatory positions in each of the four jurisdictions. As noted previously, significant changes are in progress in a number of jurisdictions, particularly Australia and NZ.

### **6.1 Australian regulatory approach**

The Australian Charities and Not-for-profits Commission (ACNC) is a relatively new regulator, having been established in 2012 under the ACNC Act as an independent government entity. Since the 2014/15 financial year, charities with revenue over AUD250,000<sup>7</sup> must file annual financial returns with the ACNC, and meet Generally Accepted Accounting Policy (GAAP), developed by the Australian Accounting Standards Board (AASB) (ACNC, 2013). Under the Australian Securities and Investments Commission Act 2001, and oversight of the Australian Financial Reporting Council (AFRC), the AASB (a government agency) promulgates accounting standards for all sectors, including charities. In 2002, unexpectedly the AFRC directed the AASB to adopt International Financial Reporting Standards (IFRS) from 2005, and it is these standards that have force of law for for-profit, public sector and not-for-profit Australian reporting entities today (Cordery and Simpkins, 2016).

Given the new ACNC, the AASB has begun to address not-for-profit issues in its standards, including performance accountability. At the current time, there are no regulations or requirements on Australian charities in respect of performance reporting. In August 2015, the AASB issued Exposure Draft (ED) 270 *Reporting Service Performance Information*, with submissions due by February 2016. The AASB received 29 submissions: 45% from accounting firms and 31% from charities or umbrella groups representing charities. The ACNC's submission did not support the standard and, along with other submissions, expressed concerns with the ED's emphasis on efficiency and effectiveness, the prescriptive nature of the requirements and the fact that performance reporting was to be mandatory.<sup>8</sup> With no previous encouragement or standards on performance reporting, many of the submissions projected that compliance costs will outweigh the benefits. The ED requires charities to "report:

- (a) an entity's service performance objectives;
- (b) an entity's performance indicators relating to:

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<sup>7</sup> Approximately USD197,000 at August 2017.

<sup>8</sup> Submissions were downloaded from <http://www.aasb.gov.au/Work-In-Progress/Pending.aspx> on 1 November 2016.

- (i) inputs;
  - (ii) outputs;
  - (iii) the outcomes (if any) that an entity is seeking to influence;
  - (iv) the link between inputs and outputs and/or outcomes (efficiency); and
  - (v) the link between outputs and/or outcomes and service performance objectives (effectiveness);
- (c) the total costs of goods and/or services; and
- (d) the assumptions and methodologies adopted in compiling the service performance information” (AASB, 2015, para 65).

The strong link the AASB requires between financial data and performance reporting were of particular concern to submitters, including the Institute of Company Directors (which instead favoured ‘market driven measures’).

While a number of umbrella groups exist in Australia, the fragmentation of the charity sector has resulted in only small pockets of self-regulation in addition to the ACNC, AASB and State regulation.<sup>9</sup> Nevertheless, the religious sector strongly lobbied against the establishment of the ACNC and is thus exempted from annual filing of financial data, although they must still complete an annual return (CPA Australia, 2013). Their strong lobbying almost caused the demise of the ACNC soon after its establishment.<sup>10</sup> The AASB is yet to publicly respond to the ED submissions, although it has noted it will consider more closely the needs of the charities sector (AASB, 2017).

## **6.2 New Zealand regulatory approach**

The Charities Commission was established as NZ’s charities regulator under the Charities Act 2005.<sup>11</sup> While charities are required to file financial statements annually, the format of these has not been clarified until recently, with new not-for-profit accounting standards being mandatory for all charities from 2016. The promulgator, the External Reporting Board (XRB), was established on 1 July 2011 under amendments to the Financial Reporting Act 1993. As an independent Crown Entity, it must establish and implement a strategic assurance and accounting framework for NZ. Accounting standards are developed by its NZ Accounting Standards Board (NZASB) (Cordery and Simpkins, 2016), but there are presently no regulations or requirements on larger NZ charities in respect of performance reporting.

As a new accounting standard-setter, the XRB was keen to be a ‘listening organisation’ (Cordery and Simpkins, 2016). In the period prior to its establishment, its forerunner (the Accounting Standards Review Board) developed a sectoral working group to consider not-for-profit sector standards (XRB, 2011) and subsequently the XRB has engaged with that sector in more than 100 seminars, roundtables, webinars etc., in an attempt to gain input to

<sup>9</sup> In addition to State-based regulation on organizational form and fundraising, the Australian Council for International Development (ACFID) is an example of a sector body with a Code of Conduct that its members must follow.

<sup>10</sup> The Catholic Bishops made one of the negative submissions on the ED, stating that religious entities did not provide services, and showed no desire to discharge performance accountability to the public.

<sup>11</sup> The Charities Commission was subsumed into a government department from 2012 and is now known as Charities Services (Cordery et al., 2017).

its standards, including performance reporting. The XRB also includes not-for-profit representatives in its standard-setting boards (NZASB and the auditing board) and its XRB Advisory Panel (which meets quarterly).

In respect of performance accountability, the XRB first considered smaller charities in its new 'simple format reporting standards' (for charities with expenditure of less than NZD2 million<sup>12</sup>). These standards are mandatory and include a Statement of Service Performance which sets out that smaller charities "shall:

1. Describe the outcomes the entity is seeking to achieve or influence through the delivery of its goods and services...[and]
2. Describe, and quantify, to the extent practicable, the outputs (goods and services) the entity has delivered for the current year" (XRB, 2013).

Charities with expenditure over NZD1 million must have these statements audited (Crawford et al., 2014).

Under the NZ legislative framework, public sector entities and larger charities (with expenditure above NZD2 million) use identical standards (Crawford et al., 2014). With respect to performance reporting, the XRB 'inherited' an explanatory guide previously used mainly by public sector entities (Technical Practice Aid 9 developed in 1994 - NZ Institute of Chartered Accountants, 2007). However, it was deemed in need of a major overhaul. First, changes to the Public Finance Act 1989 and Crown Entities Act 2004 in 2013 dispensed with the requirement for public sector entities to report on outputs and outcomes, but still required them to report on performance. This was an attempt to reduce 'boilerplate' reporting that had been regularly criticised (see, for example, Neale and Pallot, 2001). Second, there was a desire to issue a standard, rather than merely guidance, as befitting the importance of performance accountability. Despite delays, PBE FRS-48: *Service Performance Reporting* (XRB, 2017) was issued in November 2017. It is not mandatory for charities until January 2021, but it allows early adoption.

Although the sectoral umbrella groups in NZ were previously not very vocal on accounting standard issues (Sinclair and Bolt, 2013), the XRB's development of sectoral input is evident in submissions on this standard as it progressed. Despite it being issued for both the public and charity sectors, 30% of the 18 submissions on the 2016 Exposure Draft were from charities. All 18 submissions were supportive, indeed they noted that performance statements were more likely to be read by non-accountants, and therefore the quality of performance accountability was more important than compliance with a financial reporting standard. In addition to contextual information, the standard requires charities to report on their achievements in working towards their aims and objectives. This performance report is to be included alongside the financial statements, but it is not necessary to link the report directly to the financial data.

Entities are strongly encouraged to report both good and bad news in a balanced way in order to discharge accountability and to aid decision making by users (i.e. to achieve 'faithful

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<sup>12</sup> Approximately USD1,460,000 at August 2017.

representation'). The words 'output', 'outcome' and 'impact' have been dispensed with in order to encourage good reporting. In addition, to deal with information overload, the standard constrains reporting to that which is 'appropriate and meaningful' (XRB, 2017).

### **6.3 The UK regulatory approach**

The UK comprises England and Wales (E+W), Scotland, and Northern Ireland (NI), three jurisdictions with slightly differing regulatory/ reporting requirements and their own (government-funded) charity regulators (respectively: the Charity Commission of E+W, the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for NI). Charities are required to prepare and submit annual reports to the relevant regulator<sup>13</sup>. Annual reports include a Trustees' Annual Report (TAR) and financial statements, which are subject to a series of requirements and recommendations based on organisation size. Once provided to the regulator, most are made publicly available through the regulator's website.<sup>14</sup>

For large UK charities, reporting requirements include compliance with the Statement of Recommended Practice (SORP: Charity Commission, 2014). SORPs are used in the UK to interpret GAAP for application to specific sectors, and the majority of the charity SORP's requirements relate to financial statements. However, the charity SORP is unusual (amongst SORPs, and indeed accounting standards) in also specifying a series of requirements and recommendations relating to the narrative report at the front of the financial statements (the TAR). These include requiring charities to report on their objectives, performance, structure and governance (Charity Commission, 2014), albeit giving charities freedom in how they report on these matters, with charities encouraged to "tell their story" (Charity Commission, 2009, p.20). For example, the most recent SORP has encouraged (but not required) the largest charities (with income over £1million<sup>15</sup>) to 'consider the difference they have made by reference to terms such as inputs, activities, outputs, outcomes and impacts'. While the auditor must audit and form an opinion on the financial statements, the TAR is not audited but only reviewed to identify inconsistencies with the financial statements (Auditing Practices Board, 2012, para 258).

The process by which the SORP is developed has also been described as 'unusual' in the breadth of its engagement with stakeholders (Hyndman and McMahon, 2011, 2010). The SORP is prepared by the joint SORP Committee of the Charity Commission of E+W and OSCR, with the UK Financial Reporting Council (UKFRC) providing negative assurance on the SORP's compliance with GAAP. The SORP Committee comprises representatives of the regulators, government, accounting profession, charity sector, and academics among others,<sup>16</sup> and regularly undertakes extensive sector consultations on the SORP (reaching

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<sup>13</sup> In the various jurisdictions there are some exceptions to registration and reporting for small charities (for example, the Charity Commission E+W excepts those with less than £5,000 (approximately USD6,500 at August 2017) income and exempts charities of certain types, such as some religious and educational charities).

<sup>14</sup> Only some are currently available in NI due to the later establishment of that regulator.

<sup>15</sup> Approximately USD1,300,000 at August 2017.

<sup>16</sup> Information on SORP Committee membership is available at: [www.charitycorp.org/about-the-sorp/charities-sorp-committee-2015/](http://www.charitycorp.org/about-the-sorp/charities-sorp-committee-2015/) (accessed 14 August 2017).

over 1,000 stakeholders in some: Charity Commission, 2009). Among these stakeholders, public sector influence is evident through influential publications (Cabinet Office, 2002), the public sector's own performance reporting (Hyndman and McMahon, 2011) and because it is a major funder, government increasingly demands performance information as a basis for payment for services (HM Treasury, 2014). Performance reporting recommendations have also been supported by influential individuals on the committee (Hyndman and McMahon, 2010) and the flexible 'tell your story' approach has attracted broad sector support (Charity Commission, 2009). Engagement with sector stakeholders through consultation, and the development of requirements and recommendations by a representative body, have led to the SORP enjoying strong cross-stakeholder support and being seen as an example of successful stakeholder engagement (Connolly et al., 2013).

Empirical research in the sector has suggested that charities provide a substantial and increasing amount of performance information in their TARs (Connolly and Dhanani, 2009; Connolly and Hyndman, 2003; Hyndman and McConville, 2018, 2016). This is confirmed by our benchmarking study in section 5. Perhaps given the information available in the public domain, UK sector bodies have tended to focus on providing links and guidance on evaluation, such as NPC's *Little Blue Book* (NPC, 2010). Organisations such as Charity Choice re-package publicly-available information and offer a platform for charities to augment this information,<sup>17</sup> while its partner organisation Charity Financials offers paid-for analysis and advice for high-net-worth philanthropists and foundations.<sup>18</sup>

#### **6.4 The US regulatory approach**

In the US, public reporting requirements for charities focus on annual submission of the Internal Revenue Service (IRS) Form 990. This form must be completed by all organisations seeking tax exemption under section 501(c) (3) of the Internal Revenue Code. Completed forms are publicly available from the IRS, reporting organisations and sector bodies.

Form 990 focusses on financial and governance related matters, requiring limited performance-related information. Organisations are asked to describe briefly their mission, changes to major program services and program service accomplishments for each of the organisation's three largest programs.<sup>19</sup> Guidance notes indicate that the description of accomplishments can include: activities, objectives, specific measurements (giving examples of output measures) and reasonable estimates of statistical information.<sup>20</sup> This content is determined by the IRS and, bar minor changes in 2008, has not changed substantially in the past 15 years.

Previous empirical research into Form 990 compliance has largely ignored these performance disclosures, but has highlighted issues with the financial information, including

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<sup>17</sup> Charity Choice detail is available at: <http://www.charitychoice.co.uk/about-wilmington> (accessed 14 August 2017).

<sup>18</sup> Information on Charity Financials is available at: <http://www.charityfinancials.com/marketing.php> (accessed 14 August 2017).

<sup>19</sup> The current Form 990 is available at: <https://www.irs.gov/pub/irs-pdf/f990.pdf> (accessed 14 August 2017).

<sup>20</sup> Instructions for Form 990 are available at: <https://www.irs.gov/pub/irs-pdf/i990.pdf> (accessed 14 August 2017).

errors and apparently deliberate misstatements (Keating et al., 2008). In addition, concerns have been raised as to the ability of the IRS to effectively regulate charities, citing a lack of expertise and resources (Owens, 2006).

There is no statutory requirement in the US for charities of any size to prepare GAAP-compliant financial standards and file these with a regulator. The Financial Accounting Standards Board's (FASB) standard on charity financial reporting contains no performance reporting requirements (FASB, 2016). Moreover, a FASB project to explore guidance or standard-setting for charities' performance and financial health ceased (before public consultation) in January 2014, with the FASB (2016) noting that such reporting was beyond its scope. This is in contrast to the US public sector, where the Governmental Accounting Standards Board (GASB) has encouraged and issued guidance on performance reporting, including on outcomes, efficiency and effectiveness for many years (GASB, 2016).

Charity information is made available via a number of long-established rating agencies. Guidestar and Charity Navigator websites provide access to Form 990s, and previously calculated conversion ratios based on this information. These ratios underpinned evaluations/ rankings by Charity Navigator and the BBB Wise Giving Alliance (Bies, 2010; Breen, 2013), with some studies suggesting these rankings significantly affected contributions (Gordon et al., 2009). More recently, Guidestar uses this information as a basis for an online profile, encouraging charities to augment this, including with performance information.<sup>21</sup> Charity Navigator evaluates and ranks organisations using information from Form 990 and organisations' websites, across the categories of financial health (conversion ratio based) and accountability and transparency (on governance, not performance information), aiming to evaluate performance reporting in future.<sup>22</sup> The BBB Wise Giving Alliance evaluates a smaller number of fundraising charities against 20 standards,<sup>23</sup> mostly relating to financial information and governance, with two standards relating to internal processes for assessing effectiveness.<sup>24</sup>

The US approach is usually characterised as primarily a system of self-regulation (Bothwell, 2001) and voluntary disclosure is encouraged in the competitive market for donations (Saxton et al., 2014). Even where individual states have additional requirements, these have been described as leading to duplication of existing requirements rather than greater stakeholder engagement and accountability (Mayer and Wilson, 2010). This system has been seen as problematic and has led to calls for regulation at state level (Mayer and Wilson, 2010) or the creation of a national regulator alongside the IRS (Mayer, 2016; Owens, 2006).

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<sup>21</sup> Information on Guidestar is available at: <https://learn.guidestar.org/about-us/> (accessed 14 August 2017).

<sup>22</sup> Information on Charity Navigator's current process of rating charities is available at: <http://www.charitynavigator.org/index.cfm?bay=content.viewandcpid=1284> (accessed 14 August 2017). Information on their progress towards developing a rating methodology that encompasses an assessment of each charity's results reporting is available at: <http://www.charitynavigator.org/index.cfm?bay=content.viewandcpid=1963> (accessed 14 August 2017).

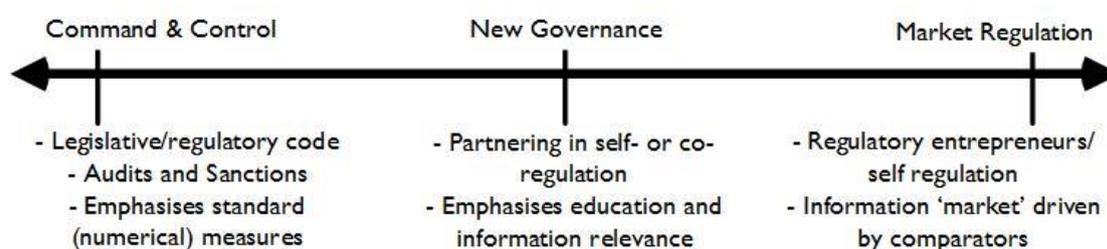
<sup>23</sup> Detail on BBB is available at: <http://www.give.org/about-bbb-wga/more-about-us/>. (accessed 14 August 2017).

<sup>24</sup> Information on BBB's current process of rating charities is available at: <http://www.give.org/for-charities/How-We-Accredit-Charities/> (accessed 14 August 2017).

## 7. Discussion

In order to explore the approaches of each of our four jurisdictions, we summarise the regulatory approaches discussed in section 3 in Figure 3 below:

**Figure 3: A continuum of regulatory approaches for charity reporting regulation**



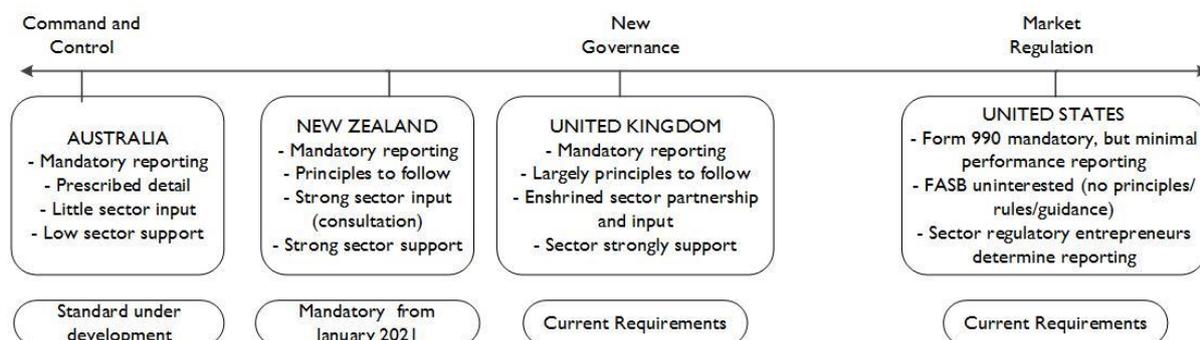
On the left of Figure 3, command and control regulation emanates from a strong regulator mandating reporting, audits and employing sanctions. We conjecture (in line with the public sector experience) that the consequent performance reporting will focus on standard (numerical) output measures and discharge accountability only weakly (Klout, 2009; Neale and Pallot, 2001; Thompson, 1995).

In the middle of the continuum is new governance. Here, a regulator (such as an accounting standard-setter) will work with a well-organised charity sector to design relevant disclosures. This should allow reporting that reflects measures charities already use and which also meet the needs of a range of stakeholders (Hepburn, n.d.), possibly leading to more effective discharge of performance accountability (Harrow, 2006).

On the right of the continuum is market-based regulation with little formal regulatory involvement. Sidel (2010, 2005) notes the market welcomes regulatory entrepreneurs – third parties that seek to grow their business, by developing and marketing a form of self-regulation for charities. The extent and nature of the ensuing performance reporting, and whether performance accountability is discharged, depends on the interests and strength of such entrepreneurs, but we conjecture in line with previous research (Tinkelman, 2009) that these may focus on narrow aspects of performance and on a select group of charities.

Figure 4 maps the approaches of the four jurisdictions discussed in section 6 to Figure 3's continuum:

**Figure 4: Regulatory approaches to performance reporting as applied in Australia, NZ, UK and US**



Moving from left to right along the continuum in Figure 4, the jurisdictions are distinguished by differences in performance reporting requirements and in the processes that have created those requirements (i.e. the intersection in each jurisdiction between accounting and public policy). The continuum moves from prescriptive reporting that echoes command and control (Hepburn, n.d.), to reporting that trusts charities to provide useful, appropriate information (reflective of innovative, flexible regulation suggested in new governance approaches: Trubek and Trubek, 2007) to laissez-faire reporting that echoes self-regulatory or market-based models (Sidel, 2005). In terms of the process of creating those requirements, moving from left to right takes us from didactic approaches that echo command and control (Hepburn, n.d.), to new governance-style types that combine command and control aspects with participation and potentially co-regulation (Phillips, 2012; Trubek and Trubek, 2007), and ultimately to approaches that leave the development of requirements to the market (Sidel, 2005). The mapping of each jurisdiction onto this continuum is discussed below.

In Australia the standard-setter (AASB) has not previously had strong links with the sector, and sought little input in developing its ED. We suggest the AASB's approach for mandating performance reporting as part of GAAP is typical of a command and control approach, as it specifically prescribes the measures to be reported (focussing on efficiency and effectiveness) and requires audit. Constituents' responses suggest that the AASB proposals have low resonance with the sector, with even the charity regulator being unsupportive. With the standard-setter writing its first statement for performance reporting and a new charity regulator (perhaps lacking the relationships and arguably legitimacy of more established regulators), a command and control approach may have been perceived as the only possible way to embed these requirements. The AASB's ED's prescriptive requirements on performance reporting could be ascribed to this lack of engagement or even inexperience with performance reporting standards. Responses to the consultations left no doubt that many in the sector felt such an approach was inappropriate. Indeed, the criticisms levelled at the ED echo criticisms of command and control approaches, including significant cost implications and the potential to damage charities' ability to achieve their mission (Reiser, 2011). Perhaps most significantly, criticism of this approach as inflexible and focussed on specific measures may indicate a risk of boilerplate reporting that reduces,

rather than enhances, performance accountability, as identified in public sector studies of similar schemes (Boyne et al., 2002; Kloot, 2009; Neale and Pallot, 2001). Perhaps cognisant of these issues, the AASB has already moved to engage more with informed stakeholders, although subsequent EDs and the final standard will show if this makes a difference to the acceptability of attempts to improve performance reporting.

In NZ, while the process is clearly still in the hands of the accounting standard-setter (XRB), there has been comparatively more consultation and 'listening' in an attempt to ensure its standards meet user needs. This indicates an approach more towards new governance and developing relationships with the sector in the regulatory space. The XRB's performance reporting standard requires measures to be audited but keeps reporting principles at a high level (there is even reluctance to use terms such as output, outcomes and impact). These light-touch principles, and their development through consultation, suggest new governance aims of using 'informed others' in regulation (Harrow, 2006). Further, the charity regulator (which operates inside a government department) is supportive of the new standards, has also engaged in consultation, and is working to encourage performance reporting. This is indicative of the XRB partnering with the sector through consultation, rather than co-regulation between the XRB and the regulator or the sector (as modelled by Phillips, 2012). We suggest that the XRB's forerunner's experience with standard-setting for performance reporting in the public sector has informed this collaborative style and the standard.

By contrast, in the UK, the process is less clearly 'owned' by the accounting standard-setter (UKFRC). The UKFRC has granted the power to the SORP Committee to develop the standard, but retains the approval power, enshrining partnership in the process of setting requirements on performance reporting. The SORP Committee comprises representatives of the charity sector, the accounting profession and government (important examples of knowledgeable and committed stakeholders: Harrow, 2006) and engages in significant sector consultation. The UK has already moved to where NZ possibly seeks to be, with mandatory performance reporting that is principle-based and encourages charities to 'tell their story', however, this reporting does not need to be audited. These requirements, and the process by which they were developed, echo new governance approaches that combine command and control with self or co-regulation (Trubek and Trubek, 2007). In the UK, the enshrined partnership tends towards co-regulation: the SORP Committee creates the requirements with the sector and the UKFRC approves these. This approval is the potential fall-back option of enforcement discussed by Harrow (2006) and Trubek and Trubek (2007): ultimately, if the drafted SORP is unsatisfactory, the UKFRC could refuse to approve it, triggering wholesale changes or even replacement. The longstanding nature of SORP development, and firm relationships developed over this period, could be reasons for the success of a new governance approach.

The NZ and UK standard-setters have perhaps the most established relationships with a range of collaborators/ stakeholders with which they can 'partner' in the development of requirements and recommendations: they could be described as well-connected to the sector (Phillips, 2012). These connections have informed their requirements, perhaps along with their own past experiences – NZ's XRB with extensive experience in requiring service

reporting in the public sector, and the SORP Committee's lengthy involvement in the development of various iterations of the charity standards. Within these, both have had experience of prescriptive reporting standards leading to less useful, boilerplate reporting and this may have influenced their decisions to allow charities the freedom to tell their own performance stories. The literature on new governance suggests that this approach can lead to more innovative and flexible regulation, and, when regulation is supported as legitimate and appropriate, to greater compliance (Harrow, 2006; Hepburn, n.d.; Trubek and Trubek, 2007). Certainly in the UK, the evidence from our empirical analysis (section 5) indicates higher quality reporting which can be related to the regulator requiring reporting but allowing charities flexibility through a principles-based framework.

Lastly, in the US, the accounting standard-setter (FASB) has deliberately not engaged in developing standards on performance reporting, while Form 990 requires only minimal performance disclosure. The US is primarily self-regulating in terms of performance reporting, albeit with self-regulation being through the mechanisms of regulatory entrepreneurs (Sidel, 2005), rather than one overarching sector body offering accreditation or similar (as is seen in Germany, Austria and Switzerland: Bies, 2010). In the US, "voluntary disclosure plays a key role in maintaining market efficiency and reducing information asymmetries" (Saxton et al., 2014, p. 128). Effectively the market (rather than the sector) decides what information should be made available, and charities must choose whether to respond. Due to the lack of a centralised market (like the stock market), it may be unclear what the market wants (Cordery et al., 2017). Therefore in the US, regulatory entrepreneurs have filled the void (Sidel, 2005) by creating and pushing their own recommendations which might be based on perceptions of what the market wants, or on creating a demand for specific information. Without these entrepreneurs, the US is described as having a weak information environment, with donors suffering from high information asymmetry (Gordon et al., 2009; Saxton et al., 2014)

Prior research has indicated that market-based approaches in the US previously reinforced poor reporting practices, with over-reliance on conversion ratios leading to poor performance accountability and dysfunctional consequences (Tinkelman, 2009). Despite the US' long-established regulatory environment, combining Form 990 and regulatory entrepreneurs such as Guidestar and the BBB Wise Giving Alliance, there is limited evidence from the US of these efforts leading to meaningful performance reporting beyond simple conversion ratios and output reporting, indicating a possible market failure (as hypothesized by Hepburn, n.d.).<sup>25</sup>

As identified in our exploratory empirical analysis and in line with the literature, regulation does have the potential to improve performance reporting, with the new-governance style approach in the UK leading to better performance reporting rather than leaving it to the market as in other jurisdictions at present. We have placed Australia and NZ on the continuum based on their projected trajectory, this forming the basis for further research as the approaches taken by Australia and NZ are actioned in the coming years.

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<sup>25</sup> Nevertheless, as previously noted, the ratings provided and voluntary disclosures made have been shown to affect donors' decisions (Gordon et al., 2009; Saxton et al., 2014).

## 8. Conclusions

The purpose of this research was to identify the response of the four sample jurisdictions to increasing calls for public reporting on performance by charities, with a particular focus on the actions of the national accounting standard-setters that regulate reporting in these jurisdictions. This area, at the intersection between accounting and public policy, was identified as under-researched both in terms of reporting practice and regulation. To this end, we conducted a small-scale exploratory analysis of current reporting practice in each jurisdiction. We identified that the most regulated jurisdiction (the UK) provided more reporting, a broader range of reporting, and more transparency-related information than jurisdictions where performance reporting is currently unregulated. This supports the arguments of previous literature that performance information will often not be provided voluntarily, and that regulation may be required. Accordingly, we explored the regulatory approaches of the four jurisdictions by using regulatory theory and charity sector literature to develop a regulatory typology continuum. Explaining each jurisdiction's approach and placing each jurisdiction on that continuum allowed us to identify diverse practices both in the processes of standard-setting and in the requirements that have resulted. This is despite the deliberate selection of jurisdictions from the Anglo-American culture where a degree of homogeneity might have been expected: presumably even more different approaches might be seen in other jurisdictions.

As expected from Morley's (2016) analysis, we suggest that these different approaches will have differing effects on the level and quality of performance reporting that results. While performance reporting requirements are not yet mandatory in Australia or NZ, our exploratory empirical research shows that the stable new governance approach in the UK yields different reporting than market-based approaches. Using Sunder's (2016) notion of qualitative attributes of reporting, we are doubtful as to the usefulness of command and control responses (as predicted in Australia) and market-based approaches (as seen in the US) in increasing and improving performance reporting towards the ultimate aim of increasing performance accountability. By contrast, we believe that a new governance response (as seen in the UK and emerging in NZ) has the greatest potential to both increase and improve performance reporting. This approach is particularly important in encouraging those that are regulated (i.e. charities) to report on their performance. Encouragement is needed because of the challenges performance reporting presents, not least its inherent difficulty, cost and need for context specificity. New governance literature also reminds us that successful regulation is that developed alongside committed stakeholders who not only comply, but also encourage others to do so (Harrow, 2006; Hepburn, n.d.; Phillips, 2012; Trubek and Trubek, 2007). Nevertheless, there are pitfalls with this approach as well, in particular gaining adequate funding for the regulators and also ensuring that co- and self-regulation achieves legitimacy with regulated entities (Black, 2008; Gugerty, 2010).

We contribute to practice for those jurisdictions that face pressures to encourage charity performance reporting and are unsure on the best approach. In addition to providing a

range of possibilities and examples from the sample jurisdictions, we also suggest the possible effects of the approaches identified. This may assist in ‘better’, more context-specific decisions being made on how to encourage performance reporting.

In terms of contribution to theory, this paper has developed a continuum of regulatory approaches (from command and control, to new governance and market-based regulation). It has identified the sector and regulator traits indicated by this typology, and what this might mean in terms of the processes of developing requirements and the nature of the requirements that result. These have been tested and explored in detail in a cross-jurisdictional analysis of standard-setting. This contributes in a broader sense to theory on how to regulate, an area that is underdeveloped in the charity sector, as well as to how regulatory policy affects standard-setting.

This paper has relied on desk-based research to understand performance reporting requirements across a number of jurisdictions. This, combined with space limitations, may mean that some nuances of the regimes in the different jurisdictions have not been identified in this paper. Additionally, some of the requirements discussed are still in development – Australia’s requirements have not yet become formal standards and NZ’s are not yet mandatory. The paper’s preliminary insights could be developed through further work with process participants, perhaps exploring context-specific pressures and motivations. We have not sought to address the important question of whether performance reporting leads to better performance. Extended content analysis of publicly-available communications (building on the benchmarks developed in this paper) and contrasting different jurisdictions will increase understanding of the effectiveness of different approaches, and whether regulators’ stated aims have been met.

With regulating for better reporting described as challenging (Sunder, 2016), this paper provides examples from four jurisdictions of our regulatory typology in respect of charity performance reporting. Pressures for more sector engagement and stronger regulation may result in these jurisdictions gravitating towards the centre of our framework’s continuum (new governance) over time. When standard-setters develop performance reporting requirements in partnership and consultation with the charity sector, and with a focus on encouraging charities to tell their story, these approaches have the potential to improve performance reporting in these jurisdictions, and thus positively respond to international calls for greater charity performance accountability.

However, such locally-focussed approaches are in contrast to the development of international financial reporting standards in the for-profit and public sectors. Perhaps influenced by this, international surveys have indicated support for performance reporting requirements in international reporting standards for not-for-profit entities (Crawford et al., 2014). Such global approaches may conflict with locally-orientated new governance approaches highlighted in this paper as potentially leading to better performance reporting. Pressure for international convergence may lead to tensions in jurisdictions that have developed their own performance reporting regulations, as they may be unwilling to engage with international efforts, seeing these as unnecessary, and even inappropriate. Perhaps most importantly for regulatory policy and practice, this indicates that increasing

international convergence may not be the most effective means of encouraging more, and better quality performance reporting by charities.

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## Appendix I: Charities chosen for Content Analysis

<b>Australia</b>	<b>New Zealand</b>	<b>UK</b>	<b>United States</b>
World Vision Australia	World Vision of New Zealand Trust Board	World Vision UK	World Vision
Australian Red Cross Society	New Zealand Red Cross Incorporated	British Red Cross Society	Direct Relief
Compassion Australia	TEAR Fund (The Evangelical Alliance Relief Fund)	Compassion UK Christian Child Development	Compassion International
Save The Children Australia	Save the Children New Zealand	Save the Children International	Save the Children Federation
Oxfam Australia	Oxfam New Zealand	Oxfam Great Britain	CARE USA
ChildFund Australia	ChildFund New Zealand Limited	Plan International UK	ChildFund International
The Fred Hollows Foundation	The Fred Hollows Foundation (NZ)	Sightsavers International	PATH
World Wide Fund For Nature Australia	World Wide Fund for Nature New Zealand	World Wildlife Fund UK	World Wildlife Fund
Australian Committee For UNICEF Limited	New Zealand National Committee For Unicef Trust Board	UNICEF-UK	United States Fund for UNICEF
CBM Australia	CARITAS Aotearoa New Zealand - Catholic Agency for Justice, Peace and Development	Islamic Relief	Catholic Relief Services