Evidence Review: Why restrict grants?

March 2023

Authorship and acknowledgements

This Evidence Review has been written by Dr Chris Mills, based on desk research, with input from Ben Cairns and Liz Firth.

Thanks to Arjen de Wit from the Center for Philanthropic Studies at Vrije Universiteit Amsterdam who generously provided suggestions for relevant literature; and Tania Cohen from 360 Giving for advice about data.

How to cite this review:

Mills, C. (2023). *Evidence review: Why restrict grants?* London: Institute for Voluntary Action Research

enquiries@ivar.org.uk
ivar.org.uk

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Foreword: Why review the evidence on grant restrictions?

In the face of persistent feedback from funded organisations that inflexible funding inhibits their ability to do their best work, we have long argued that funders need to challenge their preference for project and other restricted forms of funding (Cairns et al, 2014; 2021).

> *'Unrestricted funding is the single most powerful thing that funders can do to support charities. It enables us to be agile and decisive in dealing with the ever-changing demands of the current uncertainty, while planning as best we can for whatever the future holds.'*

In February 2021, we launched Open and Trusting Grant-making. Our aim is to support funders to work together and with funded organisations to make positive adaptations to funding practice that enable both to make the best use of their knowledge, expertise, energy and passion in support of the communities and causes they serve. Over 100 funders – responsible for more than £800 million of annual grants – have now joined this community. One of the eight commitments they have made is to fund in a way that enables flexibility. This involves them working towards unrestricted funding as their default approach or, when there is a clear rationale to restrict grants, trying to maximise the control charities have over their own spending.

To help funders make this commitment a reality, in 2021 we asked a group of foundation trustees and staff to share their experiences and what they have learned about offering unrestricted funding. All recognised that it takes thought and care to unpick long-established ways of working and find the right way forward. But none had any doubt about the importance of action, identifying unrestricted funding as a critical question about how to do a better job and support better outcomes (Cairns et al, 2021). In this, they are joined by the 1,200 charities who responded to the Funding Experience Survey. 88% of them identified unrestricted funding as one of the most useful things that funders can do to enable them to do better, more responsive work (Firth et al, 2022).

But change can feel very slow to charities facing a tidal wave of need and ever more pressure on their resources. To assist more funders to move forward in their thinking, we have stepped back to review the evidence underpinning common rationales for choosing restricted or unrestricted funding models. We hope it proves a helpful building block, both for those already on the journey and those who have yet to begin.

Ben Cairns
Director, Institute for Voluntary Action Research (IVAR)

Introduction

This review considers the evidence on whether and when funders should give restricted or unrestricted funding. It is a subject of importance because the policies and practices of funders shape the structural context in which charitable organisations operate.

The roots of restricted grant-making originate from the late Victorian era with the emergence of a new kind of philanthropist keen to take a strategic and objective approach to charitable giving. New philanthropists saw themselves as more discerning and wanted a greater say in how charities spent their money. Until then, the charitable sector had been driven by recipients' needs, as appraised and managed by the charities that helped them. Donors had previously been thought to lack experience, knowledge and understanding of these needs and were not sufficiently qualified to tell charities how they should spend their money. The new breed of philanthropists introduced the notion that they should have a say, not just in which charities should receive their money, but in how they spend it.

The movement towards restricted grant-making accelerated from the 1980s onwards as reforms in public management inspired a growth in monitoring, reporting and auditing activity. Institutional funders adopted many of these practices as they became more concerned about exerting oversight and control. By the late twentieth century, restricted grant-making had become mainstream.

However, the trend towards restricted grant-making soon led to questions about the assumed wisdom of this approach. In recent years, it has become increasingly clear that funded organisations need unrestricted funding (Huang et al, 2006). Indeed, many charities, especially smaller ones, would readily swap a restricted grant for a smaller amount of unrestricted funding (Saxton and Lindstrom, 2012; Wallace and Saxton, 2018). The Trust Based Philanthropy Project, Center for Effective Philanthropy, and Grantmakers for Effective Organizations all now strongly advocate for multi-year unrestricted funding (Buteau et al, 2020; GEO, 2022).

Funders' attitudes appear to be in flux. Many leaders of grant-making foundations now believe unrestricted grants are at least as effective as restricted grants (Huang et al, 2006; Buteau et al, 2020; Cairns et al, 2021). Funders also loosened restrictions and made more unrestricted grants during the Covid-19 pandemic (Buteau et al, 2022; CAF America, 2022). In the UK, a recent large-scale survey of charities found that the proportion receiving some form of unrestricted funding rose from 46% in 2019 to 60% in 2022, which is suggestive of a change in practice by grant-makers (Chapman, 2023). The growing interest in unrestricted funding is further evidenced by over 100 funders signing up to IVAR's Open and Trusting Grant-making community, which includes a pledge to give more unrestricted funding.

With funders thinking harder than ever about what type of funding to provide, we wanted to analyse the respective merits of restricted and unrestricted grant-making. There has never been a considered assessment of the respective rationales and evidence for giving restricted or unrestricted funding. This Evidence Review aims to address this gap.

Purpose

The purpose of this review is to address the following question:

> **What are the contrasting rationales for providing unrestricted or restricted funding to organisations, and are these rationales substantiated by evidence?**

In framing this question, we are keen to avoid making value judgements on whether restricted or unrestricted funding is inherently good or bad. Instead, we are interested in the rationales and whether, when and how they might be justified. In this way, we hope the review will help funders think through their choice of restricted or unrestricted grant-making.

How we put this review together

Having already done much work on this topic, we had a good idea about the rationales commonly used for providing restricted or unrestricted funding. That said, we could only be sure we knew some of them. We also couldn't be sure where we would find the evidence to support or contradict these rationales. We wanted to be open to including rationales and evidence that we hadn't anticipated.

To help answer our question we sought literature in the following ways:

- An initial Web of Science database search of voluntary sector academic journals.
- Asking colleagues and key informants to suggest relevant literature.[1]
- Identifying relevant papers from the bibliographies of the articles we read.
- Using Google Scholar to identify publications that had cited relevant articles.

Locating relevant evidence was challenging because it was located in both practitioner literature and across a wide range of academic studies. We collated reports and evaluations from practitioner organisations from the UK and worldwide. We also found relevant material in voluntary and non-profit journals. In addition, we found material in accounting, public administration and policy journals. We also noted how research covered multiple fields of activity, including the social, environmental and international development sectors.

In reviewing the literature, we first sought to identify and describe the principal rationales for unrestricted and restricted grant-making. These rationales form the main headings of the review. The second stage involved synthesising and making sense of the literature and assessing whether the evidence supported or contradicted the rationales. We considered the assumptions underpinning the rationales and the different contexts in which the rationales may or may not hold true.

The resources we had to complete this task were relatively small, especially in comparison to the disparate nature of the literature. We do not claim to have produced a definitive account of the rationales for restricted and unrestricted grant-making. Inevitably, there will be literature we have missed. We recognise that our analysis is contingent on the literature we have uncovered and our interpretation. There will inevitably be scope to update and

[1] We are particularly grateful to Arjen de Wit from the Center for Philanthropic Studies at Vrije Universiteit Amsterdam who generously provided us with suggestions for relevant literature.

improve what we have written. If you know of relevant literature that we have missed, please get in touch. IVAR will actively gather feedback on this review and anticipate revisiting it in a few years.

Terminology

Unrestricted and restricted funding

We use the terms restricted and unrestricted funding throughout this review. When using them, we have in mind the following definitions:

- **Restricted funding**: These are funds that can only be used for the purpose specified by the donor. The donor can declare the restrictions when making the gift or they can result from the terms of a charity's appeal for funds. In the UK, restricted funding carries the weight of trust law, placing a binding legal obligation on charity trustees to spend funds per the restriction. Restrictions can take many forms but they typically include specifying activities, budgets, outputs, outcomes, and reporting requirements.
- **Unrestricted funding:** These are funds that can be spent or applied at the discretion of the trustees of a charitable organisation to further their charitable purposes and mission. These funds do not come with conditions on how the organisation should spend them. Other terms sometimes used to describe unrestricted funding, especially in international contexts, include 'flexible funding' and 'general operating support'.

Although these definitions present a dichotomy, it is worth noting that there are many different types and extents of restriction. Restrictions may be many and tight, limiting the choices a funded organisation can make. On the other hand, restrictions may be few and loose, which gives the funded organisation flexibility within a broad remit.

Funders and funded organisations

We use the terms funder and funded organisation throughout this review. When using them, we have in mind the following definitions:

- **Funder**: We use this term as a shorthand for institutional funders, especially charitable trusts and foundations. We recognise that public bodies are also common institutional funders and, while funding provided by charitable trusts and foundations is the focus of this review, we occasionally draw on research evidence involving public funders.
- **Funded organisation:** We use this term to cover organisations in receipt of funding. We principally have in mind charities, but it also extends to other voluntary sector organisations such as unincorporated associations and community interest companies. In other contexts, funded organisations are often referred to as 'non-profits' and 'non-government organisations' (NGOS).

Rationales for restricted funding

Funders exert enlightened strategic control

Since the creation of the Charity Organisation Society in the late nineteenth century with its emphasis on 'scientific charity' and targeting support to the neediest, funders have repeatedly emphasised the importance of distributing funds optimally. A strategic approach to philanthropy is now common and involves funders allocating resources to maximum impact. Strategic funders use a series of processes intended to ensure they allocate resources effectively. These include setting strategic goals, establishing a strategic framework (perhaps including a theory of change) and drawing on data to ensure that decisions are evidence-based. Strategic funders will do as much as possible to ensure that their money achieves the largest possible impact. This notion of making the best possible use of funds often drives funders to make restricted grants. Thus, making a restricted grant is often thought to be a logical extension of a strategic and evidence-based approach to philanthropy.

What is the thinking behind this? Funders' principal rationale is that they are well positioned to take a holistic perspective, determine effective strategies and allocate resources to the highest impact activities. Not only do they judge the effectiveness of the organisations they fund, but they are entitled to assess cost-effectiveness of particular activities. A leading effective altruist argues: *'If a charity implements a variety of programmes, inevitably some of these programmes will be more effective than others. In which case, we should simply focus on funding those very best programmes'* (MacAskill, 2015: 147). In other words, when organisations pursue multiple strategies and tactics, some of which the funder considers less effective, a funder may wish to restrict their support to the most effective programmes.

By specifying programme goals and restricting grants to particular activities, funders may encourage charities to take up particular activities. Evidence suggests that organisations will develop new capabilities, activities and services in response to funder priorities (Bennett and Savani, 2011). Thus, it is argued that restricted grant-making can help to stimulate the supply of activities and services in under-served areas.

However, the decision to restrict funds on strategic control grounds appears to be underpinned by an assumption that funded organisations are less effective at allocating resources to those activities likely to produce the best outcomes or at identifying and responding to gaps in provision. It is a claim that funders need to address with care. Funders can dictate strategy because they control the resources and charitable organisations must raise funds for their work. Charities are dependent on their funding and thus susceptible to the choices of funders. So, funders need to be sure that their decision to restrict funding on strategic grounds is warranted based on a superior analysis of both past impact and current circumstances and needs.

It is worth pausing here to consider what evidence is needed to justify the claim that funders are better placed to strategically allocate resources. Do funders possess an advantageous helicopter view, better knowledge or greater powers of analysis than the organisations they fund? These are difficult questions to answer and there doesn't appear to be much research evidence to help us. We are aware of academic debates in the international development sector about whether governments or NGOs are better at allocating resources to tackle global poverty. However, it is difficult to disentangle governments' political motivations from such decision-making, so we don't include details of this debate here.[2] Other research about the effective allocation of resources by funders and funded organisations is absent.

Arguments exist against the idea that funders are best placed to allocate resources. Cairns et al (2021) argued that expertise and knowledge resides within charities and restricted funding takes decision-making away from them. They also argue that restricted funding compromises organisations' flexibility and agility in an unpredictable and fast-changing world. We will return to these themes later when we consider rationales in favour of unrestricted funding.

For now, we note that the exercise of strategic control by funders has potentially damaging consequences for the autonomy of funded organisations. As funders determine priorities, funded organisations may deviate from their original mission and manipulate their programmes to match funder preferences (Bennett and Savani, 2011; Henderson and Lambert, 2018). This phenomenon has been labelled 'mission drift' and is widely regarded as a malign force.

That said, funded organisations are not necessarily passive to funder requirements and often take action to preserve their autonomy. Organisations may adopt coping strategies to avoid, adapt or reshape funder requirements (Bennett and Savani, 2011; Mitchell, 2014; Henderson and Lambert, 2018). By resisting external control, organisations may still enjoy significant autonomy to exercise strategic choice within their operating environment. On this basis, funders may be kidding themselves when they think they are exercising strategic control.

Strengthens accountability

Funders have long held a desire for charities to demonstrate both accountability and impact (Huang et al, 2006; Buteau et al, 2020). They like to know what they have paid for and what it achieves. As a result, funders are keen to track the use of their money.

Funders often claim that restricting grants helps them to hold funded organisations accountable for their actions and performance. They use various restrictions to enforce accountability, including budgets, cost controls, timescales, performance measurements, outcome indicators and reporting requirements. The rationales for imposing accountability requirements through restricted funding are threefold. Firstly, restricted funding formalises funders' interests. Secondly, by specifying accountability measures, a funder creates oversight, which prevents charities from wasting money. Thirdly, restricted funding helps a funder to establish a direct link between the money granted, what it was spent on and what it achieves, thereby allowing the funder to assess impact. We explore all three rationales below.

[2] For those interested in debates into the resource allocation decisions of governments and NGOs, a useful entry point is provided by Davis, J. M. (2019). Real "non-governmental" aid and poverty: comparing privately and publicly financed NGOs in Canada. *Canadian Journal of Development Studies*, 40(3), 369-386.

Formalises the funder's interests

Placing restrictions on grants helps to formalise funders' interests and establish clarity of expectations. Indeed, imposing accountability measures has been found to minimise ambiguity over a funder's expectations, especially when a funded organisation is unfamiliar with a funder (Hunnik et al, 2021). Lack of ambiguity in funding relationships is highly valued by funding organisations but not, in their view, dependent on restricted funding or any particular funding approach (IVAR, 2022).

Accountability measures help to firmly establish the funder as a key stakeholder. However, although funders can impose accountability measures because they control the monetary resources, such practice risks privileging their accountability concerns over other stakeholders. Charities have multiple accountabilities, including to funders, to beneficiaries, to partner organisations and internally to their charitable mission. Funder-imposed accountability measures can crowd out and compromise these other forms of accountability.

Multiple studies into the experiences of charity staff working at a grassroots level have shown how meeting funders' prescribed accountability requirements can compromise internal accountability to the funded organisation's organisational mission (Christensen and Ebrahim, 2006; O'Dwyer and Unerman, 2008; Henderson and Lambert, 2018; Clerkin and Quinn, 2019; Yang and Northcott, 2018). This scenario is likely when a funder's accountability requirements do not align with the funded organisation's internal requirements. For example, one research study showed how funders' requirements influenced the structure of internal accounting systems and the production of management information, with priority being given to generating information on service user numbers for funders rather than on service quality for internal management purposes (Henderson and Lambert, 2018).

Funded organisations often say that funder-imposed requirements compromise their ability to generate management information that will improve outcomes and effectiveness. Various studies have shown how funded organisations direct resources towards recoding and reporting data for upward accountability and away from measurements that will help them to understand and improve their activities and services (O'Dwyer and Unerman, 2008; Clerkin and Quinn, 2019; Yang and Northcott, 2018). This suggests that funder reporting requirements get in the way of the need for organisations to understand the effectiveness of their work and efficiently allocate resources to the activities with most potential to make a difference.

There is also reason to suspect that funder reporting requirements can crowd out an organisation's accountability to beneficiaries. There is not much research on this issue. However, a study of NGOs operating in Ghana showed how fieldworkers felt a strong sense of responsibility to their beneficiaries and that processes implemented to satisfy upward accountability requirements challenged their sense of downward accountability (Agyemang et al, 2017).

While funder-imposed accountability requirements may inhibit other accountabilities, funded organisations are not necessarily passive in accepting funder requirements. Some organisations try to mediate the tensions between conflicting accountabilities (Christensen and Ebrahim, 2006). Other organisations use a range of avoidance, adaptation and shaping tactics to retain autonomy (Henderson and Lambert, 2018). Fieldworkers have been found to pragmatically work around or adapt funder-imposed accountability requirements to fit their local contexts (Agyemang et al, 2017). This suggests that restricted funding accountability measures may be less effective than funders think.

Prevents wasteful use of resources

The rationale that restrictions prevent charities wasting money is not easily substantiated. It would seem to require evidence that charities spend money less well when it is unrestricted. A couple of research studies suggests that the use of restrictions by funders can exert a form of financial discipline over organisations. Mensah and Werner (2003) found that US non-profit higher education institutions with greater donor-imposed financial restrictions were generally more cost efficient. That said, this study relied on a very small sample size and may not be generalisable beyond the context studied. Shon et al (2019) used a large data set of US non-profits to show that funder restrictions led to lower expenditure on administrative expenses and higher expenditure on programme services. This accords with other research showing a downward trend in reported overhead expenditure between the 1980s and 2000s (Lecy and Searing, 2015), during which restricted funding rose.

It is understandable that funders want funded organisations to spend their money well and that they are comforted by the establishment of clear and direct lines of accountability. However, a growing body of evidence shows that this reassurance often comes at a cost. Funder-imposed accountability measures can create unintended harms that damage funded organisations and their pursuit of mission. Instead of limiting wasteful practice, evidence suggests that restricted funding actually increases waste. Funded organisations often perceive funders' accountability demands as tedious and onerous and take steps to circumvent them (Christensen and Ebrahim, 2006; Henderson and Lambert, 2018). Waste also occurs when organisations spend monies to use up a budget at the end of a grant period (Clerkin and Quinn, 2019). Furthermore, funders' desire to minimise overhead expenditure is misguided because it weakens organisations and damages their capabilities (Mitchell and Calabrese, 2022).

Better able to evaluate impact

We now consider whether funders can better evaluate the long-term effects of their funding, otherwise known as 'impact', by placing restrictions on grants. Funders seem increasingly concerned to capture the impact of their grant-making and expect funded organisations to demonstrate how their grants have generated evidence-based results. By imposing specific reporting requirements, funders encourage funded organisations to develop outcome measurement practices (Yang and Northcott, 2018).

In certain circumstances, funded organisations welcome the accountability requirements of funders. For example, increased funder oversight has been found to help funded organisations build capacity, although this was often dependent on the goals of the funder and funded organisation being well aligned and the funder being supportive (Boesso et al, 2022). Accountability demands need not necessarily impede organisations, especially if the funder considers whether and how reporting requirements are useful for the organisation and its beneficiaries (Christensen and Ebrahim, 2006). However, while funder-imposed accountability measures may help establish a direct link between money granted and outcomes, they may also have the undesirable effect of impairing impact. Efforts to relate a grant to a set of outcomes assumes a linear cause and effect relationship which may fail to recognise complexity. Funder-imposed accountability measures often focus on indicators of achievement that are short-term, project-based and quantifiable, which tend to define success narrowly and neglect the complexities of the operational context (O'Dwyer and Unerman, 2008). Where funders are perceived to be interested in controlling rather than listening and learning, funded organisations may be reluctant to capture and report information that contextualises performance (Agyemang et al, 2017). Furthermore, by focusing on narrow accountability measures, a funded organisation's ability to deal with a distinct context and changing situations may be compromised, thereby limiting learning and innovation (Clerkin and Quinn, 2019). Thus, funder-imposed accountability measures can impede learning and damage long-term effectiveness.

Altogether, the evidence suggests that funder-imposed accountability requirements are likely to cause issues when they are misaligned with funded organisations' internal accountabilities. This has led to the suggestion that funders must have more conversations with funded organisations to establish mutually agreeable accountability measures that avoid misalignment (Agyemang et al, 2017; Yang and Northcott, 2018). Moreover, it has been suggested that the accountability issue is best resolved by funders assessing funded organisations against the achievement of goals and outcomes that the funded organisation sets out in their own strategic plan (Riemer et al, 2017). Similarly, Cairns et al (2021) argue that funders don't need to restrict grants if they feel comfortable being a part of, rather than owning, achievements. The TCC Group (2017) has developed a framework for assessing the effectiveness of unrestricted grants, which funders may find useful.

Lawful compliance with a funder's objects

The requirement of trusts and foundations to make grants in accordance with their charitable objects sometimes drives restricted grant-making. If a trust or foundation wishes to give money to an organisation that is not a charity or that has legal objects wider than its own, they are legally obliged to restrict the use of funds.

This is not an area that has received the attention of researchers, probably because these circumstances don't arise often and, even then, it is a largely straightforward legal matter. As such, this rationale is probably best illustrated with a simple example. Let's take a funder with charitable objects of relieving poverty in Brazil. If the funder received an application from an international aid organisation that works across multiple countries, it would be obliged to restrict a grant to poverty alleviation programmes in Brazil. The funder could not legally support work in other countries, making a restriction necessary to remain lawful. Within this broad envelope, no further restrictions are necessary on legal grounds.

The frequency in which a restriction is needed to lawfully comply with a funder's objects is likely to be determined by the specificity of a funder's objects. Similarly, if a charitable organisation has very broad objects that give it legal power to perform a wide range of activities, it may be harder to obtain unrestricted grants.

Rationales for unrestricted funding

Funded organisations make better strategic choices

Let us now consider rationales in favour of unrestricted funding. We start with the argument that unrestricted funding allows funded organisations to be more strategic and more effective in allocating resources. Various research studies have identified how unrestricted funding gives organisations greater autonomy and the freedom to choose what to work on (Clerkin and Quinn, 2019; NIRAS, 2020; Wiepking and de Wit, 2020). As one research participant described, unrestricted funding puts funded organisations '*in the driver's seat*' (NIRAS, 2020: 3). We explore the potential benefits of this in the following sections.

Facilitates improved strategic planning by organisations

Unrestricted funding gives organisations the time, resources and freedom to engage in strategic planning. By creating the conditions for strategic thinking, unrestricted funding has led to improved strategic planning by funded organisations (Riemer et al, 2017; Buteau et al, 2022; Conservation Learning, 2022). Crucially, unrestricted funding allows organisations to focus on making strategic decisions in line with their charitable mission (Wallace and Saxton, 2018). This contrasts with restricted funding, which has been found to impede the development of strategic plans (Kender-Jeziorska, 2019).

Devolves power to communities

Unrestricted funding also creates opportunities to devolve power to communities. Indeed, devolving power to communities offers a strong rationale for unrestricted funding that places equity at the heart of the funding process. GEO (2022) makes a good case for how unrestricted funding creates the space for funded organisations to engage people directly affected by their work. They argue that this is beneficial because people closest to the issues are best placed to generate effective and viable solutions. Organisations have said that unrestricted funding allows them to make strategic decisions based on the views of the community they serve, rather than being funder-led (Wallace and Saxton, 2018; Firth et al, 2022). This dynamic was also highlighted during the Covid-19 pandemic when a rise in unrestricted funding shifted decision-making powers away from funders and towards funded organisations closer to the community (Ayer and Anderson, 2022). That said, the evidence for unrestricted funding devolving more power to communities is currently based on the testimony of funders and funded organisations. While unrestricted funding devolves power to funded organisations, there is no guarantee they will further devolve it to communities. The case for unrestricted funding would be stronger if it was also supported with evidence from communities and objective assessment of data linking funding type to community influence over organisational strategies.

Better strategic performance

Improved strategic performance is another potential benefit of unrestricted funding. Once again, we depend on the views of funded organisations for our evidence here. For example, in the opinion of various conservation organisations, unrestricted funding helps them to work more strategically and implement their plans, leading to improved performance and delivery against their strategic objectives (Conservation Learning, 2022). However, objective evidence linking unrestricted funding, strategic planning and impact is largely absent. The literature coming closest is from Hung and Berrett (2021), who found that unrestricted funding was positively associated with the outputs of culture-based organisations. They measured outputs by the number of people attending programmes and events, which may not capture the quality of experience. Nevertheless, it does link funding type to the achievement of charitable mission in a passable way. More studies like this would be welcome.

Contextual factors

We note from the literature how context often affects the extent to which strategic control is essential for funded organisations. For example, there is strong evidence showing that unrestricted funding and strategic autonomy are crucial for advocacy organisations because they can work independently from their funders and remain unhampered in their campaign choices (O'Dwyer and Unerman, 2008; Wiepking and de Wit, 2020). These findings suggest that funding which compromises funded organisations' strategic control may be more damaging in some fields of activity than others.

We also note that most literature on organisational strategic control benefits is based on studies of multi-year unrestricted funding (Wallace and Saxton, 2018; NIRAS, 2020; Wiepking and de Wit, 2020; Conservation Learning, 2022). It is not clear how far short-term unrestricted funding generates strategic planning benefits for funded organisations. Unrestricted funding may need to be multi-year for the full strategic planning benefits to materialise.

Strengthens funded organisations

A central rationale for providing unrestricted funding is that it strengthens organisations. This argument is reflected in a key finding from a recent evaluation of the Ford Foundation's Build Program which provides multi-year flexible funding to organisations. 87% of funded organisations in this programme reported that multi-year flexible funding had a large positive influence on their organisation (NIRAS, 2020). This benefit is thought to arise because unrestricted funding allows organisations to build better organisational infrastructure, manage human resources effectively and improve their financial health. We explore evidence in support of these rationales in the sections below.

Better organisational infrastructure

In recent times, too many charitable organisations have struggled to fund their overhead costs. In the United States of America, where data is available to measure such expenditures, there was a downward trend in reported overhead costs between 1985 and 2007 (Lecy and Searing, 2015). This decline has been attributed to funders being unwilling to fund overhead costs, preferring instead costs directly incurred in specific programme activities. Consequently, many organisations have spent too little on overheads to the detriment of overall organisational performance (Mitchell and Calabrese, 2022).

Evidence from research suggests that unrestricted funding helps to solve this issue. Across a range of studies, organisations in receipt of unrestricted funds report being better able to invest in internal management and administration systems (Cairns et al, 2014;

Riemer et al, 2017; Wallace and Saxton, 2018; NIRAS, 2020; Wiepking and de Wit, 2020; Conservation Learning, 2022). The management and administrative processes they can invest in are wide-ranging. They often include financial accounting and IT management systems but can also extend to other less familiar processes such as performance measurement systems (Riemer et al, 2017) and digital security protocols and procedures (NIRAS, 2020). These various studies illustrate how funded organisations appreciate unrestricted funding because it allows them to make their own judgements as to whether investing in organisational overheads will improve organisational performance.

Improves financial health

Unrestricted funding is also thought to give organisations more control over financial management. Research has established various benefits including the ability to cope with fluctuations in other revenues (Wiepking and de Wit, 2020), the strategic management of reserves (Wiepking and de Wit, 2020; Mills et al, 2022) and greater financial stability (Riemer et al, 2017). Organisations have also said that unrestricted funding allows them to make appropriate investments in fundraising and acquire more funds (Conservation Learning, 2022).

However, research concluding that unrestricted funding improves the financial health of organisations is mostly based on the subjective perceptions of organisational staff and trustees. The case could be stronger with evidence linking unrestricted funding to objective measures of organisational financial health. We note that various academics have investigated the impact of donor-imposed restrictions on the financial performance of funded organisations. We list some of the studies in the footnote below.[3] However, these studies use contested indicators of financial health and performance. The research has also generated mixed results and contrasting conclusions. If quantitative research is to contribute more towards assessing the impact of unrestricted funding on the financial health of funded organisations, more work is needed to agree suitable indicators of financial performance.

Improves management of human resources

New evidence has recently suggested that unrestricted funding helps organisations manage their human resources more effectively. Various studies have discovered how unrestricted funding gives organisations more freedom to manage their human resources, restructure departments and hire new staff in accordance with their strategic plans (Riemer et al, 2017; NIRAS, 2020; Conservation Learning, 2022). Unrestricted funding also provides resources that can be invested in staff professional development (Buteau et al, 2022).

[3] These studies have used quantitative data to explore the relationship between funding restrictions and the finances of funded organisations:

- Li, W., McDowell, E., & Hu, M. (2012). Effects of financial efficiency and choice to restrict contributions on individual donations. *Accounting Horizons*, 26(1), 111–123.
- Mensah, Y. M., & Werner, R. (2003). Cost efficiency and financial flexibility in institutions of higher education. *Journal of Accounting and Public Policy*, 22(4), 293–323.
- Surysekar, K., Turner, E., & Wheatley, C. (2015). On the association between donor-imposed financial inflexibility and future donations to charitable organizations. *Journal of Management Accounting Research,* 27(1), 63–79.
- Yermack, D. (2017). Donor governance and financial management in prominent US art museums. *Journal of Cultural Economics*, 41(3), 215–235.

Contextual factors

We note that much of the literature on organisational strength is based on studies of organisations receiving multi-year unrestricted funding (Wallace and Saxton, 2018; NIRAS, 2020; Wiepking and de Wit, 2020; Conservation Learning, 2022). Although it may be reasonable to conclude that short-term unrestricted funding makes some contribution, it seems unlikely to deliver the same level of organisational infrastructure, financial health and human resource management benefits. Certainly, more multi-year funding is a high priority for funded organisations as they seek to achieve greater stability for their operations and their work (Firth et al, 2022). Unrestricted funding may need to be multi-year for funded organisations to maximise their strength.

Promotes creativity and innovation

Another emerging rationale for providing unrestricted funding is that it allows organisations to invest in innovation. This argument is important because it aligns with the notion that charities should be a creative force in addressing the world's social and environmental problems.

Research has found how unrestricted funding can help funded organisations engage in more research and feasibility testing (Riemer et al, 2017) and experiment to solve problems (Cairns et al, 2021). Unrestricted funding is important because it allows organisations to invest in research and development, even though the outcomes of new ideas are uncertain (Wiepking and de Wit, 2020). Organisations reliant on restricted funding often experience problems taking new ideas forward, but unrestricted funding allows them to bridge the gap between conception and implementation (Conservation Learning, 2022).

The case for unrestricted funding providing the freedom to experiment is an attractive one, although it could be argued that funders can support creativity and innovation through restricted grant programmes. More research is required to understand whether and in what circumstances this approach might deliver value over and above that offered by unrestricted funding.

Enhances adaptability

The ability of organisations to adapt to a changing operating environment is a common rationale in favour of unrestricted funding. Indeed, this argument is well supported by research studies showing how unrestricted funding gives organisations the freedom to respond to changing circumstances, including unexpected events, emergencies or crises (Wallace and Saxton, 2018; Kender-Jeziorska, 2019; Wiepking and de Wit, 2020; CAF America, 2022; Conservation Learning, 2022; Firth et al, 2022).

Research has shown that restricted funding impedes organisations responding to the evolving needs of service users (Kender-Jeziorska, 2019). Funding restrictions, especially for longer-term grants, can become unworkable as circumstances change and prevent funded organisations from adapting (Helms et al, 2005). The process for obtaining a funder's agreement to a change in restrictions may be slow and, even then, permission may not be granted.

The recent Covid-19 pandemic highlighted the value of unrestricted funding. Organisations receiving unrestricted funding were able to react quickly and adapt their activities to cope with drastically different circumstances (CAF America, 2022). Indeed, the Covid-19 pandemic led many funders to provide more unrestricted funding because they realised that funded organisations could more readily prioritise money to where it was most needed (Ayer and Anderson, 2022; Buteau et al, 2022). Flexible funding also helped organisations to manage their financial resources more effectively (Mills et al, 2022) and to invest in staff development and capacity building while field activities were prohibited (Conservation Learning, 2022). Thus, research during the Covid-19 pandemic has added further evidence to the argument that unrestricted funding helps organisations to be agile and adaptable.

Supports collaboration

Although not cited widely by advocates of unrestricted funding, a couple of recent studies have suggested that organisational collaboration is a benefit of unrestricted funding. In a PhD study of conservation organisations, Elliot (2022) noted how collaborative activity requires staff resource and that organisations whose income was dominated by restricted project-based funding often don't have the spare capacity to participate. Consequently, organisations that depend heavily on project funding were less able to engage in explorative and unfunded collaborations. An interim evaluation of the Ford Foundation's programme of multi-year unrestricted grants also found that unrestricted funding helped organisations to participate in sector networks (NIRAS, 2020). Both studies suggest that organisations are more willing to share ideas and outcomes without the pressure to satisfy funders' accountability concerns and claim impact.

Creates more trusting relationships

Funders that provide unrestricted grants often do so because they believe it will build trust and strengthen relationships with funded organisations (Buteau et al, 2020). It is a rationale that finds support from a growing body of evidence.

Funded organisations have told researchers that unrestricted funding helps to establish a more equal power dynamic between themselves and funders (Hunnik et al, 2021). Funders have also said they are aware of this levelling of the power dynamic (Cairns et al, 2021). Unrestricted funding also helps to convey trust. Organisations in receipt of unrestricted grants felt that funders trusted them to run their organisation effectively, spend money wisely and achieve as much impact as possible (Wallace and Saxton, 2018; Hunnik et al, 2021; Ford Foundation, 2022).

By levelling the power dynamic and building trust, unrestricted funding has been found to strengthen relationships. Unrestricted funding helps to establish closer and more constructive engagement between funders and funded organisations (Wallace and Saxton, 2018; NIRAS, 2020). Funded organisations are more comfortable speaking to funder staff (Riemer et al, 2017) and more likely to have honest conversations (Buteau et al, 2020), and they find these interactions more helpful (Riemer et al, 2017). Funded organisations also report that funders are more responsive to their organisational needs (Riemer et al, 2017). Trusting relationships need not be close or resource intensive, provided they are founded on proportionate expectations, clear communication and prompt responses to questions and substantive reports (Firth et al, 2022).

Although a growing body of evidence suggests that unrestricted funding creates more trusting relationships, we should also note some limitations. The development of trust is complex, and it would be wrong to assume that it is a guaranteed outcome of unrestricted funding. Other factors are inevitably at play. Barman (2007) notes how fundraisers shape their requests according to their understanding of the donor-fundraiser relationship and the wider funding context. By offering restricted funding, it could be argued funders are creating clear expectations. This accords with research that found, in the absence of explicit restrictions, funded organisations sometimes experienced ambiguity of expectations which created uncomfortable uncertainty (Hunnik et al (2021). The same research study also noted that even with unrestricted funding, funder power can still be exerted in unintended, less visible and subtle ways. This led the authors to conclude that, when providing unrestricted funding, there was a need for funders and funded organisations to communicate and make expectations explicit.

Reduces the cost of fundraising and grant management

Managing grants requires applicant organisations to invest in preparing applications and, if successful, meeting reporting obligations. These costs can be substantial, especially when the funding is project-based and requires each application to be different (Kender-Jeziorska, 2019) and when success rates are low (Saxton and Lindstrom, 2012).

The annual cost of UK organisations applying for grants from charitable trusts and foundations has been estimated at £900 million.[4] It has been suggested these costs could be reduced if more funders offered unrestricted funding because charities could then submit the same (or very similar) unrestricted funding application to multiple funders instead of preparing a bespoke project-based application for each (Cairns et al, 2021; Ayer and Anderson, 2022). This would seem to be beneficial, although it is possible that the increased ease of submitting applications for unrestricted funding could, in aggregate, generate a higher volume of applications and lower success rates. Research has yet to address this issue. As such, claims that a shift towards unrestricted funding would necessarily reduce fundraising transaction costs remain uncertain.

Funders that provide unrestricted funding can create lighter compliance processes because they do not require bespoke project reports and can be satisfied with reports on overall organisational performance (Cairns et al, 2021). This is beneficial to funded organisations because they don’t have to spend time managing funder restrictions (Buteau et al, 2022) and they are not burdened by individual reporting requirements (Ayer and Anderson, 2022). These findings link closely to evidence on the shortcomings of funder-imposed accountability measures noted in the above section on strengthening accountability.

[4] The estimated cost of fundraising from trusts and foundations comes from: Barnard, H., Fiennes,C., Bull, G., and Sandford, S. (2022). *Giving pains: The cost of grant-making*. Pro-Bono Economics.

In conclusion

The aim of this review was to understand the rationales for restricted and unrestricted funding and to assess the supporting evidence for each. We hope that, by exploring the rationales and assessing the evidence, our analysis will help funders to think through their own grant-making practices.

We conclude by offering a summary of the findings in relation to each rationale, with our reflections on the strength of the evidence in support of this rationale and any questions this raises for funders. We offer our assessment of the strength of evidence as a guide to readers rather than a conclusive statement. As discussed at the outset, the disparate nature of relevant literature and limitations on our own resources mean we do not claim to have produced a definitive account of the state of the evidence available. There will be scope to improve this analysis both from existing literature we have not uncovered and from future research. We end with observations on changes in practice that would support the development of a deeper and more systematic evidence base.

Summary: Rationales for restricted funding

Funders exert enlightened strategic control

Funders' principal rationale is that they are well positioned to take a holistic perspective, determine effective strategies and allocate resources to the highest impact activities.

This view appears to be underpinned by an assumption that funded organisations are less effective at allocating resources to those activities likely to produce the best outcomes.

Funders can dictate strategy because they control the resources and charitable organisations must raise funds for their work.

As funders determine priorities, funded organisations may experience 'mission drift', deviating from their original mission and manipulating their programmes to match funder preferences.

However, funded organisations often take action to preserve their autonomy, adopting coping strategies to avoid, adapt or reshape funder requirements and exercise strategic choice within their operating environment.

Reflections for funders

We found insufficient evidence in support of 'Funders exert enlightened strategic control' as a rationale for restricted funding.

Our review illustrates how little we know about how outcomes and impact are influenced by whether funders or funded organisations make key strategic resource allocation decisions. Where literature does cover the issue, questions of effectiveness tend to rely on the subjective perceptions of funders and funded organisations.

The absence of objective evidence supporting the rationale that funders exert enlightened strategic control should be a particular concern for funders because it is a central driver behind making restricted grants.

We also note that more funders are looking to devolve greater power to communities and place equity at the heart of their grant-making. This shifts the dilemma from being about effective use of resources from a funder's perspective to being a more nuanced judgement about how, and by whom, need, value and impact should be determined.

Strengthens accountability

Formalises the funder's interest:

Accountability measures (e.g. budgets, cost controls, timescales, performance measurements, outcome indicators and reporting requirements) minimise ambiguity over a funder's expectations and help to firmly establish the funder as a key stakeholder.

Charities have multiple accountabilities – to funders, beneficiaries, partner organisations and mission. Funder-imposed accountability measures can crowd out and compromise these other forms of accountability.

Some funded organisations try to mediate tensions: others use a range of avoidance, adaptation and shaping tactics to retain autonomy.

Prevents wasteful use of resources:

Use of restrictions by funders can exert a form of financial discipline over organisations, most strongly seen in lower reported expenditure on overheads and higher spending on programme services.

However, a desire to minimise overhead expenditure may weaken organisations and damage their capabilities. Instead of limiting wasteful practice, evidence suggests that restricted funding may actually increase waste.

Better able to evaluate impact:

By imposing specific reporting requirements, funders encourage funded organisations to develop outcome measurement practices. And increased funder oversight has been found to help funded organisations build capacity, provided their goals are well aligned and the funder is supportive.

But funder-imposed accountability measures may also impair impact. Overly narrow indicators of achievement, insufficient allowance for complexity and a focus on control, for example, may skew data capture and reporting and compromise funded organisations' ability to deal with changing situations, thus impeding learning and damaging long-term effectiveness.

Funder-imposed accountability requirements are less likely to cause issues when they are also useful to the organisation and its beneficiaries and aligned with funded organisations' internal accountabilities. Where funders are comfortable contributing to achievements rather than seeking to draw a line between 'our money and this specific result', this can be relatively easily achieved.

Reflections for funders

We found weak and/or contradictory evidence in support of 'strengthens accountability' as a rationale for restricted funding.

The weak and often contradictory evidence that underpins the rationale for making restricted grants to strengthen accountability is a cause for concern. The clear expectations that tend to come with restricted funding have the benefit of reducing the potential for ambiguity and uncertainty. However, our review highlights a significant body of academic literature showing how funder-imposed accountability measures can impair funded organisations and their pursuit of mission. Restricted funding often privileges funders' accountability concerns at the expense of other important stakeholder accountabilities. Unless more funders can align their accountability requirements with the internal accountabilities of funded organisations, claims that restricted funding strengthens accountability are likely to remain misplaced.

Lawful compliance with a funder's objects

If a trust or foundation wishes to give money to an organisation that is not a charity or that has legal objects wider than its own, they are legally obliged to restrict the use of funds. Within this broad envelope, no further restrictions are necessary on legal grounds.

Reflections for funders

We found strong evidence in support of 'lawful compliance with a funder's objects' as a rationale for restricted funding.

Largely a straightforward legal matter, this is not an area that has received the attention of researchers. Funders still have freedom to choose a 'light touch' approach to any restriction required by their objects, in line with relevant legal and regulatory guidance.

Summary: Rationales for unrestricted funding

Funded organisations make better strategic choices

Facilitates improved strategic planning by organisations:

Unrestricted funding gives organisations the time, resources and freedom to engage in strategic planning. This has led to improved strategic planning and a stronger focus on making strategic decisions in line with their charitable mission.

Devolves power to communities:

Unrestricted funding creates the space for funded organisations to engage people directly affected by their work. It allows them to make strategic decisions based on the views of the community they serve, rather than being funder-led.

While unrestricted funding devolves power to funded organisations, there is no guarantee they will further devolve it to communities.

Better strategic performance:

Funded organisations report that unrestricted funding helps them work more strategically and implement their plans, leading to improved performance and delivery against strategic objectives.

Contextual factors:

Funding which compromises funded organisations' strategic control may be more damaging in some fields of activity than others.

Unrestricted funding may need to be multi-year for the full strategic planning benefits to materialise.

Reflections for funders

We found a mix of moderately good and insufficient evidence in support of 'Funded organisations make better strategic choices' as a rationale for unrestricted funding.

The research evidence provides reasonable assurance that enabling funded organisations to exercise greater control over strategy means they make better choices when judged in the light of their own mission, priorities and changing context. In light of these findings, funders may wish to consider what, if any, additional value they see in restricted funding above and beyond that delivered by their own due diligence processes. Funders dedicate considerable time and resource to selecting the organisations they wish to fund and providing unrestricted funding could be considered an expression of confidence in their assessment process.

There is, however, a deficit of evidence to resolve the tension between this rationale for unrestricted funding and 'funders exert enlightened control' (identified as a key rationale for restricted funding) in relation to outcomes and impact. Potential ways forward are discussed in our observations below.

Strengthens funded organisations

Better organisational infrastructure:

As a result of funder preferences for project/programme grants, many organisations have spent too little on overheads to the detriment of overall organisational performance.

Organisations in receipt of unrestricted funds are better able to invest in internal management and administration systems and to make their own judgements about their investment priorities and whether/how these will improve their performance.

Improves financial health:

Benefits to funded organisations include the ability to cope with fluctuations in other revenues, the strategic management of reserves, and greater financial stability. They can make appropriate investments in fundraising and acquire more funds.

Quantitative research on the impact of unrestricted funding on organisational financial health has had mixed results, often foundering on contested indicators of financial health and performance.

Improves management of human resources:

Unrestricted funding gives organisations more freedom to manage their human resources, restructure departments, hire new staff in accordance with their strategic plans and invest in staff professional development.

Contextual factors:

More multi-year funding is a high priority for funded organisations as they seek to achieve greater stability for their operations and their work. Unrestricted funding may need to be multi-year for the full potential for strengthening organisations to materialise.

Reflections for funders

We found good evidence in support of 'Strengthens funded organisations' as a rationale for unrestricted funding.

The evidence base here benefits from some larger quantitative studies. It would be further strengthened if agreement could be reached between funders and funded organisations on appropriate and meaningful indicators of financial health and performance.

Promotes creativity and innovation

Unrestricted funding can help funded organisations engage in more research and feasibility testing and experiment to solve problems.

It allows them to invest in research and development, even though the outcomes of new ideas are uncertain and to bridge the gap between conception and implementation.

Reflections for funders

We found insufficient evidence in support of 'Promotes creativity and innovation' as a rationale for unrestricted funding.

Research into the connection between unrestricted funding and creativity/innovation is relatively recent, although initial findings indicate that it supports a conducive environment. As a number of funders give priority to innovation but often use restricted grants, further comparative research would add considerable value to their thinking.

Enhances adaptability

Unrestricted funding gives organisations the freedom to respond to changing circumstances, including unexpected events, emergencies or crises.

Restricted funding impedes funded organisations responding to the evolving needs of service users. Funding restrictions often slow, and may prevent, organisations adapting as circumstances change.

Research during the Covid-19 pandemic has added further evidence to the argument that unrestricted funding helps organisations to be agile and adaptable.

Reflections for funders

We found strong evidence in support of 'enhances adaptability' as a rationale for unrestricted funding.

Evidence in this area has been considerably strengthened by the body of research generated in relation to Covid-19. Our review has highlighted how context shapes funders' decisions on whether to make restricted or unrestricted grants. Responses to the restriction dilemma may reasonably change given different circumstances and it would be wrong to characterise either type of funding as inherently good or bad. However, where funders are concerned to equip funded organisations to respond well to volatile and uncertain environments, this rationale for unrestricted funding is strong.

Supports collaboration

Organisations that rely largely on restricted project-based funding are often less able to free staff to engage in explorative collaborations or sector networks.

Unrestricted funding reduces the pressure to satisfy funders' accountability concerns and claim impact, making organisations more willing to share ideas and outcomes with peers.

Reflections for funders

We found insufficient evidence in support of 'Support collaboration' as a rationale for unrestricted funding.

Organisational collaboration is a rarely cited benefit of unrestricted funding but research evidence mirrors formal and informal feedback that will be familiar to many. As both funders and funded organisations continue to take an active interest in collaborative activity as one mechanism for increasing their reach and impact, further research into the positive role that unrestricted funding can play will be of value.

Creates more trusting relationships

Both funded organisations and funders experience unrestricted funding as helping to level the power dynamic between them. It is seen by funded organisations as an expression of trust in their ability to manage effectively, spend money wisely and achieve as much impact as possible.

Funded organisations find funders more responsive to their needs; they are more comfortable speaking to funder staff, and more likely to have honest conversations and find these interactions helpful.

The development of trust is complex and not guaranteed. There remains a need for funders and funded organisations to communicate and make expectations explicit. Otherwise funded organisations can experience uncomfortable uncertainty. And funder power may be exerted in unintended, less visible and subtle ways.

Reflections for funders

We found moderately good evidence in support of ‘creates more trusting relationships’ as a rationale for unrestricted funding.

Overall, the evidence for unrestricted funding as a driver of more trusting funding relationships is relatively strong. However, it is clear that the funding model is only part of a more complex dynamic, with both the clarity of expectations and the way in which the funding relationship is managed by the funder being strong components.

It is also worth noting the emerging evidence that funded organisations can experience trusting relationships with funders without these relationships being close. Given some funders’ concern that unrestricted funding will be more resource intensive for them, more research into this area would be of value.

Reduces the cost of fundraising and grant management

The annual cost of UK organisations applying for grants from charitable trusts and foundations has been estimated at £900million. Allowing organisations to apply for unrestricted funding should reduce the effort required to submit individual applications, although it is unclear what effect this would have on the overall volume of applications and success rates.

Funders that provide unrestricted funding can create lighter compliance processes, which free funded organisations from the burden of managing restrictions and bespoke reporting requirements.

Reflections for funders

We found moderately good evidence in support of ‘Reduces the cost of fundraising and grant management’ as a rationale for unrestricted funding.

The cost and burden of fundraising is a matter of concern to both funders and funded organisations. Research to date indicates that unrestricted funding can help to relieve this burden, especially in relation to compliance and reporting requirements. There may also be potential cost savings in making individual applications, although it remains unclear how a shift towards greater unrestricted grant-making would affect the overall volume of applications and success rates. Further research is needed to analyse the costs of fundraising and grant management for funded organisations and to maximise the potential of unrestricted funding in reducing them.

Observations

It is clear from this review that there is scope to enhance the evidence base underpinning the debate about restricted and unrestricted funding. Both are valid funding approaches, which would be better supported by systematic and detailed analysis of what model works best, under what circumstances and for whom.

However, existing evidence makes it clear that funders cannot simply ‘wait and see’. Evidence for the assumed benefits of restricted funding offers an inadequate justification for the strong preference still shown by many for this funding model. On the other hand, evidence suggests that funded organisations’ continuing advocacy for more unrestricted funding is not simply a matter of preference but shows promise in delivering a range of benefits that are of importance to funded organisations and funders alike. The case for funders engaging with the arguments for change is a strong one.

Our review of literature has shown a growing interest in funding dilemmas and the consequences of funding models, with the potential to inform funders as they move forward. However, a key research challenge is in comparing the experiences of organisations receiving mostly restricted funding with those that receive mostly unrestricted funding. Studies that capture just one of these perspectives are inevitably limited in advancing understanding. We have identified two barriers to progress on this front.

The first is the continuing reluctance of many funders to give unrestricted funding or to give it to a sufficiently wide range of organisational sizes and types. Without this diversity, the scope for balanced analysis is severely inhibited. The research evidence suggests enough assurance of the potential benefits of unrestricted funding – and enough uncertainty around the evidence base in support of the assumed benefits of restricted funding – to make this a reasonable shift for more funders to make. Momentum is slowly growing, and the literature offers valuable peer-to-peer insights and practical experience for others to draw on in taking their first steps.

The second barrier is access to reliable quantitative data on levels of restricted funding. Researchers in the US benefit from the Internal Revenue Service annual filings of US tax-exempt non-profit organisations. But, from a UK perspective, the Charity Commission, Charity Commission for Northern Ireland and Office of the Scottish Charity Regulator do not collect data on the split between total unrestricted income and restricted income received each year. Although charities routinely report this split in their annual accounts, they do not have to report it in their annual returns. A change in practice by all three regulators – for example, enhancing the detail of the data available through digitisation of charity accounts – would significantly enhance the analysis of long-term trends in restricted funding and allow researchers to explore how the level of restricted income affects organisations.

Annotated bibliography

Explanatory note

An annotated bibliography for all literature cited in the main body of our report is provided below. For each source, we offer a brief description of the study and summarise key findings. We also provide some evaluative comments, although we have limited these to highlighting significant limitations. We hope that the information will help readers identify and access reports that may be of particular interest to them.

Bibliographic references

Agyemang, G., O’Dwyer, B., Unerman, J., and Awumbila, M. (2017). Seeking “conversations for accountability”: Mediating the impact of non-governmental organization (NGO) upward accountability processes. *Accounting, Auditing and Accountability Journal*, 2017.

This academic journal article sought to understand how upward accountability processes enable or constrain the effective deployment of development aid funding. The research collected qualitative data from in-depth interviews with 30 fieldworkers from 11 NGOs working in Northern Ghana. The research found that fieldworkers tended to perceive upward accountability measures as tools of external control. Their sense of responsibility to the NGO’s beneficiaries caused them to moderate and adapt upward accountability requirements. Fieldworkers desired more conversations with funders around accountability processes.

Ayer, S. and Anderson, P. (2022). *Trust and impact: Funders' perspectives on unrestrictive funding in Canada*. Imagine Canada.

This study explored funders’ perspectives on unrestricted funding in the context of the Covid-19 pandemic. Data was collected through semi-structured interviews with 25 funders in Canada. Interviews explored the changes funders had made since the Covid-19 pandemic, the benefits of those changes, the challenges they faced, and lessons learned. Interview data was analysed thematically. The research found that funders were trying to place fewer restrictions on their grants. Funders perceived the benefits of unrestricted funding to include strengthening organisations, more equitable and accessible funding, sharing power, and amplifying change.

Barman, E. (2007). An institutional approach to donor control: From dyadic ties to a field-level analysis. *American Journal of Sociology*, 112(5), 1416-1457.

This academic journal article explored how the operating environment affects donor-fundraiser relationships and the propensity for donors to exert control. It did this through a comparative case study of workplace giving schemes in San Francisco and Chicago. Data was collected from documents, participant observation and 66 semi-structured interviews with staff and fundraisers involved in workplace giving schemes. The research found that environmental factors (e.g. competition from rival fundraisers) influenced donor-fundraiser relationships, which led to different patterns of donor control. Donors' choices were often structured by fundraisers' solicitation strategies. Fundraisers may encourage funder restrictions if they feel it is more likely to secure resources and stave off competition.

Bennett, R., and Savani, S. (2011). Surviving mission drift: How charities can turn dependence on government contract funding to their own advantage. *Nonprofit Management and Leadership*, 22(2), 217-231.

This academic journal article explored how charities responded to mission drift induced by government funding. The research comprised case studies with three charities that had experienced significant mission drift as a result of accepting government funding. Data was collected by interviewing 17 people across the three charities. The study found that charities used various coping strategies to deal with mission drift and argued that responding to funder requirements had some positive benefits on charities. Positive consequences included building new activities and services and developing new capabilities.

Boesso, G., Cerbioni, F., Menini, A. and Redigolo, G. (2022). Beyond the money: grantors supporting their funded organisations. *Journal of Management and Governance*, 1-25.

This academic journal article analysed the impact of funders' operative support, goal alignment and performance oversight on funded organisations' organisational capacity. Findings were based on quantitative data collected from a survey of organisations funded by the Foundations of Italian Banks. The sample was small with just 242 respondents, which places limitations on the findings. The findings suggest that performance oversight (i.e. identifying issues to tackle, specifying activities to undertake, identifying other organisations to work with, emphasising results, and evaluating project results) could enhance organisational capacity, although the study also noted drawbacks associated with oversight and how goal alignment was an important factor in achieving benefits from performance oversight.

Buteau, E., Marotta, S., Martin, H., Orensten, N. and Gehling, K. (2020). *New attitudes, old practices: The provision of multi-year general operating support.* Cambridge, MA: Center for Effective Philanthropy.

This US-based study explored attitudes and practices around the provision of multi-year general operating support. The research adopted a mixed method approach. Data was collected via a survey which examined foundations' perspectives on different types of grants. The survey was completed by 168 foundation CEOs and 105 foundation programme officers. 43 foundations also participated in in-depth interviews. Furthermore, the study drew upon a survey of 212 CEOs of non-profit organisations. The study found that although foundation leaders believed that the provision of multi-year general operating grants are an effective means for supporting funded organisations' work, foundations rarely provided such funding. The research uncovered various barriers to foundations providing multi-year general operating grants, although these barriers were not well articulated and were too diverse for common reasons to emerge. Foundations that did provide more multi-year general operating grants did so because they believed that it would build trust, strengthen relationships, and increase impact. Non-profit CEOs concurred that multi-year general operating support had a beneficial impact on the health of their organisation.

Buteau, E., Orensten, N., and Marotta, S. (2022). *Foundations respond to crisis: Lasting change?* Cambridge, MA: Center for Effective Philanthropy.

This US-based study explored the extent to which changes in funder practices made in the immediate response to Covid-19 would be sustained longer-term. The research adopted a mixed methods approach. Data was collected from a survey completed by 284 foundations and in-depth qualitative interviews with 33 foundation leaders and 32 non-profit leaders. The research found that many foundations planned to maintain most of their changes, including the granting of unrestricted funds, in a post-pandemic future. Funded organisations reported that they found that they appreciated funders' changed practices.

CAF America (2022). *Lessons in disaster philanthropy*. Downloaded on 29th November 2022 from https://www.cafamerica.org/covid19reports/

This report investigated the impact of Covid-19 on the charity sector around the world. Data was collected from a survey of 436 charitable organisations in five countries including India, Russia, South Africa, Brazil, and Argentina. The aim was to learn how recent surges in Covid-19 impacted their work and how they adapted. The study found that unrestricted funding played a crucial role in enabling charities to rapidly adapt to the humanitarian crisis caused by the pandemic.

Cairns, B., Firth, L. and Hopgood, R. (2021). *The holy grail of funding: Why and how foundations give unrestricted funding*. London: Institute for Voluntary Action Research.

This report explored the experiences of 12 UK trusts and foundations that provided unrestricted funding. It highlighted the reasons why funders offered unrestricted funding and how they went about it. The report highlighted seven points for consideration by funders thinking about offering unrestricted funding.

Cairns, B., Mills, C. and Ridley, S. (2014). *Thinking about... core funding*. London: Institute for Voluntary Action Research.

This report discussed the concept of core funding and its benefits and challenges. It drew upon interviews with representatives from 13 UK charitable trusts and foundations. The pamphlet explored the importance of core funding, which was defined as money for organisational running costs. It noted how core funding was often achieved through unrestricted income.

Chapman, T. (2023). *Third sector trends in England and Wales 2022: Finance, assets and organisational well-being*. Newcastle Upon Tyne: Community Foundation.

This report examines the income sources, property assets, financial reserves and organisational well-being of voluntary, community and social enterprise organisations in England and Wales. Data was collected from a large online survey of organisations, which is repeated every three years. The 2022 survey yielded 6,070 responses. Among a variety of findings, the research found that the proportion of voluntary sector organisations receiving some form of unrestricted funding rose from 46% in 2019 to 60% in 2022, which is suggestive of a change in practice by grantmakers.

Christensen, R. A., and Ebrahim, A. (2006). How does accountability affect mission? The case of a nonprofit serving immigrants and refugees. *Nonprofit Management and Leadership*, 17(2), 195-209.

This academic journal article explored how accountability demands affected funded organisations. It was based on the case study of a refugee support organisation in the USA. Data collection included field observations, qualitative interviews with staff and document analysis. The research found that funders often imposed substantial reporting requirements, which staff could regard as tedious. Overly burdensome accountability requirements were found to be counterproductive as they prevented staff from getting on with their work and meeting lateral and downward accountabilities. Staff tried to mediate the various tensions between upward, lateral and downward accountability. This task was made easier when funders' accountability requirements were aligned with the funded organisation's mission and lateral and downward accountabilities.

Clerkin, B. and Quinn, M. (2019). Restricted funding: Restricting development? *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 30(6), 1348-1364.

This academic journal article examined how the management accounting practices at three major international development NGOs were affected by accountability measures imposed via restricted funding. Qualitative data was collected through semi-structured interviews with senior staff at head offices in Europe and staff based in Uganda. The research found that the generation and use of financial and non-financial information was dominated by external accountability requirements, which crowded out the provision information that would allow internal management to make effective decisions about the internal allocation of resources.

Conservation Learning Initiative (2022). *Learn from evidence. Improve conservation.* Downloaded on 2nd December 2022 at https://conservation-learning.org/

This study sought to test the evidence base for the effectiveness of four conservation strategies, one of which was the provision of flexible funding. It drew upon published literature and data collected from the survey of 75 organisations funded by the MAVA Foundation, discussions with MAVA staff and a review of their funding proposals, reports and evaluations. The study found that organisations in receipt of flexible funding were more likely to work strategically, invest in organisational development and be resilient in times of crisis.

Elliot, L. (2022). *Enabling collaboration in conservation: An exploration of change, diversity and funding.* PhD Thesis: The Open University.

This PhD thesis explored how collaboration could be enabled in the conservation sector. The research focused on two collaborative settings, the Cambridge Conservation Initiative and the Biodiversity Revisited Initiative. Data was collected through participant observation, interviews, conversations, surveys, key document review and feedback opportunities. Among multiple findings, flexible funding was identified as a key enabler of collaboration among conservation organisations. The thesis concluded that there is a need for longer-term and more flexible funding to support collaborative processes, especially under conditions of complexity.

Firth, L., Rooney, K., Moran, R., Cairns, B. and Dyson, E. (2022). *Get the basics right: Findings from the Funding Experience Survey*. London: Institute for Voluntary Action Research.

This report sought to understand how funder practices affect charities. Data was collected from an online survey of charities, which was completed by 1,214 organisations. Among various findings, the report found that unrestricted funding is a high priority for funded organisations because it helps them to respond to changing circumstances and community needs.

Ford Foundation (2022). *Accelerating Equitable Grantmaking: Seizing the Moment to Norm Multiyear, Flexible Funding*. New York: Ford Foundation.

This research study, conducted on behalf of the Ford Foundation by MilwayPLUS, explored the enablers and barriers to funders making multi-year flexible grants. Data was collected from interviews with 43 leaders of funders and non-profits, plus focus groups with 15 funders and 15 non-profits that had significantly increased their multi-year, flexible funding over the past decade. The research identified five common barriers to making the shift to more multi-year unrestricted funding. These were budget policy, board bias for control, imbalance of power, beliefs about accountability, and bureaucratic roles and systems. The research also discovered five accelerators that could speed the transition to more multi-year flexible funding. These were clarification of values, obtaining funded organisation feedback, the funder adopting an equity lens, use of crises to galvanise change, and group influence by peers.

GEO (2022). *Centering Equity through Flexible, Reliable Funding*. Washington DC: Grantmakers for Effective Organizations.

This report makes the case for grantmakers providing flexible and reliable funding. It draws upon literature and in-depth interviews with 24 leaders from philanthropic and non-profit organisations. The report highlights seven rationales for flexible and reliable funding: strengthening organisational mission; investment in organisational infrastructure; organisational adaptability; fostering innovation and creativity; reducing power imbalances; catalysing community-driven approaches; and supporting more diverse leaders.

Helms, L., Henkin, A., and Murray, K. (2005). Playing by the rules: Restricted endowment assets in colleges and universities. *Nonprofit Management and Leadership*, 15(3), 341-356.

This academic journal article reviewed case law from the United States to examine the problems associated with the gift of endowment assets to colleges and universities. As well as restricting the use of capital, donors often place restrictions on what the income generated can be used for (e.g. a particular department). While noting the traditional rights of donors and the need to encourage charitable giving, the authors found that these could conflict with the needs of universities to determine their own interests and priorities. Indeed, donor restrictions often complicated the effective management and deployment of endowment assets.

Henderson, E., and Lambert, V. (2018). Negotiating for survival: Balancing mission and money. *The British Accounting Review*, 50(2), 185-198.

This academic journal article is based on case studies of four mid-size Scottish charities that supported people with additional support needs. Qualitative data was collected from interviews with 19 people from the charities and 10 funders. The findings demonstrate how funding requirements were often onerous and influenced charities' internal accounting and management information systems (e.g. prioritising the counting of service user numbers over the quality of services provided). This could cause charities to deviate from their original missions. Charities were not entirely passive, however, and used avoidance, adaptation and shaping tactics to maintain autonomy and minimise funder influence.

Huang, J., Buchanan, P., and Buteau, E. (2006). *In search of impact: Practices and perceptions in Foundations' provision of program and operating grants to nonprofits*. Cambridge, MA: Center for Effective Philanthropy.

This report sought to understand funder practices on restricted and unrestricted grant-making, and how each type of grant affected the organisations they fund. Data was collected via a survey completed by 14,882 grant-receiving organisations and 26 in-depth qualitative interviews with a sample of organisational leaders to understand their perceptions of funder practices. Data was also obtained from a survey of the CEOs of 163 foundations. The research found that despite most organisations appreciating large, multi-year and unrestricted grants, most grant-making was small, programme restricted and short-term. While the CEOs of foundations agreed that large multi-year general operating support grants were the most useful for the organisations they funded, they placed their own accountability concerns and other priorities higher in their grant-making decisions.

Hung, C., and Berrett, J. (2021). Service delivery under pressure: The effect of donor-imposed financial restrictions. *Public Performance and Management Review*, 44(3), 580-601.

This academic journal article investigated whether restricted funding inhibits non-profit performance. The research was based on data collected from an annual online survey of culture-related organisations across the USA, which yielded a sample of 7,893 culture-related non-profits. It found that donor-imposed financial restrictions are negatively associated with the outputs of culture-based organisations, as measured by the number of people attending programmes and events. The findings suggest that donor-imposed restrictions hinder non-profit service delivery. Although the study is limited by a potential self-selection bias in the sample and uses a fairly rudimentary dependent variable to measure performance, it is one of the few studies that has investigated the relationship between funding restrictions and impact.

Hunnik, O., de Wit, A., and Wiepking, P. (2021). (In)equality through unrestricted grantmaking: Examining trust and power in the collaboration between the Dutch Charity Lotteries and their funded organisations. *The Foundation Review*, 13(2), 7.

This study looked at how unrestricted grant-making influences the relationship between a funder and their funded organisations. Data was collected from 15 semi-structured interviews with representatives from 12 non-profit organisations funded by the Dutch Postcode Lottery. The research findings illustrated how funded organisations

experienced a more equal power dynamic with unrestricted funding, which gave them more confidence to decline funder demands. However, the research also highlighted the complexity of power dynamics and how invisible and implicit assumptions and expectations shape relationships. In the absence of explicit communication, relaxing restrictions could create ambiguity of expectations and lead to uncertainty among funded organisations.

Kender-Jeziorska, I. (2019). Needle exchange programmes in Visegrad countries: a comparative case study of structural factors in effective service delivery. *Harm Reduction Journal*, 16(1), 54.

This academic journal article sought to identify structural facilitators and barriers to the successful delivery of needle-exchange programmes. It used a multiple case study research design across the four countries of Czech Republic, Poland, Slovakia and Hungary. Data was collected through documentary analysis and semi-structured interviews with 20 professionals working in organisations delivering needle exchange services. Among various structural factors affecting service delivery, the study identified time-consuming funding application procedures and donor-imposed limitations as significant barriers to performance.

Lecy, J. D., and Searing, E. A. (2015). Anatomy of the nonprofit starvation cycle: An analysis of falling overhead ratios in the nonprofit sector. *Nonprofit and Voluntary Sector Quarterly*, 44(3), 539-563.

This academic journal article examined the existence and features of the non-profit starvation cycle, in which organisations reduce their overhead expenditure to gain a competitive edge in attracting donors. The study utilised large samples of data from the annual filings of US tax-exempt non-profit organisations with the Internal Revenue Service. The research found a downward trend in reported overhead costs over the period 1985-2007. This appears to reflect a deep cut in how much non-profit organisations spend on administrative costs, although this analysis assumes that non-profits did not manipulate reported expenditures and reported overhead expenditures consistently over the period.

MacAskill, W. (2015). *Doing good better: Effective altruism and a radical new way to make a difference*. London: Guardian Books and Faber and Faber.

This book provides an account of effective altruism, which is a philosophy and social movement that advocates for the use of evidence and reason to select the best ways of doing good. The book lays out approaches to becoming an effective altruist and making a difference. Chapter 7 is particularly relevant to funders' decisions to restrict grants because it explores the assessment of charities and emphasises the importance of assessing the cost effectiveness of each programme.

Mensah, Y. M. and Werner, R. (2003). Cost efficiency and financial flexibility in institutions of higher education. *Journal of Accounting and Public Policy*, 22(4), 293-323.

This academic journal article investigated the effect of donor-imposed restrictions on the efficiency of not-for-profit institutions of higher education. Data was collected from a survey and the financial statements (for the years 1996 and 1997) of higher education institutions in the USA. The study sought to determine the relationship between financial flexibility (as measured by the ratio of unrestricted to restricted assets) and cost efficiency (as measured by two complex cost efficiency calculations). The research found that greater financial restrictions led to more cost efficiency. The authors argue that funding restrictions may be effective as a cost control mechanism because they impose discipline on the managers of funded organisations. However, the research is limited by a small sample of 124 institutions. It is also uncertain whether the findings are generalisable to other non-profit contexts.

Mills, C., Hopgood, R. and Cairns, B. (2022). *Thinking about charity reserves.* London: Institute for Voluntary Action Research.

This study sought to explore how charities managed their financial reserves and whether changes were needed. It analysed the reserves policies of 40 Scottish charities. It also drew upon in-depth interviews with 13 charities to explore their everyday practical experience of reserves management. Among various findings, the research found that restricted funding often impeded the strategic management of reserves. Charities valued unrestricted and long-term funding because it enabled them to plan, adapt to change, and build or spend reserves as necessary.

Mitchell, G. E. (2014). Strategic responses to resource dependence among transnational NGOs registered in the United States. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, 25(1), 67-91.

This academic journal article sought to understand how NGOs respond to being dependent on the resources of funders and subject to external control. Data was collected from structured qualitative interviews with leaders from 152 international NGOs located in the USA. The research found that NGOs employ various tactics to safeguard organisational autonomy. Although NGOs may sometimes adapt to satisfy donor requirements, they often took deliberate strategic action to circumvent or reshape them.

Mitchell, G. E., and Calabrese, T. D. (2022). The Hidden Cost of Trustworthiness. *Nonprofit and Voluntary Sector Quarterly*, DOI 08997640221092794.

This academic journal article assessed how adherence to common financial norms by non-profit organisations affect their impact. The study used quantitative data on public charities derived from the Internal Revenue Service in the USA. The statistical data spanned over three decades, from 1982 to 2019. The authors concluded that adherence to common non-profit financial management norms (e.g. minimising overheads, being fiscally lean, diversifying revenues and avoiding debt) reduces, rather than enhances, non-profit mission impact over time.

NIRAS (2020). *Interim report: BUILD development evaluation.* Stockholm: NIRAS Sweden AB.

This report summarised findings from an interim evaluation of the Ford Foundation's BUILD programme, which provides flexible funding, a multi-year funding commitment and dedicated support for institutional strengthening. Data was collected from seven case studies and interviews with 56 funded organisations, plus an online survey of 136 funded organisations. The study found that 87% of organisations funded through the BUILD programme thought flexible funding had a large positive influence on their organisation. The programme enabled funded organisations to become more strategic,

invest in internal administrative and management systems, and enhance their ability to participate in networks.

O'Dwyer, B., and Unerman, J. (2008). The paradox of greater NGO accountability: A case study of Amnesty Ireland. *Accounting, Organizations and Society*, 33(7-8), 801-824.

This academic journal article explored accountability practices within Amnesty Ireland. Qualitative data was primarily collected through in-depth interviews with 11 Amnesty Ireland managers and the examination of documents. The research found that managers adopted performance accountability mechanisms to satisfy powerful funders to the detriment of broader forms of accountability (e.g. to organisational mission and beneficiaries). This was problematic because it detracted from the achievement of Amnesty's mission.

Riemer, A., Frank, E., Rublin, H., and Merrow-Kehoe, S. (2017). A community foundation's experience implementing and evaluating general operating support. *The Foundation Review*, 9(2).

This paper evaluated the provision of unrestricted funding by a community foundation in the USA. The evaluation involved the review of the reports and strategic plans of funded organisations, the observation of grant-making meetings, analysis of funded organisations' financial statements, and interviews with staff from both funded organisations and the foundation. The research noted that unrestricted funding enhanced funded organisations' strategic planning, organisational infrastructure and financial health, and helped funded organisations to manage risk and capitalise on appropriate opportunities. Unrestricted funding led to better relations between the funder and funded organisations. Findings also explored how the foundation had concerns about capturing the impact of their investment but was able to resolve this by accepting monitoring reports that assessed progress against funded organisations' own strategic plans.

Saxton, J. and Lindstrom, E. (2012). *Taking nothing for granted: A research report into what charities think a model grant-maker looks like*. London: The John Ellerman Foundation and nfp Synergy.

This study investigated charities' perceptions of grant-making organisations. Data was collected via an online survey of 417 charity workers, qualitative interviews with 13 charity fundraisers, and an open forum attended by 60 of the survey respondents. Among a range of findings, the research highlighted that many charities, especially smaller ones, would swap a restricted grant for a smaller amount of unrestricted funding. Charities were also spending substantial resources on applying for grants, often with relatively low success rates.

Shon, J., Hamidullah, M . F., and McDougle, L. M. (2019). Revenue structure and spending behavior in nonprofit organizations. *The American Review of Public Administration*, 49(6), 662-674.

This academic journal article investigated the association between funding types and the spending behaviour of funded organisations. The research used data reported by non-profits to the Inland Revenue Service on their annual form 990, collated by the National Centre for Charitable Statistics in the USA. The sample consisted of financial information from 16,035 non-profit organisations across the five years between 2008 and 2012. Among a range of findings, the research observed that organisations more heavily reliant on restricted sources of income were less likely to spend money on administrative expenses and more likely to spend it on direct programme expenses.

TCC Group (2017). Capturing general operating support effectiveness: An evaluation framework for funders and evaluators. New York: TCC Group.

This paper presents an outcomes framework to help practitioners evaluate the impact of unrestricted funding. The framework includes four outcomes: grantee programme effectiveness; grantee organisational development; funder mission achievement; and system strengthening.

Wallace, F. and Saxton, J. (2018). *People's postcode lottery: Funding for impact*. London: nfp Synergy.

This study sought to understand what organisations thought about the funding they received from the People's Postcode Lottery. The vast majority of this funding is unrestricted. Data was collected from an online survey of 64 charities and in-depth qualitative interviews with 16 charities. Similar to a previous study (Saxton and Lindstrom, 2012), the research found that many charities, especially smaller ones, would swap a restricted grant money for a smaller amount of unrestricted funding. Charities valued unrestricted funding highly because it allowed them to pay for their core costs, respond to the changing successes or failures of their work, and be flexible in adapting to a changing external environment.

Wiepking, P. and de Wit, A (2020). The perceived consequences of unrestricted funding for effectiveness of funded organizations: The case of the Dutch Charity Lotteries. *In the virtual annual conference of the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA).*

This paper investigated the perceived consequences of multi-year unrestricted funding for the effectiveness of funded organisations. Data was collected from semi-structured interviews with 20 organisations in receipt of multi-year unrestricted funding from the Dutch Charity Lotteries. Funded organisations identified various benefits to unrestricted funding including: organisational and financial sustainability; rapid response to crises and changing context; independence and the ability to be critical of governments or other funders; innovation and risk-taking; and support for unpopular causes. The research also identified two risks to organisations: becoming less critical of their own work and becoming too dependent on the long-term flow of unrestricted funding.

Yang, C., and Northcott, D. (2018). Unveiling the role of identity account ability in shaping charity outcome measurement practices. *The British Accounting Review*, 50(2), 214-226.

This academic journal article explored how charities grapple with the potentially conflicting demands of upward accountability to external stakeholders (e.g. the demands imposed by funders) and internal accountability (e.g. to their organisation's values and mission). Data was collected from 22 semi-structured interviews with staff from two case study charities in New Zealand. Research findings illustrate how when internal and external accountabilities are misaligned, charities direct resources to satisfy the outcome reporting requirements of funders to the detriment of outcome measures that may improve services.