



## Governance and Accountability: An exploration of Chairs- CEOs Relationships in Large Scottish Charities

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## **Dedication**

Dedicated to my wife Rukia

To my son Faheem and my daughter Camilla

And to my Mother Mwajabu M Songoro

I love you all dearly.

## Abstract

Charities have been growing in numbers and visibility in many parts of the world over the past two decades. There has been a dramatic increase in the number of charities in the United Kingdom since the 1980s. Government withdrawal from direct involvement in certain service delivery programmes saw charities filling the void. The importance of charities can be reflected in the expenditures which are classified as ‘culture, sports and recreation’, ‘education, training and research’, ‘health and medical’, ‘social services and relief’ and ‘conservation and protection’. Others include ‘housing and community affairs’, ‘civil rights, law and order’, ‘philanthropic intermediation’, ‘international activities’, ‘business and professional’ and ‘religion’ (CaritasData, 2009). Despite their economic importance, limited academic research and professional development have been directed to charities. Laws and regulations for charities have been in place for decades, with Scotland enacting the *Charities and Trustee Investment (Scotland) Act 2005* to regulate all charities operating in Scotland.

This research focuses on governance and accountability in ‘large’ charities registered in Scotland. The research looks into the working relationships between Chairs and CEOs of charities following the 2008 economic recession. The main sources of data are questionnaires as well as annual reports and accounts. A combination of theories has been used from previous research on both for-profits and non-profits organisations to explain internal governance of charities. The research uses these theories to explain responses from both Chairs and CEOs on charity issues and how they also relate to the financial vulnerability status of a charity.

Major findings of this research include the existence of very few differences in responses between Chairs and CEOs when it comes to general issues regarding governance and accountability in charities. Charities focus on having members with specialist expertise on their Boards. There is evidence that charities are engaging in signalling behaviour due to information asymmetry in charities and that the existing economic downturn has increased pressure on charitable operations. The research also found that the financial vulnerability status of a charity has limited or no effect on the responses from Chairs and CEOs; however, the research found significant differences in responses on the importance of legacies and public funding between charities that are financially vulnerable and those that are not.

## **Acknowledgements**

Although this thesis is my original piece of work, I am not an island. ‘No man is an island entire of itself; every man is a piece of the continent, a part of the main’ (Donne, 1624). I believe that a process that leads to a good product shouldn’t be a one step process, or a one type of materials input. And if it is, it shouldn’t be. Multiple stages process and different types of materials inputs leads to a final superior product than the sum of individual materials inputs. The constituent parts as material inputs need to be mixed together for successful final product. Authoring a PhD thesis is a process rather than an event. During this process different constituent parts have played different roles.

I must thank Allah and all the parties who have supported me throughout my study, and made this work possible: first, my wife Rukia, whose support and encouragement was very important throughout. Second, my special thanks go to my supervisor Professor David Heald for his tireless effort, guidance and advice at every step of the research. I appreciate your willingness to accept me as your student seven months after the start of my degree programme. You offered me support and courage when I needed them most. Special thanks should also go to Neal Geaghan for his guidance throughout the period of thesis writing; your contribution is highly appreciated. My thanks are owed to my country, Tanzania, via the Institute of Finance Management, for providing me the resources to study for my doctorate.

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I am grateful to all postgraduate research office mates who shared their PhD studying experience with me. I thank all my family members for their continuous prayers and support during my study. Finally, my appreciation is owed to all those who played a part in making this thesis possible. Thank you.

## Declaration

This thesis has been composed by myself and has not been submitted in any previous application for a degree.

All quotations have been distinguished and sources of information acknowledged.

Signature:

A handwritten signature in black ink, enclosed in a rounded rectangular box. The signature is stylized and appears to be a cursive name.

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## **List of Abbreviations**

<b>CEO</b>	Chief Executive Officer
<b>CFG</b>	Charity Finance Group
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>FNVC</b>	Financially Non-Vulnerable Charity
<b>FVC</b>	Financially Vulnerable Charity
<b>FVI</b>	Financial Vulnerability Index
<b>IF</b>	Institute of Fundraising
<b>IFRS</b>	International Financial Reporting Standards
<b>IRS</b>	Internal Revenue Service
<b>MDA</b>	Multivariate Discriminant Analysis
<b>NCCS</b>	National Centre for Charitable Statistics
<b>NCVO</b>	National Council for Voluntary Organisations
<b>NGO</b>	Non-Governmental Organisation
<b>NPO</b>	Non-Profit Organisation
<b>NUDIST</b>	Non-numerical Unstructured Data Indexing, Searching and Theorising
<b>ONS</b>	Office of National Statistics
<b>OSCR</b>	Office of Scottish Charities Regulator
<b>PwC</b>	PricewaterhouseCoopers
<b>RQ</b>	Research Question
<b>SCIO</b>	Scottish Charitable Incorporated Organisation
<b>SOFA</b>	Statement of Financial Activities
<b>SPSS</b>	Statistical Package for Social Sciences
<b>TAR</b>	Trustees Annual Reports
<b>UK</b>	United Kingdom
<b>URL</b>	Uniform Resource Locator
<b>USA</b>	United States of America

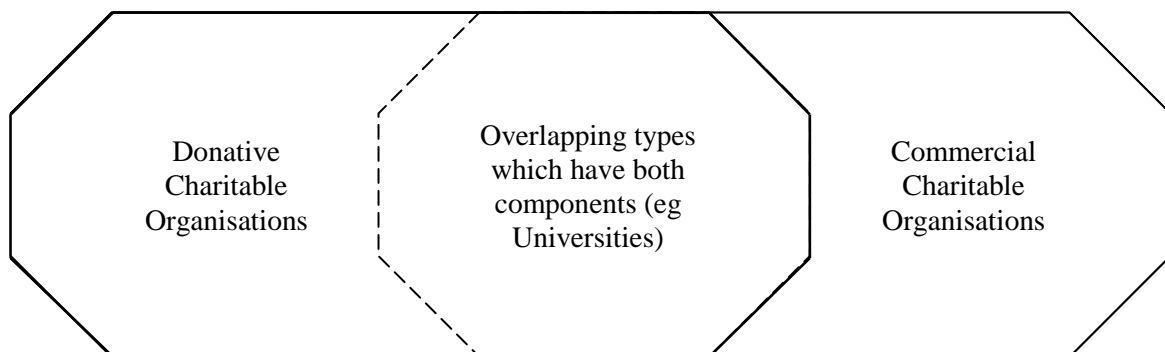
# CHAPTER 1: INTRODUCTION

## 1.1 Background

The charity sector in the United Kingdom (UK) differs in its objectives from the business (profit-making) sector. As non-profit organisations (NPOs), charities are required by law to be registered as such before providing charitable activities. Matters of registration differ across the UK, but the common aspect is that each jurisdiction requires every organisation seeking charitable status to first pass ‘the charity test’ (Breed et al, 2009). Scotland, the scope of this research, grants charitable status to any organisation intending to carry out charitable purposes outlined in Section 7(2) of the *Charities and Trustee Investment (Scotland) Act 2005*. Charitable organisations must not only provide charitable services and public benefits but also not use their residual income for non-charitable purposes. Preventing charities from using residual income for any purpose other than carrying out charitable service is referred by Hansmann (1980) as the ‘non-distribution constraint’.

Literature identifies different types of charities apart from their charitable purposes as described in the *Charities and Trustee Investment (Scotland) Act 2005*. It is important to recognise these types of charitable organisation as identified and described in the literature. Hansmann (1980) identified two types of charitable organisation; the first is the ‘donative-charitable organisation’, deriving most or all of their income from donations and grants. The second is ‘commercial-charitable organisations’, the income for these organisations being from service charges and fees. These are not mutually exclusive; some charities may lie between these types. Figure 1.1 below gives an overview:

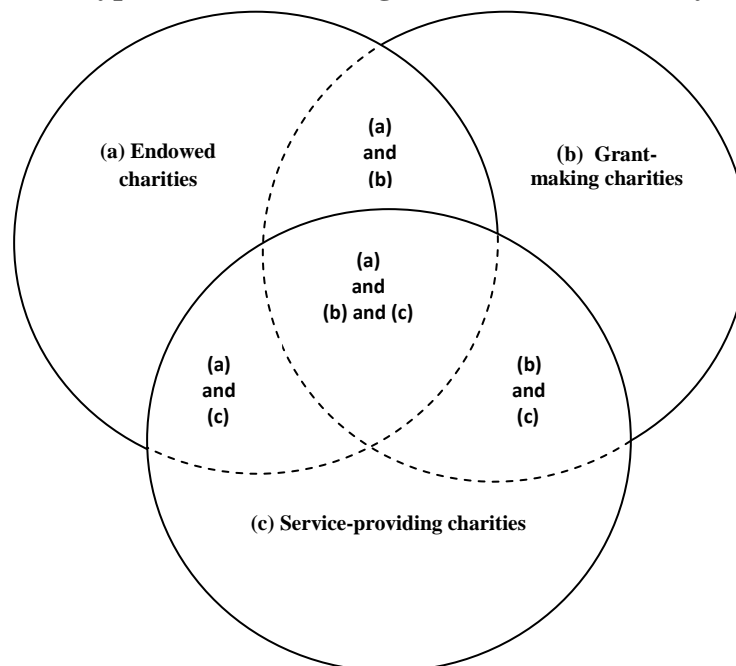
**Figure 1.1: Types of charitable organisations identified by Hansmann**



*Source: Author*

Other literature, such as Manley (1988), separates charitable organisations into three (as opposed to Hansmann’s two) different types of organisation. The first type is ‘grant-making charities’, deriving their income from investments and other fundraising activities and then using their income to make grants to other charities or individual recipients. This type of charity does not engage in any form of direct delivery of charitable services to beneficiaries/users. The second type is ‘endowed charities’, deriving all their income from endowed properties or investments; they can either provide charitable services or make gifts directly to beneficiaries/users. The third type is ‘service-providing charities’, deriving their principal income from funds raised from different sources and spending the income on carrying out their charitable objectives. This type of charity concentrates on the front-line delivery of services. These types are not mutually exclusive and dual- or multi-purpose objectives are characteristic of most charities used in this research. Figure 1.2 shows how a charity may be of only one type, or be a permutation of two or all three funding types.

**Figure 1.2: Types of charitable organisations identified by Manley**



*Source: Author*

Charities are Non-Profit Organisations (NPOs) that exist to provide public benefits (Hyndman and McDonnell, 2009; Hyndman and Jones, 2011). The focus of this research is on large charitable organisations spanning a range of charitable purposes in Scotland and registered with the Office of the Scottish Charity Regulator (OSCR). In addition, they should



meet the criteria outlined for sampling in Chapter 5. Some of these criteria exclude government-affiliated charities, universities and religious charities.

Looking at the development of charity law, the UK underwent a series of transitions. While England and Wales have been developing charity law since 1601, it was not until 1990 that Scotland started to focus on reforming its laws, including those relating to charities (McInally, 2005). Regulation in Scotland was quickly escalated by the *Charities Accounts (Scotland) Regulations 1992* which aimed to address issues of charity accountability and monitoring (Barker et al, 1996). The charity sector gained momentum at the time of the formation of the Scottish Parliament in 1999 after major scandals involving charities such as Breast Cancer Research (Scotland) when only £1.3m out of £13m funds raised went towards charitable causes; this indicated that the sector needed closer supervision. The Scottish Parliament passed the *Charities Trustee and Investment (Scotland) Act 2005* on 14 July 2005. The Act led to the establishment of the OSCR as a non-ministerial department, responsible for maintaining the charity Register and determining if charitable purposes will be met by organisations applying for charitable status using ‘the charity test’ described in Appendix 1.

On 26 June 2012, the Scottish charity sector had 23,518 charities on the OSCR Register; the total sector income was £10.9 billion in 2011. In 2008, the OSCR had reported the employment of 160,000 people in charities in Scotland with a total sector income of £12.9 billion. The economic downturn of 2008 impacted on the growth of the charity sector; this was evidenced by the reduction of charity donations from the business sector and compounded by spending cuts in the public sector Capital Finance Group (CFG) (2012). This placed the charity sector in a vulnerable position when it came to funding.

The economic troubles, the importance of the charity sector in relation to its economic contribution, together with the recent legal developments, make the charity sector an interesting area to research. The increased importance of the sector comes with greater public scrutiny because of charities’ responsibilities to deliver public services (Cornforth, 2001). Absence of a publicly available database justifies the use of mixed methods in the research for collecting, analysing and discussing the views and actions of Board Chairs (Chairs) and Chief Executive Officers (CEOs). This contributes to the understanding of charity governance and the funding challenges facing the sector, so that the current state and future direction of the sector can be assessed.

On the governance issues, Section 106 of the *Charities and Trustee Investment (Scotland) Act 2005* requires all matters relating to internal governance to be the responsibilities of the charity Trustees (Board). The Board is responsible for the general control and management of the charity. However, the OSCR charity governance guide (OSCR, 2010) allows Boards to delegate part of their duties to a third party (ie the CEO). Although there are no minimum qualifications set by law for being a Board member, rules regarding the legal capacity or authority to act on behalf of an organisation suggests that any appointee as a Board member whose age is below 16 should seek legal advice beforehand. This implies that any person aged 16 or above may serve on a Board. The role of the Board between monitoring and resource extraction for the wellbeing of stakeholders creates a wide belief that demographic and professional characteristics can lead to a better performance (Cornforth, 2001). Therefore, understanding the characteristics of Board members and that of CEOs can help in identifying behaviours and actions supportive of good governance in charities.

Most large charities are likely to operate professionally by having the financial resources to employ professional managers; this implies detailed structures of governance tend to be more evident in large charities (Crawford et al, 2009). This raises the need to investigate the relationship between professional managers (who are paid) and Board members (who are volunteers) in order to extend knowledge about the charity sector by highlighting economic difficulties in the sector. There is also a need to understand this working relationship, which is different from the model used in the business sector, and to establish if some actions related to commercial sector signalling behaviour are also present in charities.

Unlike the business sector, the non-distribution constraint prevents the charity sector from distributing profit. It is argued that charities have no owners, which implies the absence of shareholders whose motive is always high investment return. The absence of the profit motive for investors makes it difficult to measure performance in charities using the business model (ie profitability). Though there are other means of measuring charity performance, such as meeting charitable objectives and quality of services provided to their beneficiaries, the interesting part about operating performance is the financial vulnerability of charities (Tuckman and Chang, 1991), which has scarcely been discussed in the literature. The 2008 recession makes the financial vulnerability status of charities a suitable measure for charity survivability when comparing the actions and opinions of top officers in charities with different exposure to financial vulnerability. Further, it helps to understand the relationship between Chairs and CEOs at a time when an organisation faces reductions in its services or

even being wound up. An increase in the level of donations, operating margins and budgets are some of the performance factors influencing financial vulnerability as identified in the academic literature. Since Boards may serve the purpose of attracting resources to the organisation, financial vulnerability ought to be negatively related to some of the favourable Board characteristics which help them in attracting external resources. This brings a need to understand how these issues affect the Chair-CEO relationship.

This research links the literature on corporate governance with charity governance by focusing on the relationship between Chairs and CEOs and on the overall ability of charities to meet their objectives. Good governance practices in charities are argued to positively impact on performance (efficiency and effectiveness), including the ability of a charity to meet its objectives and also to survive.

Corporate governance in business organisations has often been analysed using the theoretical frameworks of the New Institutional Economics and other aspects regarding shareholder value creation and the optimum mix between equity and debt. The key framework utilised often derives from agency theory. In charities, most of these theories have limited explanatory power as they derive from the conventional business model. To obtain a holistic understanding of corporate governance for charities, this thesis utilises ideas from stakeholder theory, resource dependence theory, and signalling theory to understand the relationship between charity governance mechanisms. These theories have been used for empirically testing charity governance and relationships between major internal stakeholders (ie Chairs and CEOs).

The research uses a pre-circulated questionnaire and annual reports as primary sources of data. The aim is to obtain insight and opinions about individual charities and the sector as a whole from Chairs and CEOs. Other sources include publicly available information which was retrieved from websites and other requested information such as annual reports and accounts. All data have been collected from charities which participated in the research. Interviews were conducted with all respondents, closely following the questionnaire. This thesis does not use as research evidence the interviews themselves. Only questionnaires and published documents were subjected to analysis. The cost of professional transcription of 53 hours of recording was prohibitive given the limited budget for this doctoral project. When the research was designed, such a high response rate had not been anticipated and this expanded the statistical analysis that could be undertaken.

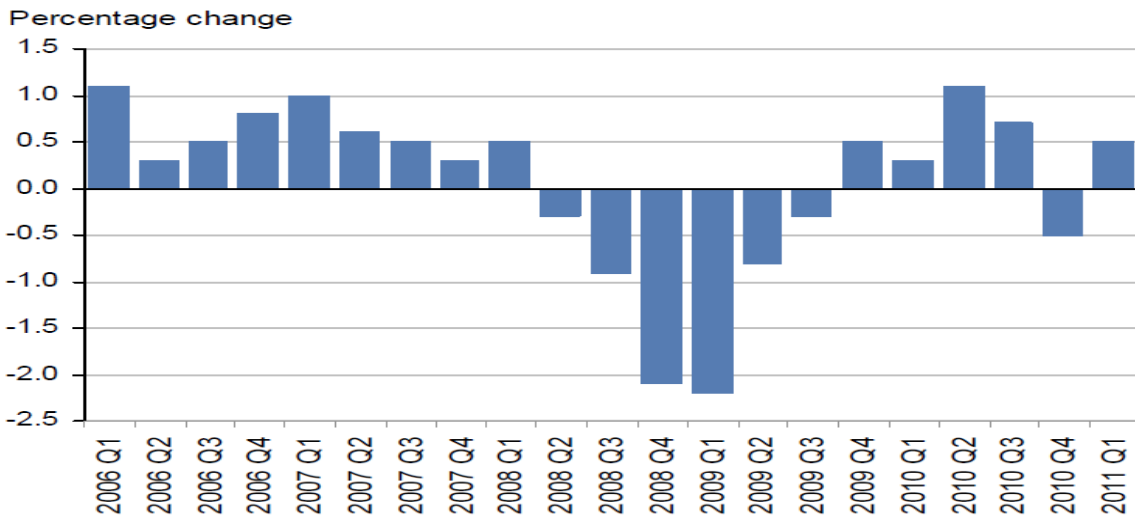
The interviews remained a valuable part of the research in three ways. First, they gave the researcher greater understanding of the questionnaire responses. Second, they provided an opportunity to secure information that had not previously been collected from public sources. Third, the fact of there being an interview greatly increased the response rate, also giving confidence that questionnaire completion was by the named person and that thought had been given to the submitted responses. Because of these benefits from the interviews, the role that they played in the research design is fully explained in relevant sections of the thesis.

### **1.1.1 Recession and its impact on charities**

There is no uniquely agreed definition of recession among economists; this is because there are other indicators which can be interpreted as an economy going into recession. The focus for this research will be on the definition provided by the Business Dictionary which defines recession as a ‘period of general economic decline, defined usually as a contraction in full GDP for six months (two consecutive quarters) or longer. It is marked by high unemployment, stagnant wages, and falls in retail sales.’ Recession generally does not last longer than twelve months and its impact on the economy is less severe than a depression.

Focusing on the UK economy, there have been economic downturns, ranging from post-war recessions to the Great Depression. The main focus is the recent economic trouble after the UK economy experienced almost 15 years of growth in GDP in the period prior to the second quarter (ie Q2) of 2008. Gross Domestic Product contracted in two successive quarters (ie Q2 and Q3) of 2008. Following the definition of recession explained above, this negative growth in GDP is regarded as a recession. Looking at Figure 1.3, by the definition of recession, it is obvious that the contraction of GDP lasted for six quarters from 2008 Q2 to 2009 Q3 (ie recession ended on the fourth quarter of 2009).

**Figure 1.3: UK Gross Domestic Product quarterly changes**



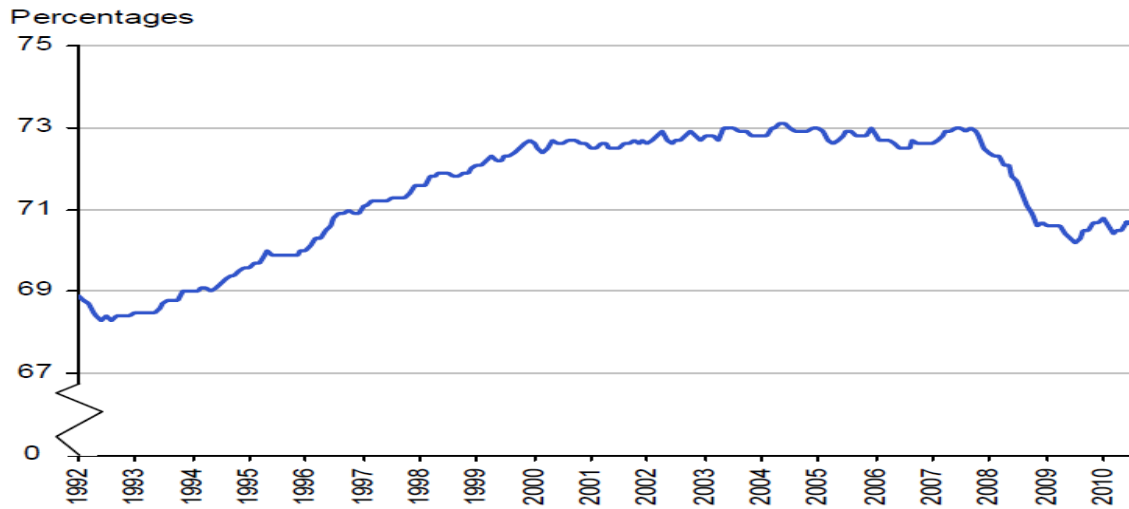
*Source: Quarterly National Accounts (2011), Office for National Statistics*

Cecilia et al (2011) highlighted different parameters which have been affected by the recession of 2008-2009 as being jobs, income, housing, demographic change, education and crime. As part of charitable activities highlighted in Scotland charity laws, the research will discuss a few of these in detail and how they may affect charity governance and accountability. These parameters are inter-connected in the sense that joblessness creates problems in household income which are transferred to companies by decreased consumer spending. Therefore it is necessary to find out how charity governance and accountability may have been affected by recession.

Looking at the effect of recession on jobs, the contraction of GDP transmitted through to the labour market, as consumer demand decreased, so does the production of goods and services. Many companies saw their profit decreasing or transformed into losses. This forced companies to reduce labour costs in order to adjust to a reduction in demand for their products. Reduction of labour costs across many companies led to job cuts which had adverse effects on the labour market. These actions affected employment and unemployment rates, and household income and have direct impacts, such as reductions in donations and increased demand for charitable services across the UK and Scotland in particular. Charities were placed in a position that re-adjustment and reviews of how they carry out their charitable operations were necessary. These are most likely to impact governance and accountability in charities.

There was a sharp decrease in the employment rate between March 2008 and March 2010, (Figure 1.4), which is reflected in the fall in GDP (Figure 1.3). On the other hand the unemployment rate increased (Figure 1.5).

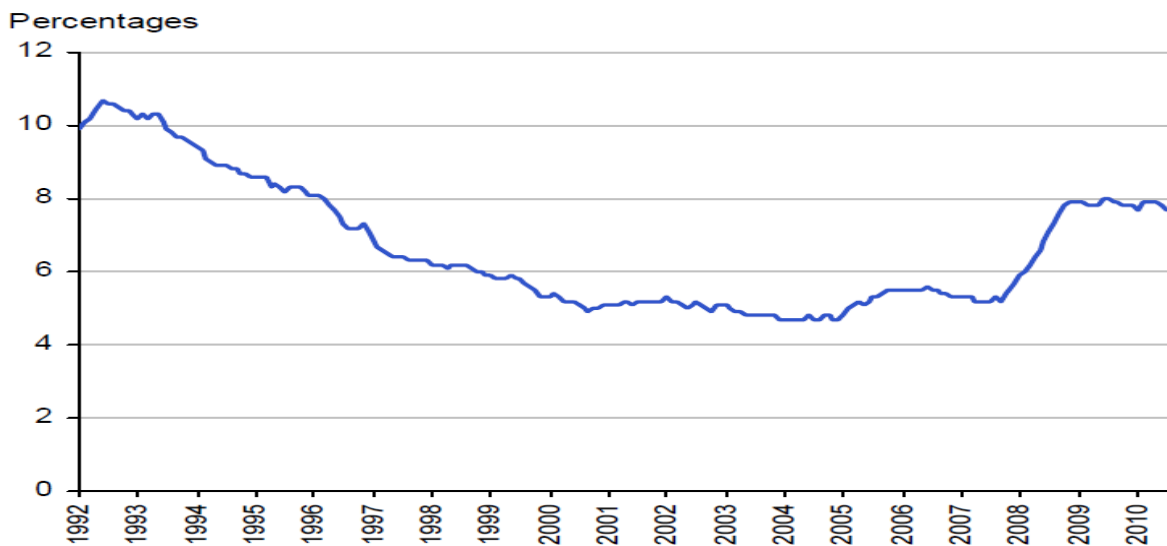
**Figure 1.4: UK employment rate<sup>1,2</sup>**



Note: 1. Rates are for people aged 16 or more. Each year refers to July-September time point.  
2. Seasonally adjusted.

Source: Labour Force Survey (2010), Office for National Statistics

**Figure 1.5: UK unemployment rate<sup>1,2</sup>**



Note: 1. Rates are for people aged between 16 and 64. Each year refers to July-September time point.  
2. Seasonally adjusted.

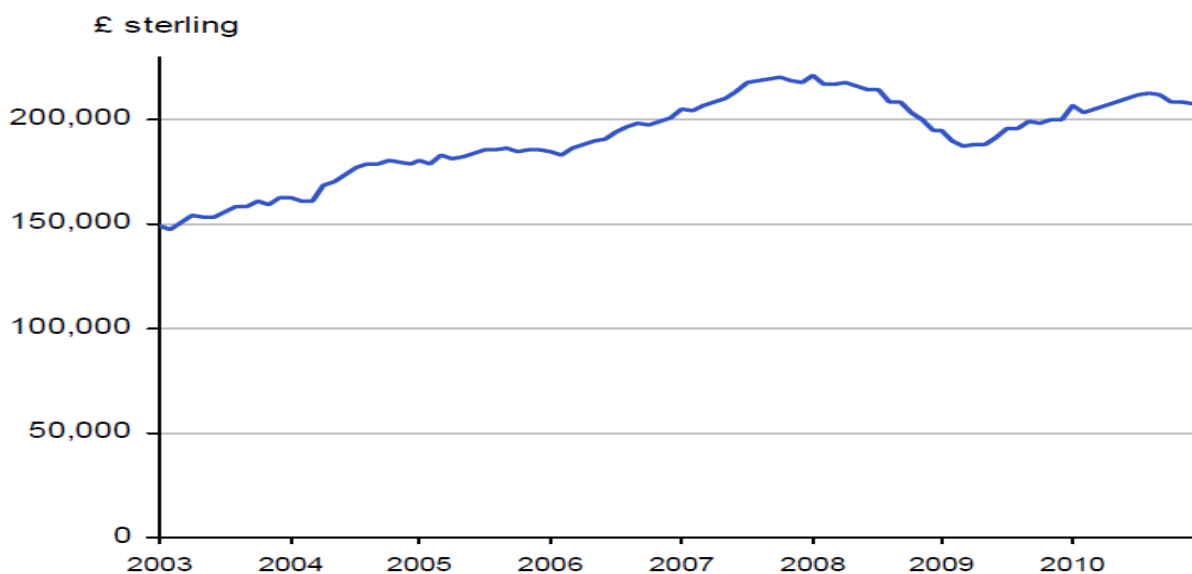
Source: Labour Force Survey (2010), Office for National Statistics

Looking at housing, Cecilia et al (2011) highlighted that the UK housing market was also adversely affected just before the recession. Recession also had an impact on house sales, prices, and repossessions. Figure 1.6 shows that since 2003 house prices (covering all residential dwellings) have shown an upward trend, reaching a peak of £221,000 in January 2008. However house prices started to fall from this peak to £187,000 in March 2009.

As housing demand grew, house prices started to rise after March 2009. Although property sales were still below levels seen during early 2007 (Figure 1.6), house prices in the UK continued to recover throughout 2010, reaching a peak of £212,000. At the end of 2010 they still remain below the peak observed in January 2008. This reflects how recession might have forced people to seek the help from charities at a time when they face reductions in income.

It is necessary to assess how recession has affected charity governance by looking into responses from both Chairs and CEOs. This research was carried out at a time of recession whereby the design of the Research Questions and the questionnaire took account of the economic environment. The response has been encouraging despite the fear and uncertainties facing charities, especially from Government spending cuts.

**Figure 1.6: UK mix-adjusted house prices**



*Source: Regulated Mortgage survey (2010), Council of Mortgage Lenders*

### **1.1.2 Charity financial survivability**

Tuckman and Chang (1991) described the financial vulnerability of a charity as its high likelihood to cut back services immediately when it experiences a financial shock. Trussel

(2002) described the financial vulnerability of an organisation as its susceptibility to financial problems brought into charities in different ways. These include the inability of the charity to raise funds which can be caused by internal or external factors. For example, internal factors can include deficiencies in charity management and governance (eg compliance failure); this can erode public trust and lead to a reduction in charitable donations. External factors include the environment in which the charity operates: for example, economic downturns can limit individual and corporate donations to charities. The charity's susceptibility to financial problems can be a concern to all stakeholders, because they may not allow a charity to continue to meet its objectives and provide services to its beneficiaries. The tendency of most charities to depend on the generosity of funders rather than on the satisfaction of customers and on service charges, makes charities more subject to resource instability than organisations that operate under equal exchange arrangements.

There are models developed to predict or determine financial instability in charities. These can be used to compare an organisation's financial profile to those organisations that are considered financially vulnerable. Some of these models make use of financial indicators and controls for the broad sectors to which the organisation belongs. An understanding of the relationship between financial indicators and financial vulnerability are of interest to a variety of groups, including government agencies in setting policies and monitoring grants and contracts, auditors who are conducting analytical reviews and determining the scope of audits, managers and Board members working on strategic planning, suppliers and other potential creditors on setting credit terms, and potential donors on allocating resources (Trussel and Greenlee, 2001).

Tuckman and Chang (1991) explained the major reason for financial vulnerability status being important is that 'the sector is large and has been growing rapidly over time which affects a significant number of people'. Given its importance and the involvement of a large number of people in the sector, the financial vulnerability of charities has a significant effect both on employment of people and on beneficiaries who rely on charitable services for their wellbeing. Douglas (1987) and Weisbrod (1988) explained the importance of the charity sector as being the source of diverse ideas and alternative modes of delivery of public services as well as a tool through which beneficiaries' demands for public goods can be met.

The economic recession of 2008 hit almost every sector of the economy. It is necessary to establish how this affected governance and accountability responses from those who are responsible for running and governing charities. It is also important to know how recession



exerts financial pressures which might lead to reducing services, while the demand is increasing. It might be thought that, during a period of hardship, the Government can step up to fill the gap, but instead there are proposed spending cuts, adding to the financial pressure. Financial shocks to the charity sector may increase the demands for public donations (ie donations of goods, funds, and services (volunteering)), reflecting the economic recession of 2008 onwards. If the sector is shown to be vulnerable, this suggests that a major part of the charitable service delivery system might falter.

Research Question 3 focuses on the charity's status of being financially vulnerable or not in having an effect on responses from Chairs and CEOs. Addressing Research Question 3, there was a need to establish a list of the Financially Non-vulnerable Charities (FNVCs) and that of the Financially Vulnerable Charities (FVCs). Establishing these two groups required selecting a model which classifies each study charity into these two groups. Literature establishes models for predicting financial vulnerability in the for-profit sector (Beaver, 1966; Altman, 1968; Zavgren, 1983; Jones, 1987) as well as in the non-profit sector (eg Tuckman and Chang 1991; Greenlee and Trussel, 2000; Trussel and Greenlee, 2001; Trussel et al, 2002). The methodology for establishing the status of charities uses accounting data as indicators of financial vulnerability; more detail of this process is described in Annex A to Chapter 8.

This research focuses on the model developed by Trussel et al (2002) to classify the study charities into FNVCs and FVCs. As will be discussed in detail in Annex 8A, the major problem facing the use of this model is its requirement to use 'administrative costs' as one of the inputs. Statement of Recommended Practice (SORP) (2005) replaced 'management and administration' with 'governance costs' to make their original intention clearer. This new term is much more narrowly defined and implies that the term 'administrative costs' is no longer shown in charity annual reports and accounts. Governance costs are defined in Glossary GL 28 of SORP (2005) as:

These are the costs associated with the governance arrangements of the charity which relate to the general running of the charity as opposed to those costs associated with fundraising or charitable activity. The costs will normally include internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements, eg the cost of trustee meetings and preparing statutory accounts. Included within this category are any costs associated with the strategic as opposed to day to day management of the charity's activities.

Therefore governance costs are relating to the general running of the charity as opposed to the direct management functions inherent in fundraising, service delivery and programmes or project related work. These are costs that allow the charity to operate and to generate the information required for public accountability. Governance costs, like other activities, also include a share of overhead support costs. The annual reports and accounts include a clear analysis of all the main items of governance costs as notes to the accounts.

This renaming of ‘management and administration’ costs as ‘governance costs’ was a welcomed clarification which promotes an increased degree of consistency between charities specifically on the aspect of cost allocation. Due to these explanations, it was decided to use ‘governance costs’ in place of ‘administrative costs’ in the model. While it is known that the model was developed using ‘administrative costs’ this rearrangement may have some impact on the final prediction, but not on the status of the charity in question. Understanding these possibilities the research placed more emphasis on the research objectives being based on the subject of financial vulnerability. First, to classify charities into groups of FNVCs and FVCs for conducting ‘two groups statistical tests’ to determine if there are any differences in their responses. Second, since ‘governance costs’ is replacing ‘administrative costs’ to increase consistency it was an advantage to have ratios calculated on the basis of items determined in the same way, rather than the use of ‘administrative costs’, the description prior to SORP (2005) which were too vague in their determinations. It was necessary for this research to go on with the model by using ‘governance costs’ for ‘administrative costs’ because the rest of the attributes described by the model were retrievable from the annual reports and accounts.

## **1.2 Why Research Charities in Scotland?**

A recent study (Crawford et al, 2009), titled ‘An Exploration of Scottish Charities’ Governance and Accountability’, revealed that the majority of Scottish charities welcomed the recent statutory changes. The study also showed that charities are compliant with the law and support the activities of the OSCR. However, it has not been clear whether charities are willing to embrace good corporate governance practices that extend accountability to other stakeholders beyond the requirements of the OSCR.

Corporate governance research has been heavily focused on the private sector, with much less attention given to charities. This research gap was emphasised by Hyndman and McDonnell (2009), whose conceptualisation of charities’ governance is adopted in this thesis. Researching this area, which has attracted the interest of few academics, could help to

highlight the need for academic research on charities to be taken at the same level of importance as research into the business sector. The importance of the charity sector and its contribution to the economy has been growing over time.

Past charity scandals gave bad publicity to the sector; the cost of governance failure has been large because these scandals have systemic effects beyond the affected charity. For example, fraud at Breast Cancer Research (Scotland) and Moonbeams in 2003 caused charitable donations in Scotland to fall by 33% (Crawford et al, 2009). The lack of good governance caused the liquidation of the One Parent Families (One Plus) charity in 2007, at a time when it had annual operating income of around £11m. This resulted in 800 job losses and a failure to deliver services to its beneficiaries (CaritasData, 2009; OSCR, 2008). These incidents attracted more attention to the governance and accountability issues and to the need for research on charities.

The impact of the 2008 economic recession means that the governance of charities may well come under severe pressure as revenues fall and potential commitments to deliver services increase. There are important public policy questions, especially about Government spending cuts as it focuses on reducing the public sector deficit at a time when many people are looking to charities for relief. The income of many large charities comes from Government contracts and grants: spending cuts may bring huge changes in both governance and operational practices.

A major reason for researching Scottish charities is Scotland's own distinctive regulatory system: yet since 2005, after the enactment of Scottish charity law, there has been limited research on charity governance. Charities in Scotland are accessible at moderate cost from Aberdeen, whereas extensive fieldwork outwith Scotland is beyond the financial budget and time constraints of the research.

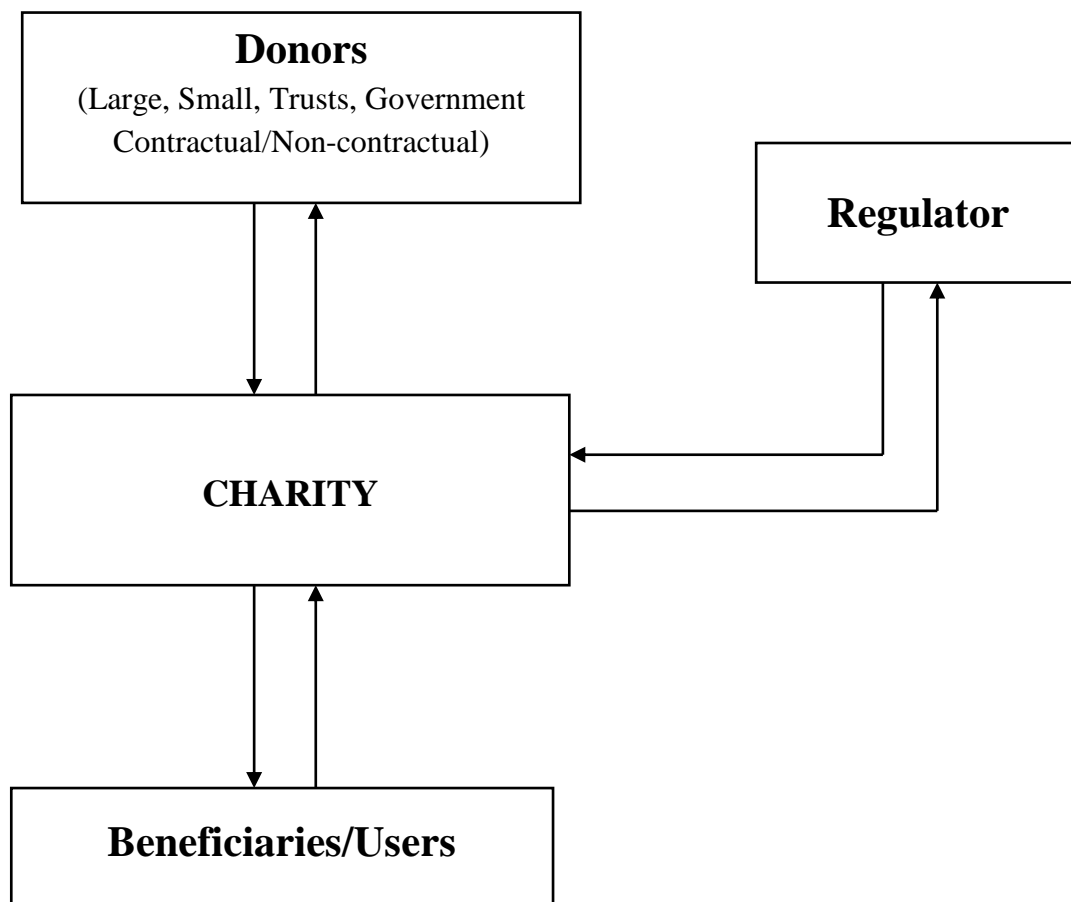
### **1.3 The Research Approach**

The approach to this research has been influenced by many issues surrounding the charity sector and by past research on this area. For example, the recent study on Scottish charities conducted by Crawford et al (2009) highlights problems they faced during the research process, especially in conducting fieldwork. They cite difficulties in collecting data requested directly from charities and a response rate of 14% (only 75 out of 545 charities responded to requests for documents). These researchers had randomly generated 545 charities from 2,821 shown to have income of at least £100,000 by the OSCR Register. The data collection

process proved laborious and time consuming; the response rate was 28% for charities in the £500,000 or more income band; 8% for the £250,000-£499,999 income band; and 14% for the £100,000-£249,999 income band (Crawford et al, 2009). These difficulties arose notwithstanding that the researchers were established academics at the University of Dundee and that the project was funded by the Institute of Chartered Accountants of Scotland. The problems they faced contributed to the design of this research, especially on the selection of the sample.

Another influence on the research approach is an article on ‘Governance and Charities: An exploration of key themes and the development of a research agenda’ by Hyndman and McDonnell (2009). This article was central to conceptualising the approach to this research. The ‘skeletal outline on the potential link between charity stakeholders’ is shown in Figure 1.3. This helped to visualise the charity sector and to plan the Research Questions and the variables; research gaps identified in the article were also useful in shaping the research objectives and Questions.

**Figure 1.7: Potential links between charity stakeholders – skeletal outline**



*Source: Hyndman and McDonnell (2009)*

Based on the gaps identified in the literature and considering the current economic recession, this research explores governance and accountability in large charities at a time of economic trouble. Crawford et al (2009) highlight that large charities are likely to have a higher participation rate in research than small charities. Although other parts of the skeletal outline will be considered, the 'CHARITY' part of Figure 1.7 is the major focus, looking into responses from Chairs and CEOs on issues involving charity Board composition; funding and effects of recession; and regulation, good governance and accountability relationships. The research also looks at charity funding and staffing issues, including charity responses to reduced funding and the effects of funding risk on charity governance. Other areas of research focus include the importance of stakeholders, accountability relationships, regulatory issues and the impact of the 2008 recession on charity governance.

While the UK economy was growing, the charity sector in Scotland also grew. Management and Board members recruited during this period faced few challenges relating to financial resources. The 2008 recession brought greater uncertainties and fear of loss of financial resources from donations, service fees, financial investments, and about maintaining or securing Government contracts. These challenges increase the need for the research, using both qualitative and quantitative (mixed methods) techniques and employing questionnaires boosted by face-to-face interviews administered to the charity elites (ie Chairs and CEOs). Marshall and Rossman (2006) describe 'elites' as people who are influential, prominent or well-informed about an organisation or community. These are the people responsible for attracting financial and non-financial resources to charities and making decisions about fundraising policy and its application. The next section focuses on the scope of the research.

#### **1.4 Scope of the Research**

The research focuses on charities registered by the OSCR under the requirements of the *Charities and Trustee Investment (Scotland) Act 2005*, which implies that only charities operating in Scotland are subjects of the research. The focus narrows to charities falling under the four criteria defining a general charity as used by the Office for National Statistics (ONS). First, a charity must have independent governance (separate from government and business). Thus, all charities tied to local authorities or Government are excluded. Second, a charity must be a non-profit distributing organisation (which rules out co-operative businesses and mutual societies). All organisations where the constitution stipulates the distribution of residual income to members or to any other type of stakeholder are also excluded. The third criterion is that a charity must have charitable objectives that have wider

public benefits extending beyond its membership. Fourth, a charity should not be a sacramental religious body or a place of worship. This excludes a number of organisations that are legally recognised as charities, but would not be viewed as charities in the everyday sense; for example, universities, religious bodies, trade associations and professional bodies (Hyndman and McDonnell, 2009). However, religiously-affiliated charities which have social welfare or overseas development objectives are included.

### **1.5 Current Problems in the Sector**

The growing importance of the charity sector was a consequence of a diminishing role of public sector provision of social services, cultural activities and health (Lapsley et al, 2004). As a result, the number of voluntary organisations has grown rapidly, leading to more competition for limited resources such as funding and volunteers (Bussel and Forbes, 2001).

Because of their importance in providing services to the public, charities are not exempt from demonstrating accountability, especially during tough economic times. Charities not only need to be seen as accountable, but they should be accountable and show good governance. Charities need to increase and maintain the trust of their donors. The 2008 crisis has created many financial difficulties not only in the business sector but also for charities which depend on donations, government contracts and grants for their charitable causes. The state of the economy in Scotland deteriorated at a faster rate compared to the other parts of the UK. This was explained in a report by Dr Andrew Goudie (then Chief Economic Adviser to the Scottish Government):

The latest January 2009 RBS Purchasing Managers' Index (PMI) for Scotland and the UK (where less than 50% represent a contraction and more than 50% represent an expansion in private sector output) indicates that private sector output has fallen sharply since January 2008, from 53.8 PMI to 38.4 PMI (Goudie, 2009).

There have been funding and operational problems facing charities in Scotland reported in the news media. The recession has forced charities and their funders to review their budgets for charitable donations. For example Moffat, one of the largest charitable trusts in Scotland, stopped funding voluntary groups after losing £50m in the Royal Bank of Scotland's share collapse (Bynorth, 2009). A 50% reduction in EU funding to Scottish charities as a result of the expanding number of EU member states created concerns (Liew, 2009). Most charities are struggling with the recession: the National Trust for Scotland announced the closure of 11 properties and 90 redundancies to tackle a £3m deficit caused by a decline in visitors to its facilities (Cunningham, 2009).

The second issue facing the sector is internal governance. This can be in the form of a management committee — a Board of Trustees which has overall control over the charity with the ability to delegate certain duties to paid staff (eg CEOs). Along with volunteers, these are the main internal stakeholders of charities (Hyndman et al, 2009). There are problems reported by news media associated with governance: for example, the decision by J K Rowling (the author of the Harry Potter novels) to resign her position as patron of the Multiple Sclerosis Society of Scotland (MSSS) — the Scottish arm of a dual-registered charity. She explained her action was a result of the conflict between the Scottish arm of the charity and management in London, which had damaged morale and caused staff to quit. In her statement, she said:

Late last year I initiated and attended a mediation session, in the hope of sorting out the long-standing and escalating conflict between the Scottish Council and management in London, driven by imposition of changes by London. Unfortunately, this achieved very little. With mounting frustration and disappointment, I have witnessed resignations of immensely dedicated people within MSSS and the increasing demoralisation of staff whom I have come to know and admire over the 10 years of our association (Scott, 2009).

Another internal governance problem is the concern about fraud. A fraud in any charity can have major impact on the whole sector. Laws and regulations have been established to promote trust among all charity stakeholders. Although fraud within charities is not a common headline in the media today, there are still concerns about some charities' employees who might be tempted to divert resources to their personal gain. When this happens it causes major concern to the public and reduces confidence in charities. There are examples of fraud, such as that involving Gary Easton, who audited the accounts of the Moonbeams charity (which folded in 2003) but also served for a time as Secretary and as a Director. He was forced to pay back an overpaid fee in 2003 after it was revealed that only £70,000 out of £3m raised through the sale of goods went to cancer victims and their families (Davidson, 2003).

Examples from England and Wales include Bruno Schultz, who fundraised £1.75m for children with cancer, but only £23,000 went to good causes; it was then revealed that £190,000 went for the remuneration and expenses of Directors (Williams, 2009). Another reported fraud involved a couple who funded a luxury lifestyle of champagne and top-class hotels by siphoning off up to £650,000 from a Citizens Advice Bureau (Stone, 2009). Finally, a finance manager, who served two years nine months in prison, stole nearly £300,000, at the rate of £4,000 per week, from a charity where he was employed (Morris, 2009).

The third issue facing the sector is that of regulatory compliance. This can be evidenced from the action taken by the OSCR against 1,000 charities for failing to comply with reporting requirements and the removal of 85 charities from the OSCR Register (Donnelly, 2009).

Issues relating to governance and accountability have been discussed in the literature as part of major concerns expressed by Boards. Gill (2005) identified four main areas of concern articulated by Boards: the functioning of the Board itself; the relationship between the Board and CEO; the organisation's planning; and the organisation's finances. These issues will be considered below, with examples from media reports on: recession, charity funding and funding risk; rising demand for charitable services; charity stakeholders and accountability relationships; paid staff and trade unions; Board composition and governance; and charity regulation and compliance.

### **1.5.1 Recession, charity funding and funding risk**

The past decade has seen the emergence in the UK of a social investment market to fill the gap between self-generated capital and debt on commercial terms. The balance has shifted from grants, donations and investment income to earned income (Ramrayka, 2009b). After facing much public scrutiny resulting from scandals involving financial matters, which eroded public trust, the charity sector and Governments took action to remedy the situation. Charities now face problems caused by the recession which sometimes force them to engage in fierce competition for scarce resources while seeing the value of their assets falling. This competition is reflected in public fundraising appeals, competitive tendering for Government contracts, and trade-related sources of funding such as shops. One of the recent threats has come from the Coalition Government's spending cuts. Many charity leaders have been complaining publicly about the effect of the cuts on the financial health of the sector. Charities were forced to review spending to cope with the funding problems.

Some 10% of major charities are facing closure amid warnings of public sector cuts at a time when donations are being lost and there is increasing need for charitable services. This is revealed in a study of 750 large UK charities, including many in Scotland. Charities pointed to Government austerity measures and the recession as causes of their financial distress. The Aberlour charity described these findings as a 'perfect storm' caused by state cutbacks, the drop in income from wealthy donors, and rising demand from those in need. Aberlour's Head of Policy, Alex Cole-Hamilton, said:



We are seeing donations from wealthy individuals dry up while local authority funding is getting tighter as they increasingly put services out to tender in a bid to reduce their own costs (Naysmith, 2012).

Large care organisations are not immune to funding problems: for example, charities such as Capability Scotland, Enable Scotland, Quarriers, Cornerstone and the Thistle Foundation are among those that saw funds fall during the economic downturn, some by millions of pounds according to their latest accounts. Some of Scotland's largest charities may have to make drastic cutbacks if donations remain low. Experts believe charities now face the effect of Government spending reviews, less income from giving, and a dip in investment returns from traditionally secure shares: for example, the Trustees of the Church of Scotland had nearly £20m wiped from a key investment fund in three months as it had a large number of shares in BP (Donnelly, 2010a).

Resources competition is also reflected in the fundraising war of words between the Scottish Society for Prevention of Cruelty to Animals (SSPCA) and the Royal Society for the Prevention of Cruelty to Animals (RSPCA) – a charity registered in England and Wales only. After a long campaign by the SSPCA, the fight was brought to an end after they agreed to sign a joint memorandum of understanding under the auspices of the Institute of Fundraising (IF) which was designed to avoid any future fundraising confusion. The memorandum required the RSPCA to return all donations made in Scotland to the SSPCA and that all the RSPCA's future fundraising in Scotland should state that 'The RSPCA helps animals in England and Wales and does not operate in Scotland'. This conflict was triggered by a survey conducted by the SSPCA in February 2009 which found that 70% of the Scottish public wrongly believed the RSPCA saves animals in Scotland. The SSPCA believed this confusion restricted the amount of money it raises for animal welfare work and described this as 'poaching donations and legacies intended to help animals in Scotland' (Anonymous, 2009).

Recession has not only ignited the fight for scarce resources but also led to big losses in investments used to fund charities. For example, Lloyds TSB Foundation for Scotland, which has awarded almost £85m to charities, sought to reduce its commitment by 50% and gain influence over the grant-giving process in ways it imagines will better serve the bank's interests. There were outcries about that decision for its failure to recognise the work of the Foundation over many years which had been good for the bank's reputation. Most of the public have assumed that the Foundation is simply a charitable extension of the bank, and

have credited it for its benevolence (Ferguson, 2009). After this reduction proposal, Mary Craig, CEO of the Lloyds TSB Foundation for Scotland, revealed that it might have to wind down within seven weeks (Adams, 2009). The Foundation operated under a covenant which involves another three Foundations in the UK, which receive a 1% share of bank profits; the Foundations complained that the Group had proposed reducing this to 0.5%. This meant charities may lose £22m over the next nine years.

Levene (2009) described charity finance as being under greater pressure than at any time in living memory. Soliciting donations is tougher when there is more competition for central and local government funding and there is a growing demand for charitable services. Ramesh (2011) estimated that budget cuts by local authorities will affect 120,000 very dysfunctional and troubled families in Scotland. Barnado's has lost 9% of £156m funding from local authorities – a significant £14.04m decrease. The ripples of recession are felt nationwide and it is the charity sector that people are turning to for help and advice on issues such as housing, debt or retraining. Government wants more charity sector organisations to become involved in public service delivery (Ramrayka, 2009a).

Other affected areas have been highlighted by the Child Poverty Action Group in Scotland. It believes that 100,000 children were saved from poverty between 1998/99 and 2009/10 but a similar number may soon be facing hardship under controversial changes to the UK-wide benefits system. The claims follow a report from the Institute of Fiscal Studies (IFS) which forecasts that relative child poverty throughout the UK will increase by 800,000 children by 2020. This would take the total number of impoverished children in the UK to 3.3 million, almost one in four young people (Benjamin, 2009). The latest figures for Scottish child poverty show that in 2009-10 one in five children were living in poverty – a total of 200,000 children.

The funding struggle was also elaborated by New Philanthropy Capital, which advises wealthy donors about the effectiveness of charities. It reported falling public donations and diminishing legacy income. A survey conducted by the US Council on Foundations found a 28% decline in the asset values of its members in 2008. The Council found no indication that donors were losing their appetite for giving but they are being more selective about the charities they support because they do not want to see their money wasted. This is an indication that issues relating to effectiveness and achievement have become major concerns for charities and fundraisers in a time of recession (Houlder, 2009).

While some charities have decided to cease their operations, others are trying to find new means of securing resources, including hiring skilled people. Edinburgh University Settlement, a charity operating as a local community action centre, ceased operations after the granting of a sequestration order by Edinburgh Sheriff Court, with PricewaterhouseCoopers partner, Bruce Cartwright, appointed as Trustee (Donnelly, 2010b). On the other hand, the National Society for the Prevention of Cruelty to Children (NSPCC) appointed a Scottish Director of Services to lead fundraising efforts and to recruit a team of up to 25 workers to provide face-to-face services north of the border. This action effectively brought to an end a pact with Children First, the NSPCC's Scottish counterpart, which had meant that the NSPCC did not raise funds in Scotland and left direct provision of services to Children First (Flanagan, 2010b). Despite this climate, some pro-active charities believe the situation will improve. For example, the National Trust for Scotland's CEO believes there are opportunities across its estate to earn more money that could be targeted at conservation (Didcock, 2011).

On cross-border charities, there is also disagreement on some key decisions involving funding. For example, Ramblers Scotland was facing closure because of the draconian financial cutbacks imposed by its London headquarters (Edwards, 2009). The dispute between MSSS and its London headquarters cited earlier is another example.

There is, however, a real opportunity to make a virtue out of necessity. The Prime Minister's 'Big Society' initiative may open up new channels of public funds to the advantage of charities. The Government awarded a £7bn contract to the private sector to promote its policy of assisting the long-term unemployed to obtain work. The profit motive, it is suggested, might lead to clients who need intensive, tailored and expensive support to be written off by private firms, whereas charities are altruistic and more suited to this task. This can help charities to prove that they can help the economy to move out of recession (Benjamin, 2009). But this can be another challenge to charity governance and accountability.

### **1.5.2 Rising demand for charitable services**

During these hard economic times, more people are turning to charities for assistance. For example, demand from families for places at the internationally renowned Royal Blind School in Edinburgh is as high as ever, but fewer placing requests are being approved than in previous years. The family of Ciara McGearey (13 years old), who is severely visually impaired and has epilepsy and learning difficulties, felt the Royal Blind School best served her needs. This view was also supported by an Additional Support Needs Tribunal. The

Council disagreed and offered her a place at Oaklands school, which caters for severe learning and sensory difficulties, at a fraction of the cost. Oaklands does not have the same specialist blind teaching facilities, according to the family. The Oaklands school receives a central government grant but has experienced a fall in funds from donations, bequests and investment income due to the recession. This, when combined with falling funding from local authorities, has resulted in a shortfall, currently being met by the Royal Blind School charity (Flanagan, 2010a).

### **1.5.3 Charity stakeholders and accountability relationships**

The charity sector has various stakeholders, internal (Chairs, CEOs, employees and volunteers) and external. The major external stakeholders comprise the public who donate their money to good causes. Different stakeholders have different motives for their involvement in charities. Some may be involved through pure altruism, others to take advantage of existing tax law, while others donate to create a good public image for themselves or their organisations. There is no single motive which can be attributed to donors. The main complaint from external stakeholders is the lack of feedback on their stakes (eg donations). Douglas (2011) describes the Scots as famously generous. The average citizen contributes around £227 a year, according to the latest figures. However, this is not enough. The sector's income has dropped by £100m, just as the welfare state is retreating and need is increasing. Small, grass-roots organisations have taken the biggest hit. They have seen a 60% drop in their income.

Although most people in the UK (about 70%) do give money to good causes, donors are not the people many might assume. It was found that the less well-off give a greater proportion of their incomes to charity than those who are best-off. It is estimated that the poorest 10% donate 3% of their household expenditure to charity, while the richest 20% give on average just 0.7% (Roddick, 2004). The Government cautiously recommends that 1.5% of disposable income be devoted to charitable giving, as part of a campaign to increase the amount of money given to UK charities. Charities are trying out new things. Social enterprise is on the rise; 86% of charities are planning to develop new income sources. Half are putting more focus on business development, a third are joining new partnerships or consortiums, and a fifth are restructuring.

The existing challenge for the sector, however, is how donors can have feedback on the use of their funds. For example, Saturday night programmes on TV, whose executive producers

pledge all profits to ‘charity’ without specifying charity names, give no chance to those who watch the programmes to know how the money raised makes a difference. The pledge is regarded as intrinsically good and not needing further investigation. Brookes (2007) said that ‘It’s time to start holding charities accountable.’ The lack of public scrutiny is held up as a cause for worsening performance in charities.

#### **1.5.4 Paid staff and trade unions**

One of the major concerns advanced by charity trade unions is the pay differences between senior management and junior staff. Big charities often employ professional managers who require attractive remuneration packages to retain them. This is one of the concerns raised by Unite, one of the largest UK trade unions with over 1.5m members, covering the industrial, occupational and professional sectors of the economy. Unite called for a curb on the remuneration packages for executives at some leading charities. For example, it highlighted the £391,000 severance package paid to the Anchor Trust CEO; the payment of more than £100,000 by RSPB as emoluments to a senior staff member; and £117,000 paid by Age Concern to its former Director General (Davies, 2009).

The uncertain future arose not only from uncertain income but also from increasing pension deficits. Britain’s largest fundraising charities have estimated pension deficits of more than £12bn, prompting many charities to close final salary schemes and increase contributions from employees, sparking outrage from unions (Ramesh, 2010a). Voluntary sector workers now face lower salaries, less annual leave and longer working hours as spending cuts loom. More than half of charity income now comes from Government contracts and the sector is a major employer, with 464,000 full time staff (Ramesh, 2010b).

Some of the cost-cutting measures include those defended by leaders of the National Trust for Scotland. These were described by the its CEO as ‘a bereavement’ to the members of the Scottish Parliament’s Economy, Energy and Tourism Committee after dozens of NTS employees lost their jobs. She nevertheless anticipated that the organisation would in future be in surplus and that there is no cause for concern financially (Currie, 2009). While cost-cutting by some charities was unopposed, other charities faced action from unionised labour. For example, staff at Quarriers Homes for vulnerable children and adults planned a walkout for 24 hours in protest about proposed cuts in their benefits, which for some amounted to £400 a month (Currie, 2011). This walkout was organised by Unison, the second largest UK trade union, with over 1.3m members. Another example is the Church of Scotland which

consulted on a wave of redundancies after losing tens of millions of pounds in the economic downturn. This was done after a review which recommended savings of £903,000 in staffing and other costs (Donnelly, 2009).

### **1.5.5 Board composition and governance**

To overcome the challenges facing the sector, charities need to have better governance. Curley (2009) highlighted the need for volunteers, Board members and paid staff in a competitive environment to acquire new skills. For example, Campbell Robb, who worked as Director General of the newly-established Office of the Third Sector, described the major impact of Government on the sector, as more than half of charitable income is ‘earned’ from Government contracts. Later, he decided to leave Government service to join Shelter UK, giving the major reason as, having spent most of his time telling people how to run charities, he wanted to run one himself (Ramesh, 2010c).

The importance of having qualified people running charities has been enhanced by the proposed new tax law requiring charities to employ ‘fit and proper’ people in management roles. Scottish charity leaders have described the law as unworkable. They go further and explain the proposed law assumes that there are many people committing fraud in Scottish charities, which is far from the truth. One of the unexpected effects is a prediction by the Church of Scotland that between 30,000 and 40,000 church elders or trustees will be affected (Anonymous, 2010).

The unexplained exit of CEOs from charities raises more questions about the quality of governance. One example is when Erskine’s (a veteran’s charity) CEO resigned his job a few days before Erskine’s Edinburgh facility obtained poor marks for the quality of care and support, management and staffing from Care and Social Work Improvement Scotland (Hutcheon, 2011).

Charity trustees and Board members have long been background figures, but current economic woes demand that they take a much stronger hand in leadership. With the public sector braced for cuts, demand for charity services will increase and organisations will face tough decisions about carving up scarce resources (Salman, 2010). Charities are now required to demonstrate their impact if they want to help build the ‘Big Society’. The Coalition Government faces entrenched social problems and the challenge of reducing the budget deficit. Can charities really offer sustainable and scalable solutions to tackling the toughest problems in the UK? These are tough questions facing the charity sector today.

Brooks (2010) highlighted the lack of necessary research on the charity sector:

I think they can. But there is something holding them back: their inability to provide evidence of their impact. Many are too happy to claim the need for funding without being able to show the results they achieve. It is common place, for example, to use research from the US to support a statement about an individual charity's work in the UK, rather than provide direct evidence. This weakens the claims – they may or may not be true, we simply cannot tell for sure (26 May).

There is a big research gap between the US and the UK charity sectors. Most research on charities and non-profit organisations has been conducted in the USA, while the UK has lagged behind: most of the literature used in this thesis is based on US experience. However, there is some evidence that the charity sector in the UK can make good use of taxpayer money. For example, St Giles Trust is working with offenders, through the Gates pilot project, in providing intensive one-on-one support for offenders leaving prison across 14 London boroughs. An analysis commissioned from Pro Bono Economics showed that the project lowered the reoffending rate by 40%: for every £1 spent on the scheme, £10 was saved for the taxpayer (Brooks, 2010). When there are good governance mechanisms and when more information about the sector is communicated to outsiders, there is potential for the sector to demonstrate its importance.

### **1.5.6 Charity regulation and compliance**

Another area which raises concern is regulation. It is necessary to regulate the charity sector to control the systemic effect on public trust caused by scandals. There is, however, a problem about the financial burden placed on charities in this damage-limitation exercise. There has been some positive action taken by the OSCR, for example, in reducing the annual return submitted by all charities to only two pages, aiming to show financial highlights and provide useful information to stakeholders. Although the OSCR has taken action to reduce compliance costs, it was forced to deny a claim that small charities are subjected to a £400 fee when submitting their accounts. Large charities are required to submit audited accounts, though two-thirds of charities report an income of less than £25,000. The OSCR explained that the 1,000 charities removed from the OSCR Register consist mostly of charities that were no longer operating, rather than charities unable to cope with the regulatory burden of submitting accounts (Currie, 2010). These claims raise the need to understand the current regulation of charities. Crawford et al (2009) explained the current regulatory framework is good and most charities are complying but that study was conducted before the recession.

## **1.6 Research Objectives**

The six issues addressed in the sub-sections above are interconnected. This research used a questionnaire instrument to accommodate all the issues raised and how they are reflected in other research findings. The governance model described by Hyndman and McDonnell (2009) has been used and the Research Questions are set out below.

The aim of the research is to use stakeholder theory, resources dependence theory and signalling theory to investigate the working relationship between Chairs and CEOs during the period of economic downturn so that the future of large charity governance and accountability can be predicted. This focus on the internal governance of charities gives an opportunity to explore funding sources, governance structures and accountability relationships. The research objectives are twofold: first, to determine the existing working relationship between Chairs and CEOs for large charities; and, second, to add knowledge about charities which is practice-oriented and concerned with confronting problems facing organisations or society (Verschuren and Doreewaard, 1999).

The determination of the Research Questions is justified in Chapters 4 and 5. To anticipate, these are:

**Research Question 1:** *How has recession affected the Chairs' and CEOs' responses on charity governance and accountability issues?*

**Research Question 2:** *Are responses from Chairs and CEOs indicating signalling behaviour in charities?*

**Research Question 3:** *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?*

## **1.7 Research Relevance, Methodology, Findings and Structure of the thesis**

Focusing first into research relevance, this can be considered from two aspects, social and scientific (Weimer, 1995). Social relevance concerns how the outcome of the research will be presented, whereas scientific relevance is concerned with how the research contributes to the body of knowledge in the field of charities. In this thesis, social relevance will be linked to the phenomena of accountability and governance improvement. The importance of corporate governance and accountability in charities depends on their ability to identify to whom they are accountable, why and how.



The anticipated outcomes will help both internal and external stakeholders and policy-makers in charities to improve accountability. It is also anticipated that the research outcomes will reduce the risk of wasting charity resources as a result of: inadequate or failed internal governance; people and systems; or external events like recession. This research on Scottish charities will benefit not only the Scottish charitable sector, but also improve the policies and practices of charities operating elsewhere in the world, including the researcher's own country, Tanzania, where charities are engaging in service provision for local communities in the form of Non-governmental Organisations (NGOs).

The research comprised two phases of data collection. The first involved the collection of annual reports and accounts from the sample. The aim was to identify different sources of funding and other financial and organisational characteristics in the years 2009 or 2010. Identical questionnaires were sent to Chairs and CEOs to examine both their working relationships in general and differences between the (FNVCs) and (FVCs). Questionnaire attachments were sent at least ten days before the scheduled interviews which explored reasons for responses. This approach increased the response rate and minimised the time waiting for questionnaire responses. Overall, a 72% response rate was achieved. For Scotland-only registered charities, the response rate was 86%.

Quantitative data have been used to meet the objectives of the research. These have been gathered using both primary sources (ie questionnaires) and from secondary sources such as annual reports and accounts. A regression equation in Annex 8A (see page 223 to the thesis) has been used to compile the Financial Vulnerability Index (FVI) for each charity. Statistical Package for Social Sciences (SPSS) has been used to analyse for statistical differences.

Analysis of questionnaire responses took place in various ways:

- The aggregated responses of all respondents were analysed
- All Chairs were compared to all CEOs, using statistical tests
- Matched Chairs and CEOs were subjected to statistical tests
- All respondents from FNVCs were tested against all respondents from FVCs.

The research found few differences in responses between Chairs and CEOs with respect to governance and accountability issues raised in the questionnaire. This implies that there is a common understanding about charities and working relationships between the two. There were a few cases which indicated a tense relationship between the Chairs and CEOs. Board members are willing to work as volunteers on other duties apart from being a trustee, though

this idea met with some resistance from CEOs. Charities are more interested in recruiting trustees with specialist expertise. The research found limited effect of the financial vulnerability status of a charity on the responses of Chairs and CEOs. Because of information asymmetry, charities use signalling behaviour in communicating to external stakeholders.

The thesis is divided into eight Chapters as follows. Chapter 1 gives a general overview of the thesis and some key findings. Chapter 2 is about the charity sector in Scotland. Chapter 3 deals with the theoretical underpinnings used in the thesis. Chapter 4 is a literature survey which describes past studies in the sector and highlights gaps needing more research. It also gives the reasons for asking the Research Questions, and outlines the main theories relevant to the charity sector to help understand the complexity of its governance. A review of the literature on the internal aspects of governance (the Board) and its implications for organisational success is provided.

Chapter 5 presents the research methodology and design. Chapter 6 is about the link between questionnaire variables and literature as well as theories used. Chapter 7 is about the results of the aggregated questionnaire analysis. Chapter 8 presents statistical comparisons between respondent groups. Chapter 9 provides a conclusion and makes recommendations from the study, together with consideration of limitations and suggestions for further research.

## CHAPTER 2: THE CHARITY SECTOR IN SCOTLAND

### 2.1 Development of Charity Law in Scotland

To understand the background of the charity sector in Scotland, one needs to focus first on the development of charity laws in the UK. Charity law has been developed differently in the countries making up the UK (McInally, 2005). In England and Wales legislation on charities have been enacted since 1601 when the *Charitable Uses Act 1601* was passed. England and Wales created the Charity Commissioners in 1853, responsible for the registration and monitoring of charities.

In Scotland there was a 'laissez faire' approach to charity regulation. The impetus for law reform started after the enactment of the *Law Reform Miscellaneous Provisions (Scotland) Act 1990*; this law guided law reform in Scotland (McInally, 2005). One of the topics for review was the regulation and support of charities in Scotland and the basis for charities in Scottish society. The 1990 Act, which came into practice in July 1992, was quickly followed by the *Charities Accounts (Scotland) Regulations 1992*, with the main focus being accountability, supervision and charity management. The journey to more comprehensive charity laws gained momentum after the establishment of the Scottish Parliament and the (then) Scottish Executive by the *Scotland Act 1998*.

The laissez faire approach to charities operating in Scotland created problems for the sector. Some were gaps in responsibilities, and fragmentation of advice and support systems for the sector. Lack of routine monitoring and supervision of Scottish charities caused unhappiness in the general public about the lack of accountability. Increased levels of public expenditure went to charities because of their increased role in service delivery, without increased government scrutiny. The public concerns were on the differences in pay and conditions of people employed by charities and the need to modernise Scottish charity law to meet twenty-first century and Scottish values, without being burdensome on charity operation (Scottish Executive, 2005).

The above conditions led to a Scottish Charity Law Review Commission known as the 'McFadden Commission', appointed by the (then) Deputy First Minister, Jim Wallace, in March 2000. The Commission was chaired by Jean McFadden and composed representatives from the legal profession, accountants, local government, charities and other voluntary organisations. Its main responsibility was reviewing laws relating to charities in Scotland and

making recommendations on any reform considered necessary. The Commission published its report in May 2001 (McFadden, 2001), following a year of consultation and deliberation.

The report concluded with 114 recommendations on how Scottish charities should be operated and regulated. The Commission's major recommendation was that Scotland would benefit from a modern, flexible definition of a charity. To achieve this objective, the Commission proposed that a comprehensive register of charities operating in Scotland should be maintained. There should also be the establishment of a regulator, with functions to include the determination of charitable status, maintaining a charity register so as to facilitate their accountability to the public through monitoring, provision of support services and advice to their trustees, with a view to protecting the public interest.

## **2.2 The Scottish Executive Response to McFadden**

The Scottish Executive response to the McFadden report was *Charity Regulation in Scotland* (Scottish Executive, 2002) which set out a new framework and the work to be carried out by the regulator. A new one-door regulator's office would be created, embracing the functions of registration, monitoring, supervision, investigation, support and information. Charitable status continued to be granted by the (then) Inland Revenue. Revenue staff involved were to work closely (and possibly be co-located) with the regulator's office to ensure that the existing index of Scottish charities held by the Inland Revenue was overhauled to contain only active charities. The index would be substantially enhanced to contain more information about charities.

The reporting and monitoring regime was introduced, based on annual submission of reports and accounts, graduated to take account of different sizes of charities. The regulator would liaise with any other body whose remit covered charities to minimise duplication of effort. All complaints and alleged misconduct and mismanagement were to be investigated by the regulator, with the right to apply to the Court of Session as necessary to remedy or prevent abuse. The Lord Advocate's role in protecting the public interest through supervising civil actions raised in the name of Scottish ministers continued, as the regulator would seek the Lord Advocate's advice on all cases likely to be raised. All cases involving criminal activities would be referred to the Crown Office. Various other functions hitherto carried out by various parts of the Inland Revenue would be consolidated in the regulator's office (eg approving trust re-organisations). The regulator would encourage and facilitate better arrangements at local level for public charitable collections and provide comprehensive

advice and guidance relating to regulatory matters. To make it easier for charities, the regulator would be required to provide a signpost to other sources of advice (eg codes of practice). By working closely with the sector, the regulator would encourage the development of support material where gaps were identified, for example a comprehensive handbook for trustees. The new regulator, (provisionally) entitled the Office of the Scottish Charity Regulator (OSCR), was established in December 2003 as a branch of the Justice Department of the Scottish Executive.

### **2.3 The Charities and Trustee Investment (Scotland) Act 2005**

The Scottish Executive made a statement on 28 May 2003 outlining their intention to reform charity law by introducing the *Charities and Trustee Investment (Scotland) Bill* sometime in 2004 (McInally, 2005). The statement was a response to legal action taken against Breast Cancer Research (Scotland) in 2003 by the OSCR. Investigation found evidence of misconduct and mismanagement in that charity. After a long consultation with different charity stakeholders, the Bill was passed on 9 June 2005 and received the Royal Assent on 14 July 2005 to become the *Charities and Trustee Investment (Scotland) Act 2005*.

This Act changed the status of the OSCR from being a branch of the Justice Department to an independent non-ministerial department as a body corporate, holding office within the Scottish Administration.

### **2.4 Regulating Charities Operating in Scotland**

The OSCR is an independent regulator and the Registrar of Scottish charities. The McFadden Report's vision was for a flourishing charity sector in which the public has confidence, underpinned by the OSCR's effective delivery of its regulatory role. The OSCR now works as a statutory body under the *Charities and Trustee Investment (Scotland) Act 2005*. It is a non-ministerial Department, independent from Scottish ministers and part of the Scottish Administration (OSCR, 2008). The main functions of the OSCR as outlined in the Section 1(5) of the 2005 Act include: determination of charitable status of bodies; keeping the Register of all charities; monitoring charities' compliance with the 2005 Act; identifying and investigating any misconduct in the administration of charities and taking appropriate action; and advising Scottish ministers on all matters relating to the OSCR.

Any charity operating in Scotland is eligible to be registered by the OSCR after it has successfully applied for charitable status and passed the charity test. To meet this test, an organisation should demonstrate that it has one or more charitable purposes and that it

provides or intends to provide public benefit in Scotland or elsewhere (Section 7(1) of the 2005 Act.

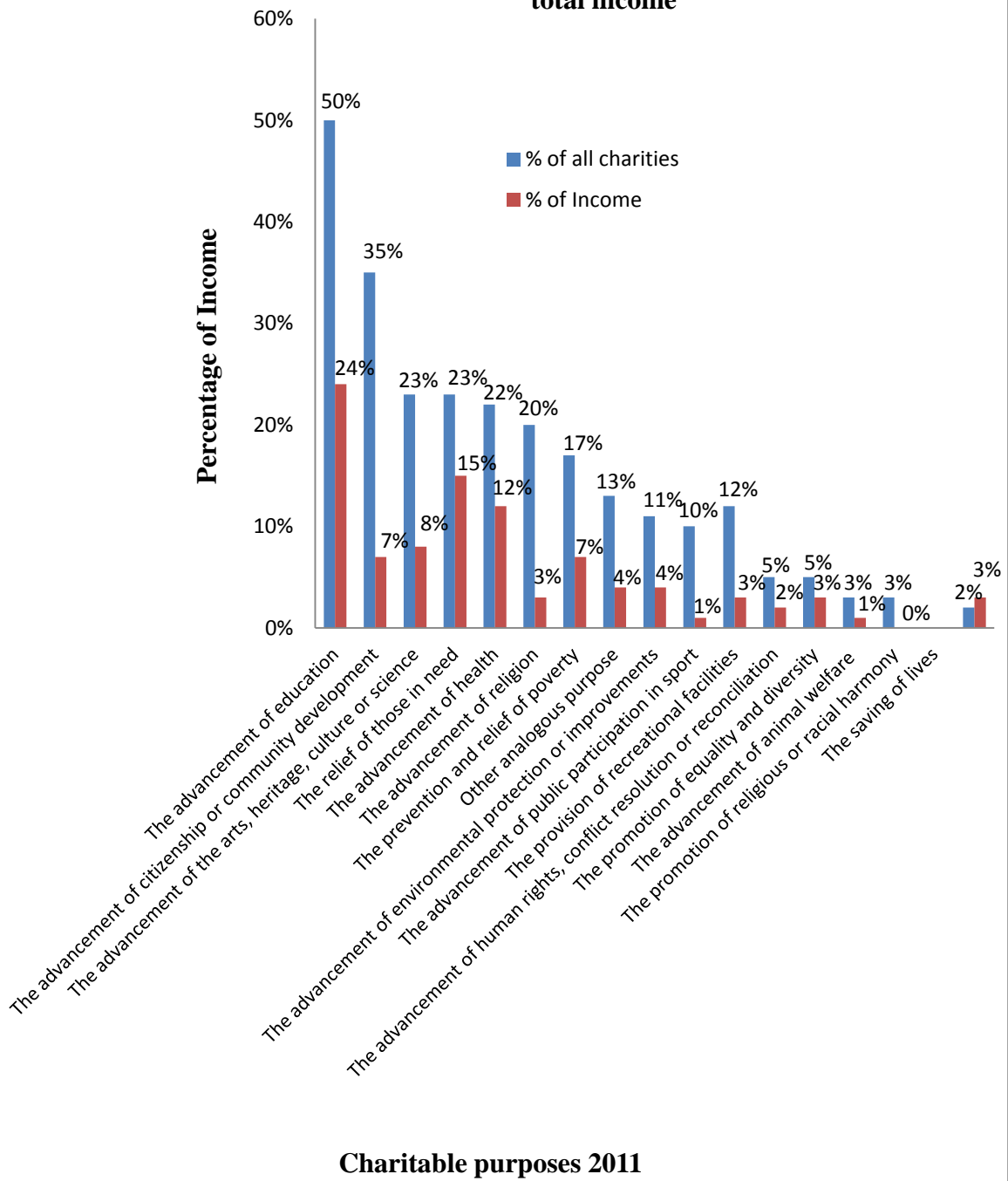
Charitable purposes have been specified under Section 7(2). These are relief or prevention of poverty and advancement of education, religion or health. Others include saving lives, advancement of citizenship or community development, the advancement of arts, heritage, culture or science, and public participation in sport. Other purposes are the provision of recreational facilities or organising recreational activities, with the intention of improving the conditions of life of the intended persons. Included also are advancement of human rights, conflict resolution, and the promotion of religion, racial harmony, equality and diversity. Others are advancement of environment protection or improvement, the relief of those in need by reason of age, ill health, disability, financial hardship or other disadvantage, and the advancement of animal welfare. Finally, this would include other purposes that may be reasonably regarded as analogous to any of the preceding purposes.

## **2.5 Constitutional Forms, Charitable Purposes and Total Income**

In terms of percentage of all charities, the top three have remained the same throughout 2005 to 2011. Figure 2.1 below summarises the percentage of total charities in Scotland which pursue each charitable purpose and the percentage of total income within the sector which is targeted at these purposes in 2011.

The top five charitable purposes (with percentages in brackets) are: the advancement of education (50%); the advancement of citizenship or community development (35%); advancement of heritage, arts, culture and science (23%); the relief of those in need (23%); and the advancement of health (22%). Charitable causes which receive the greatest proportion of total sector income are: advancement of education (24%); the relief of those in need (15%); the advancement of health (12%); the advancement of the arts, heritage, culture or science (8%); and the advancement of citizenship or community development, as well as the prevention and relief of poverty, both receiving 7%.

**Figure 2.1: Percentage of all charitable purposes and percentage of total income**



Data Source: OSCR Scottish Charity Report 2011

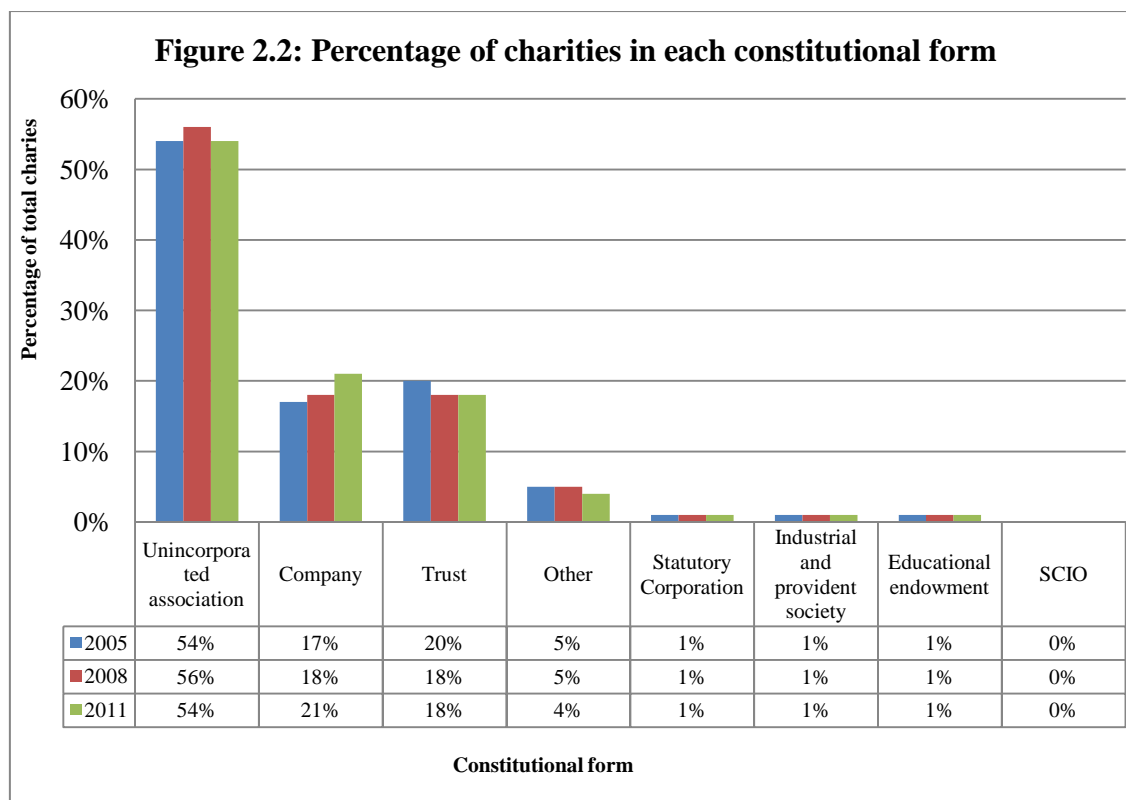
### **2.5.1 Constitutional forms of charities operating in Scotland**

The constitutional forms of charities currently existing in Scotland range from ‘company limited by guarantee’ (company), ‘industrial and provident society’, and ‘statutory corporation (Royal Charter etc)’. Others include ‘educational endowment’, ‘trust’ and ‘Scottish Charitable Incorporated Organisation (SCIO)’, which was established by the *Charities and Trustee Investment (Scotland) Act 2005*. As the new legal form available to charities from 1 April 2011, SCIO aligns with the limited liability partnership and the community interest company (Cross, 2007).

Focusing on Figure 2.2, 54% of charities reported as ‘unincorporated associations’ in 2005, compared to 56% in 2008 and 54% in 2011. This is the dominant constitutional form of the sector in Scotland. Another constitutional form is ‘company’, which in 2005 had 17% of the reported charities in the OSCR Register, 18% in 2008 and 21% in 2011. Looking at ‘trusts’, 20% were reported in 2005, and in 2008 and 2011 recorded 18%. Other constitutional forms received 5% each in the years 2005 and 2008 while in 2011 the percentage was 4%. Constitutional forms like statutory corporations, industrial and provident societies and educational endowments recorded 1% in all three years. Generally there is no significant change in the pattern of constitutional forms as shown in Figure 2.2. All figures have been deduced using data in the 2005, 2008 and 2011 OSCR Scottish Charity Survey Reports.

Figure 2.2 presents the actual number of charities recorded under each constitutional form. In 2011, the SCIO had 37 charities in the OSCR Register, about 0.15% of the total 23,328 charities registered at that time. The number of SCIOs is expected to increase in the future as this constitutional form became available from 1 April 2011 to those applying for charitable status as new organisations. Existing charities wishing to change their legal form, for example from companies or industrial and provident societies to SCIOs, were able to convert as of 1 January 2012 (OSCR, 2011).





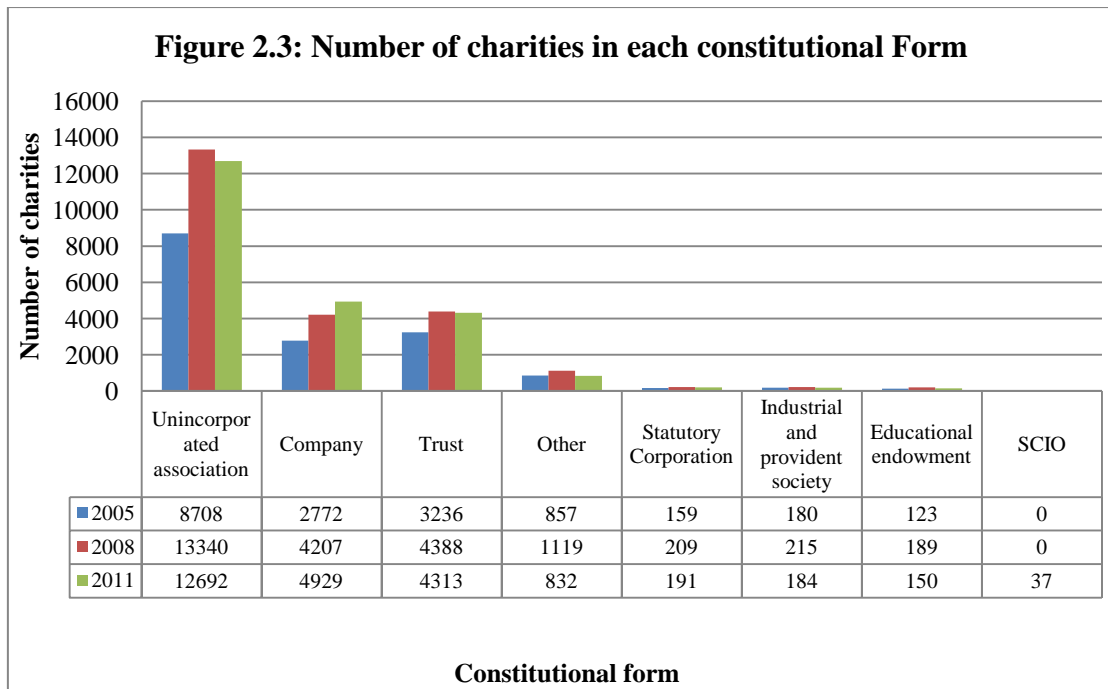
*Data Source: OSCR Scottish Charity Reports 2005, 2008 and 2011*

### 2.5.2 Number of charities of each constitutional form operating in Scotland

The number of charities in each constitutional form has shown the same pattern whereby unincorporated associations dominate the sector. Looking at Figure 2.3, there has been an increase from 2005 (8,708 charities) to 13,340 charities in 2008 before a decrease to 12,692 charities in 2011. Because of the dominance of this constitutional form, mainly for small charities which form about 67% of the total registered (OSCR, 2011), these numbers have been affected by the 2008 recession.

Companies have been rising throughout the period from 2005 to 2011. In 2005 there were 2,772 charities registered as companies, compared to 4,207 in 2008 and 4,929 in 2011. This growing pattern shows more charities have been registered as companies during this period or that some charities were changing constitutional form to companies.

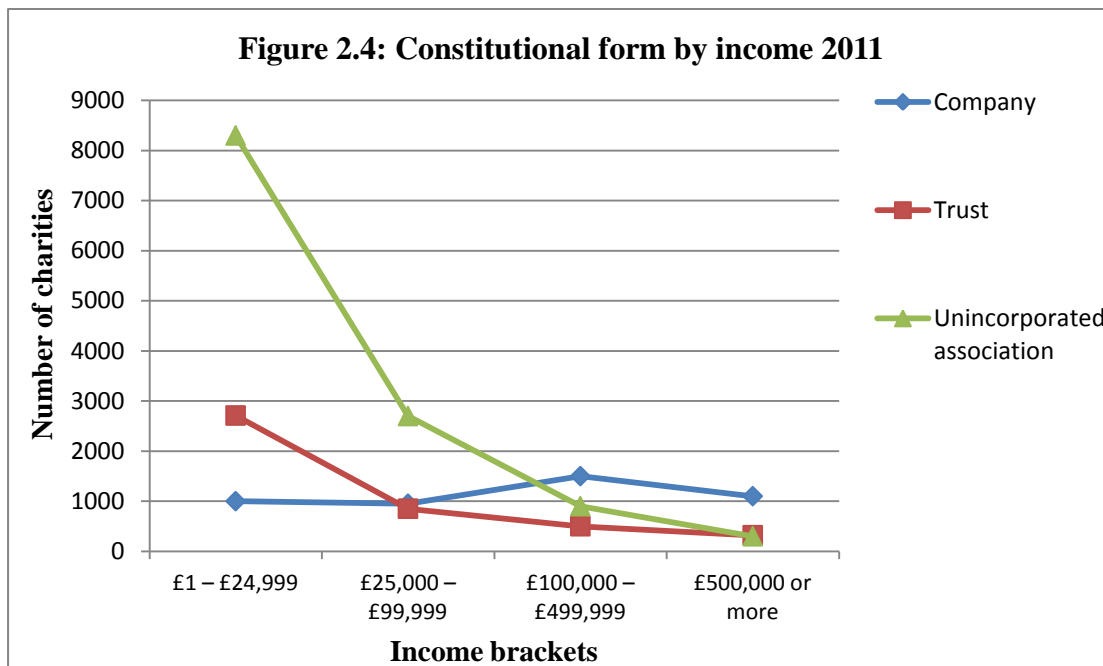
Trusts exhibit the same pattern of increasing between 2005 (3,236 charities) and 2008 (4,388 charities) before falling to 4,313 charities in 2011. Other constitutional forms had 857 charities in 2005, 1,119 in 2008 and 832 in 2011. Statutory corporations had 159 charities in 2005, 209 charities in 2008 and 191 charities in 2011. The same pattern is observed for industrial and provident societies and educational endowments.



*Data Source: OSCR Scottish Charity Reports 2005, 2008 and 2011*

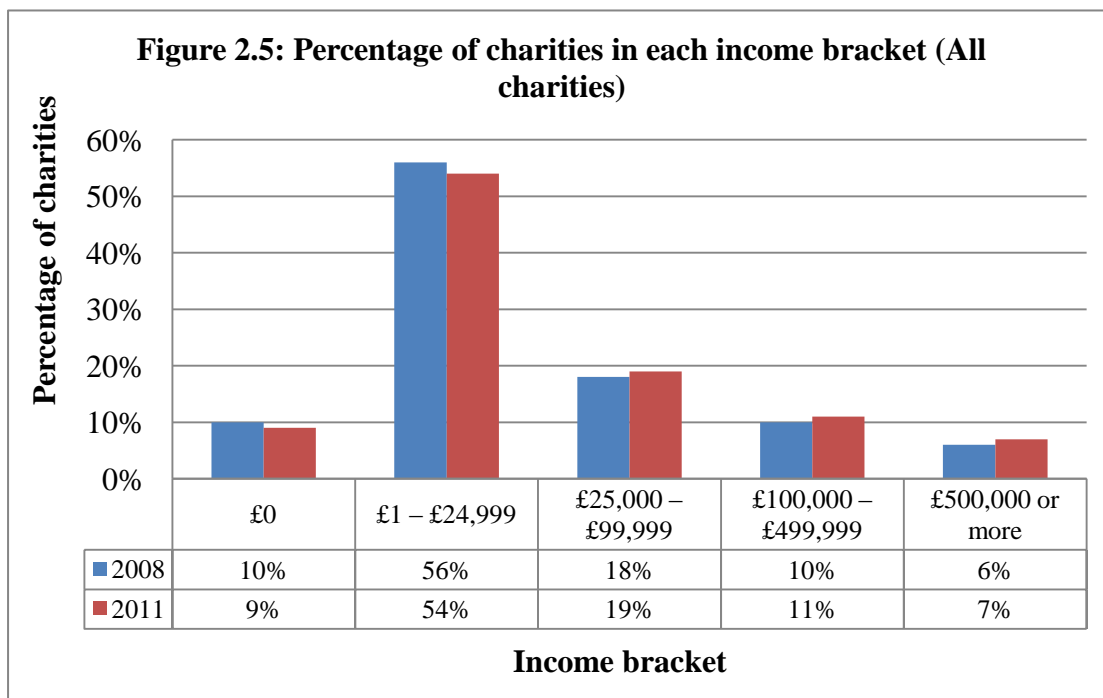
### 2.5.3 Constitutional forms and charities' income brackets.

Figure 2.4 shows the distribution of income in 2011 for the top three types of constitutional form. The majority of unincorporated associations and trusts reported their income between £1 and £24,999 while the majority of companies reported income of more than £100,000.



*Data Source: OSCR Scottish Charity Reports 2005, 2008 and 2011*

The pattern shown in Figure 2.4 is also reflected in Figure 2.5 for 2008 and 2011. For the year 2008, 84% of charities reported that their income was between £0 and £99,999. The same bracket accounted for 91% in 2011. A further 10% indicated that their income was between £100,000 and £499,999 for 2008 and 11% for 2011. The remaining 6% of charities in 2008 reported their income as £500,000 or more, while 7% reported their income in the same bracket in 2011. About 94% of the total income reported by the Scottish charities in 2008 was accounted for by charities whose annual gross income is £500,000 or more: the same pattern is observed in 2011. In other words, 6% of the total number of charities in Scotland account for 94% of gross income in the sector (OSCR, 2008). In 2011, 95.3% of the reported sector gross income was contributed by 7% of the charities (OSCR, 2011). These numbers include the dual-registered charities, some of which are very large.

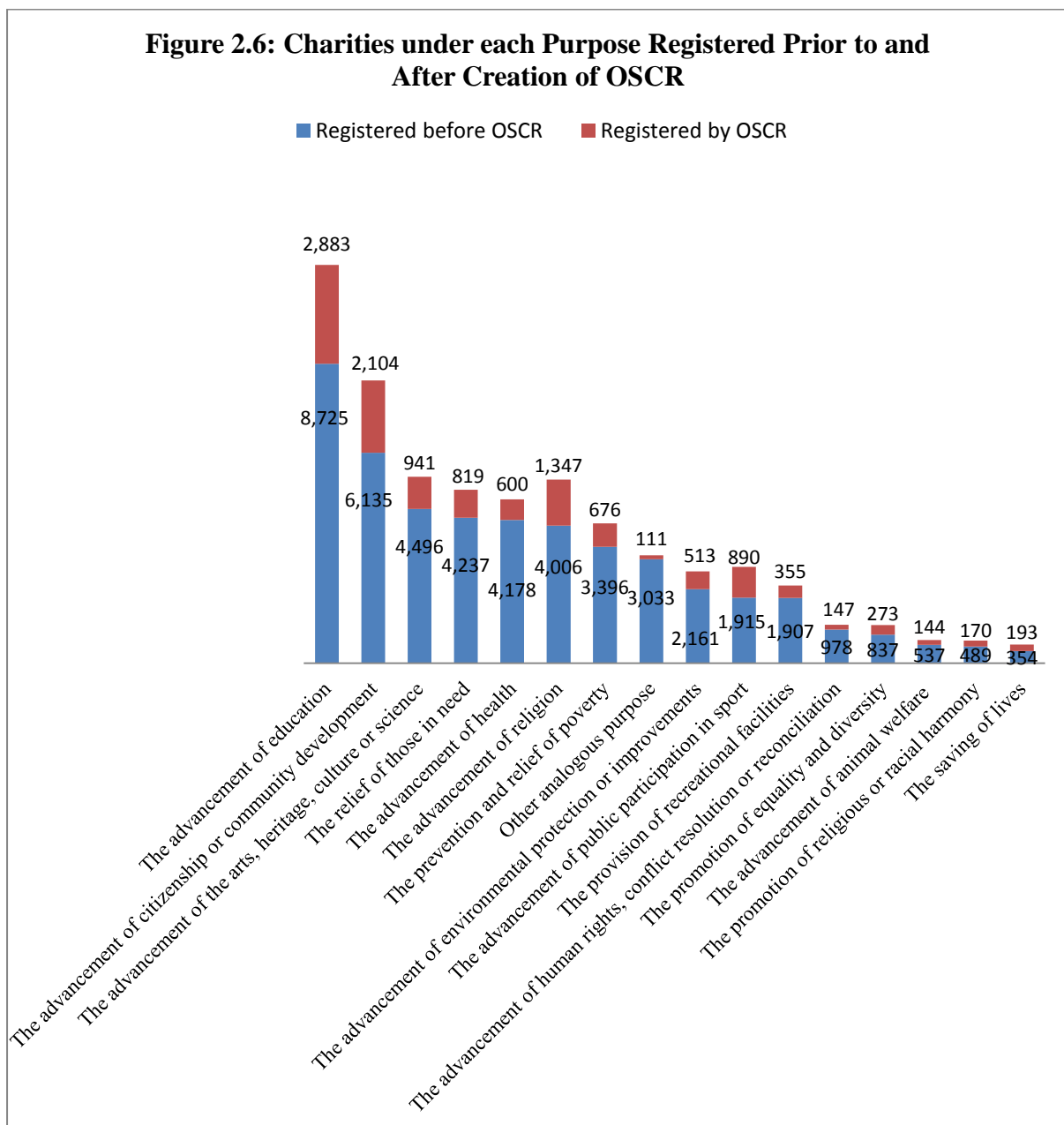


*Data Source: OSCR Scottish Charity Reports 2008 and 2011*

#### **2.5.4 Charities registered prior to and after creation of OSCR**

The OSCR Register has more charities which were registered prior to the establishment of the OSCR than were registered after its establishment. The pattern of registration is the same throughout the two periods of before and after OSCR establishment. Looking at Figure 2.6: the number of charities in advancement of education (before OSCR; after OSCR) is (8,725; 2,883), followed by the advancement of citizenship or community development (6,135;

2,104); advancement of heritage, arts, culture and science (4,496; 941); the relief of those in need (4,237; 819); and the advancement of health (4,178; 600).

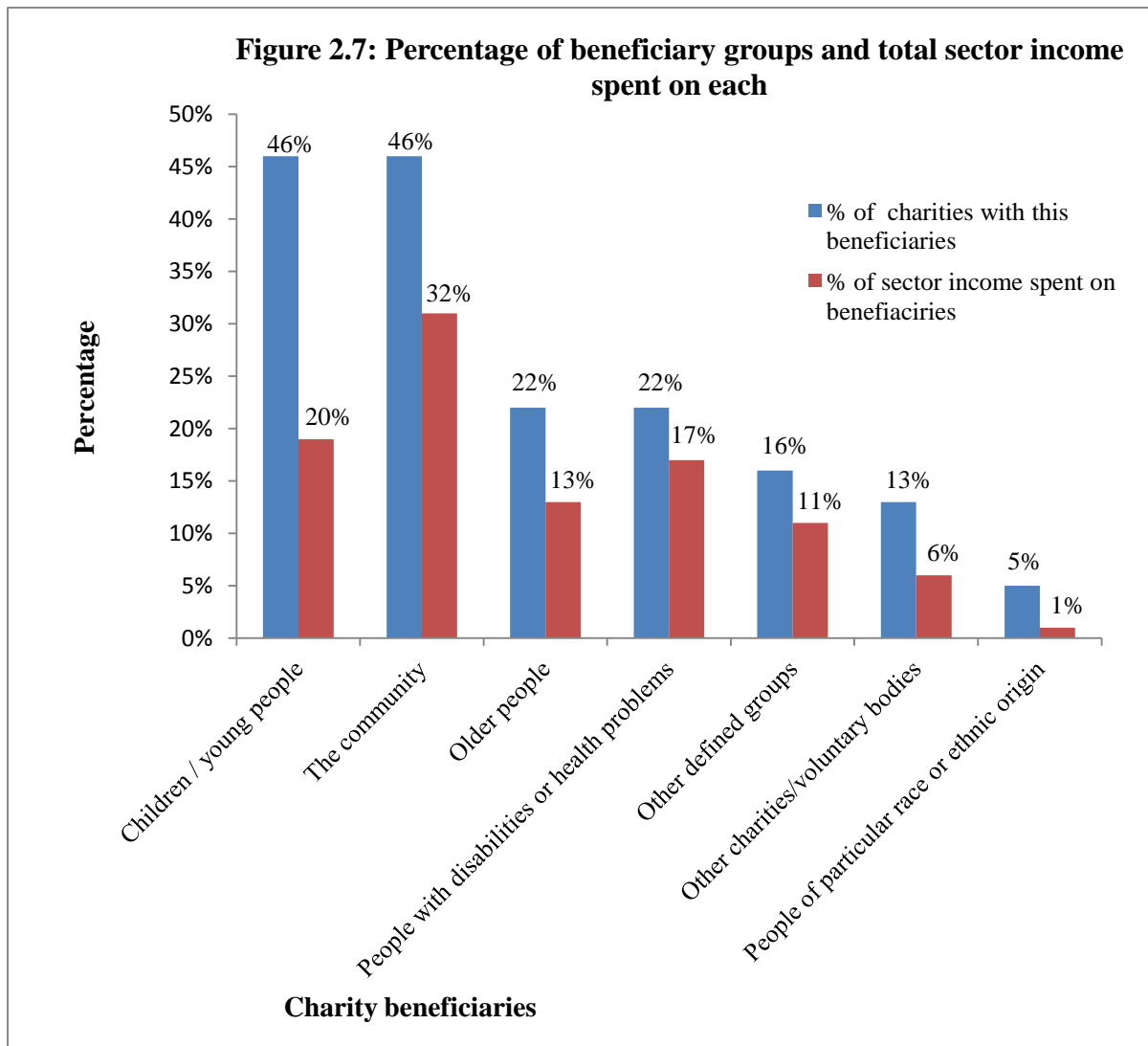


Data Source: OSCR Scottish Charity Report 2011

### 2.5.6 Beneficiaries/users and spending

Focusing on Figure 2.7, the two most popular beneficiaries/users among charities in Scotland are children/young people and the community, each with 46% of charities. These are followed by older people and people with disabilities or health problems, both at 22% of charities. Other defined groups accounted for 16% of charities, followed by other charities/voluntary bodies (13%) and people of particular race or ethnic origin (5%).

In terms of the proportion of spending of total sector income, the community has 32%, children/young people 20%, people with disability or health problems 17%, and older people 13%. Other defined groups have 11%, other charities/voluntary bodies 6%, and people with particular race or ethnic origin 1%.



*Data Source: OSCR Scottish Charity Report 2011*

## 2.6 Chapter Summary

This Chapter shows a clear picture of the charity sector in Scotland. Although the research focuses on large charities, it is important to start with a clear picture of the sector as whole. More income in the sector is reported by cross-border charities than Scotland-only charities. When reviewing the Figures, it must be remembered that a particular charity may have more than one charitable purpose and deliver services to more than one beneficiary group.

## CHAPTER 3: THEORETICAL UNDERPINNINGS

### 3.1 Introduction

The Chapter identifies theoretical underpinnings that help to explore governance and accountability in charities. The main focus is theories identifying and describing ‘sources of funding for pursuing charitable purposes’, ‘charities’ current and potential stakeholders’, ‘conventional means of communication’ and ‘accountability’. A theoretical framework is needed to identify elements of charity governance, especially internal governance and the relationship between Chairs and CEOs. The external conditions under which charities are operating are also important in describing governance and accountability. Chapter 1 highlighted that charities are NPOs which deliver charitable services; therefore all discussions are directed to those NPOs which are charities.

The *Charities and Trustee Investment (Scotland) Act 2005* requires charities registered in Scotland to provide public benefits. Charities are prevented from distributing residual income (profit); this increases difficulties in justifying the application of theories about business organisations to charities. The absence of agreed business theories, which can be empirically justified as applicable to charities, still leaves the option for the research to use some of these theories, as done in previous charities’ research. The literature describing business may provide a useful indication of what constitutes charity governance (Hyndman and McDonnell, 2009). This Chapter shows how different theories have been used to analyse the Research Questions. The topics are those describing ‘Chairs and CEOs relationships’, ‘stakeholders’, ‘legitimacy’ and ‘power’. Others include ‘generation of charity resources’ and ‘means of communicating charitable activities to outsiders’.

Klein et al (1994) described organisations as multilevel, in terms of individuals, groups and teams that interact with other organisations inside and outside the sector. Every construct is tied to one or more organisational level (eg individuals, dyads, groups, organisations, sector etc). It is important to recognise these levels and the related theories which describe them in both designing and analysing the Research Questions. Therefore, the research uses ‘stakeholder theory,’ ‘resource dependence theory,’ and ‘signalling theory’ to provide suitable theoretical descriptions of governance and accountability in charities; these theories are described below.

## **3.2 Conceptual Framework**

The framework seeks to describe top charity officers' views and their experiences in linking governance mechanisms, sources of funding, and the overall ability of charities to meet their objectives and to survive. This ability is explained in resource dependence theory. In charities there are people, individuals and different parties who have a stake in the organisation. Use of stakeholder theory helps to identify different types of charity stakeholders together with the existing accountability relationships. Classifying the stakeholders helps in mapping their relationships with the charity and with each other. But attracting different stakeholders requires organisations to make efforts to convince both existing and potential interested parties about the efficiency of an organisation in meeting their interests. Therefore the research also uses signalling theory to explain behaviour in charities.

### **3.2.1. Resource dependence theory**

Resource dependence theory has often been used to examine how NPOs perform and survive (Miller-Millesen, 2003). It was introduced by Pfeffer and Salancik (1978) to explain how an organisation's structure, strategy and survival depends on its resources and dependence relationships with external stakeholders. They noted that 'The key to organisational survival is the ability to acquire and maintain resources.' The theory emphasises the impact of the external environment on how organisations operate. They proposed two broad doctrines: first, organisations are confined by, and depend on, other organisations/individuals that control vital resources; and, second, in order to maintain autonomy, organisations tend to limit their dependence on external groups (Greening and Gray, 1994). According to the theory, the extent of dependence of an organisation is determined by the significance and concentration of its resources (Froelich, 1999). Among the important elements of the theory is the role played by managers in strategic decision-making to address external constraints (Pfeffer and Salancik, 1978). Greening and Gray (1994) suggested that resource dependence theory has been clear 'about managers' exercise of strategic choices within the context of constraints'. These ideas explain the assertion that CEOs adjust strategy based on both existing and anticipated resource dependence. Among the possible strategic actions are the inclusion of key people on the Board and active engagement of Board members to support the organisation's mission.

Financial sources of support are vital determinants of an NPO's activity (Weisbrod, 1998), and thus resource dependence theory provides an adequate framework for the analysis of funding, Board composition, involvement and the overall survival of charities.

Pfeffer (1972) views corporate governance practices from yet another angle. Both for-profits and NPOs need to acquire and maintain resources to survive. Under harsh economic pressures, organisations are called to be more effective in the management of their resources. It is inevitable then that the organisation needs to acquire links to new beneficiaries, new sources of funds, expertise and social networks to help fulfil their objectives. This link is provided by the governing body of Directors (Pfeffer and Salancik, 1978).

Perlmutter (1988) also found a link between the environment and the inside of organisations. He argued for the Board to possess a broad array of knowledge to be able to utilise that environment as much as possible. This means that 'Board capital', such as the specific experience of Board members and 'relational capital' such as their personal networks, may help to link the organisation to its different stakeholders in order to attract resources (Hillman and Dalziel, 2003). To link an NPO to powerful public and private funders, the expertise and strategic capabilities of trustees are important (Brown, 2005). This is evident in the findings of Mizruchi and Stearns (1993), who found a relationship between the 'outside' Directors' acquaintances with public and private funders and the organisation's ability to obtain funds from these resources. This is because trustees' education, public recognition and income may determine their networks (Tricker, 2009). Therefore, investment in strategic recruitment of trustees is likely to attract more resources to an NPO and improve its survival prospects. This encourages one to look beyond the limited monitoring function proposed by agency theory. Nevertheless, a balance should be struck between the monitoring function and the characteristics of members that will induce the flow of resources to the charity. Different charities may have different stakeholders with different motives. Corporate governance literature gives Boards the ultimate responsibilities of governance and therefore, by appointing a CEO, the Board is delegating its power to CEOs to work on their behalf. However, charities have different stakeholders with different motives and power in the charity. It is important to understand the different types of stakeholder and their influences on charity governance. This leads us to the power of stakeholder theory in explaining these issues.

### **3.2.2 Stakeholder theory**

The basis for discussion on this theory is the model developed by Mitchell et al (1997). This model is very useful in developing the frameworks which are connecting to the rest of the three theories used. Before discussing in detail the rationale of using this theory, there is a need to know Who Is a Stakeholder? and What Is a Stake? Literature shows little agreement



on who can be a stakeholder (Table 3.1 below). Mitchell et al (1997) highlighted individuals, groups, organisations, institutions, neighbourhoods, societies, and even the natural environment as generally thought to qualify as actual or potential stakeholders.

Thomson et al (1991) define stakeholders as groups 'in relationship with an organisation'. However, most scholars have made an effort to specify a more concrete stakeholder definition, although limited success has been achieved. Freeman and Reed (1983) had a broad definition of a stakeholder as an individual or group who 'can affect the achievement of an organisation's objectives or who is affected by the achievement of an organisation's objectives'; while their narrow definition was 'those on which the organisation is dependent for its continued survival'. Freeman (1984) also defined 'a stakeholder' in an organisation as any group or individual who can affect or is affected by the achievement of the organisation's objectives. Mitchell et al (1997) found this definition to be one of the broadest in the literature as it leaves open the notion of a 'stake' and the field of possible stakeholders. This definition is the basis of the stake that can affect or is affected by involving relationships, transactions, or contracts requirement. This definition exclude from having a stake those who cannot affect the firm (ie powerless) and those who are not affected by it (ie those who have no claim on the organisation).

**Table 3.1: Who is a stakeholder? A chronology**

Source	Stake
Stanford memo, 1963	‘those groups without whose support the organisation would cease to exist’ (cited in Freeman and Reed, 1983, and Freeman, 1984)
Rhenman, 1964	‘are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence’ (cited in Nasi, 1995)
Ahlstedt and Jahnukainen, 1971	‘driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending’ (cited in Nasi, 1995)
Freeman and Reed, 1983, 91	Wide: ‘can affect the achievement of an organisation’s objectives or who is affected by the achievement of an organisation's objectives’ Narrow: ‘on which the organisation is dependent for its continued survival’
Freeman, 1984, 46	‘can affect or is affected by the achievement of the organisation's objectives’
Freeman and Gilbert, 1987, 397	‘can affect or is affected by a business’
Cornell and Shapiro, 1987, 5	‘claimants’ who have ‘contracts’
Evan and Freeman, 1988, 75-76	‘have a stake in or claim on the firm’
Evan and Freeman, 1988, 79	‘benefit from or are harmed by, and whose rights are violated or respected by, corporate actions’
Bowie, 1988: 112, n. 2	‘without whose support the organisation would cease to exist’
Alkhafaji, 1989, 36	‘groups to whom the corporation is responsible’
Carroll, 1989, 57	‘asserts to have one or more of these kinds of stakes’ and ‘ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property’
Freeman and Evan, 1990	contract holders
Thompson et al, 1991, 209	in ‘relationship with an organisation’
Savage et al, 1991, 61	‘have an interest in the actions of an organisation and ... the ability to influence it’
Hill and Jones, 1992, 133	‘constituents who have a legitimate claim on the firm ... established through the existence of an exchange relationship’ who supply ‘the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)’
Brenner, 1993, 205	‘having some legitimate, non-trivial relationship with an organisation [such as] exchange transactions, action impacts, and moral responsibilities’
Carroll, 1993: 60	‘asserts to have one or more of the kinds of stakes in business’ and ‘may be affected or affect’ ...
Freeman, 1994: 415	participants in ‘the human process of joint value creation’
Wicks et al, 1994, 483	‘interact with and give meaning and definition to the corporation’
Langtry, 1994, 433	the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm
Starik, 1994, 90	‘can and are making their actual stakes known’ and ‘are or might be influenced by, or are or potentially are influencers of, some organisation’
Clarkson, 1994, 5	‘bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm’ or ‘are placed at risk as a result of a firm's activities’
Clarkson, 1995, 106	‘have, or claim, ownership, rights, or interests in a corporation and its activities’
Nasi, 199, 19	‘interact with the firm and thus make its operation possible’
Brenner, 1995, 76, n. 1	‘are or which could impact or be impacted by the firm/organisation’
Donaldson and Preston 1995, 85	‘persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity’

Source: Mitchell et al (1997)

Mitchell et al (1997) highlighted various ways of identifying stakeholders in the agency, behavioural, ecological, institutional, resource dependence, and transaction cost theories of the firm. Ways of identifying stakeholders in the resource dependence theory will be discussed later in this Chapter. They found that a few attributes can be used to identify different classes of stakeholder in an organisation's environment by focusing their analysis on Freeman's (1984) definition of stakeholder in order to draw out some strands present in the theoretical literature. They proposed identification of classes of stakeholder by their possession or attributed possession of at least one of the following attributes: (1) the stakeholder's power to influence the firm, (2) the legitimacy of the stakeholder's relationship with the firm, and (3) the urgency of the stakeholder's claim on the firm. Through this theory, they produced a comprehensive classification according to general type of stakeholders based on the standard assumption that the three variables (ie power, legitimacy, and urgency) define the field of stakeholders: those entities to which managers should pay attention. They further proposed a theory of stakeholder salience that suggests a dynamic model, based upon the identification classification that permits the explicit recognition of situational uniqueness and managerial response to explain how managers prioritise stakeholder relationships. This led them to lay out the various explicit and implicit positions on 'The Principle of Who or What Really Counts.'

On comparing claimants versus influencers, Mitchell et al (1997) clarified the term 'stake', by differentiating between groups that have a legal, moral, or presumed claim on the organisation and groups that have an ability to influence the organisation's behaviour, direction, process or outcomes. These were considered following Savage et al (1991) who thought these attributes of claimants and influencers to be necessary to identify a stakeholder. Claimants may have claims which are legitimate or not, and they may have power to influence the organisation or not. Power and legitimacy are different, they may appear together or each can exist independently. Starik (1994) referred to stakeholders as those who 'are or might be influenced by, or are or potentially are influencers of, some organisation'. Looking at power, dependence, and mutual relationships, if an organisation and a stakeholder have a relationship, what kind of relationship exists? The literature offers confusing answers to this question, but most explanations are based on power-dependence.

Mitchell et al (1997) also saw stakeholder power and legitimacy as competing explanations of stakeholder status, a view reflected in virtually every major theory of the firm, particularly in agency, behavioural, institutional, resource dependence and transaction cost theories. One

of the theories used in this research, resource dependence, is also helpful in explaining why power plays such important roles in the attention managers give to stakeholders. This research focuses on governance and accountability of charities at a time of economic recession. Therefore, this theory will help to identify different types of stakeholders and their importance to charities.

Resource dependence theory suggests that power accrues to those who control resources needed by the organisation, creating power differentials among parties (Pfeffer, 1981), and it confirms that the possession of resource power makes a stakeholder important to managers. These three organisational theories teach us why power is a crucial variable in a theory of stakeholder-manager relations.

Weber (1947) defined power as ‘the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance’. Pfeffer (1981) defined power as ‘a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done’.

Legitimacy focuses almost exclusively on defining the basis of stakeholder legitimacy. ‘The Principle of Who or What Really Counts’ is legitimacy based. However, the notion of ‘legitimacy,’ loosely referring to socially accepted and expected structures or behaviours, is often coupled implicitly with that of power when people attempt to evaluate the nature of relationships in society. This brings the argument to signalling behaviour as it exists in charities, to be discussed later in the Chapter. An entity may have legitimate standing in society, or it may have a legitimate claim on the firm, but unless it has either power to enforce its will in the relationship or a perception that its claim is urgent, it will not achieve salience for the organisation’s managers.

This views power and legitimacy as independent variables in stakeholder-manager relationships and takes us some distance toward a theory of stakeholder identification and salience, but it does not capture the dynamics of stakeholder-manager interactions. Weber and Pfeffer argued that urgency is based on the following two attributes: time sensitivity and the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder; and critically the importance of the claim or the relationship to the stakeholder. They defined urgency as the degree to which stakeholder claims call for immediate attention.

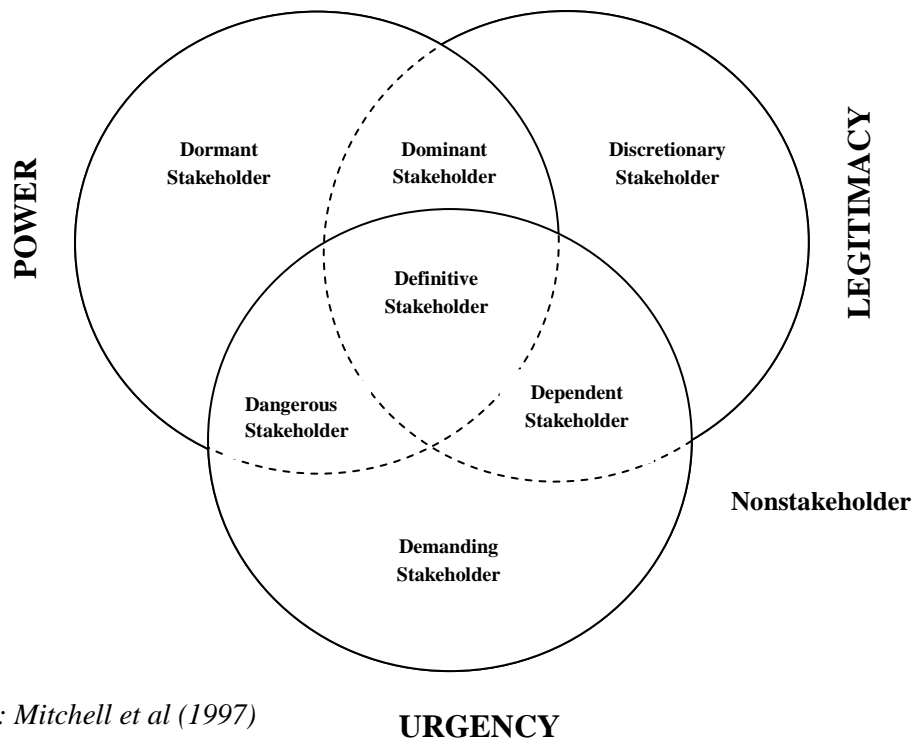
A combination of at least two or a stand-alone of the three important attributes (ie power, legitimacy, and urgency) defines different types of stakeholder as shown in Figure 3.1 below. According to Mitchell et al (1997), the combinations produce ‘dormant stakeholder’, ‘discretionary stakeholder’, ‘demanding stakeholder’, ‘dependent stakeholder’, ‘dangerous stakeholder’, ‘definitive stakeholder’, and ‘dominant stakeholder’ (Figure 3.1). The relevant attribute of a dormant stakeholder is power; dormant stakeholders possess power to impose their will on an organisation, but do not having a legitimate relationship or an urgent claim: their power accordingly remains unused. Discretionary stakeholders possess the attribute of legitimacy, but they have no power to influence the organisation and no urgent claims. Discretionary stakeholders are an interesting group for scholars of corporate social responsibility and performance (Wood, 1991), because they are most likely to be recipients of what Carroll (1979) calls discretionary corporate social responsibility. On demanding stakeholders, this type is formed by ‘urgency’ being the sole relevant attribute of the stakeholder-manager relationship. It describes stakeholders who have urgent claims but do not have power or legitimacy in the organisation. Mitchell et al (1997) described these as ‘mosquitoes buzzing in the ears’ of managers: it is necessary to move their claim into a more salient status, the ‘noise’ of urgency being insufficient to project a stakeholder claim. Mitchell et al (1977) characterised those who lack power but who have urgent legitimate claims as ‘dependent,’ because they depend upon others (other stakeholders or the organisation’s managers) for the power necessary to carry out their will. On ‘dangerous stakeholders’, Mitchell et al (1997) suggested that, where urgency and power characterise a stakeholder who lacks legitimacy, the relationship will be coercive and possibly violent, making the stakeholder ‘dangerous’, literally, to the organisation. With the definitive stakeholder, this status is acquired when a stakeholder possesses all three attributes (power, legitimacy and urgency).

In describing the situation in which any two of the three attributes are present, the change in momentum that characterises dominant, dependent or demanding types of stakeholders is noticeable. Whereas single attribute, low salience stakeholders are anticipated to have a latent relationship with managers, two attribute suggest moderate salience stakeholders who are ‘expecting something’, because the combination of two attributes leads the stakeholder to an active rather than a passive stance, with a corresponding increase in an organisation’s responsiveness to the stakeholder’s interests. Thus, the level of engagement between managers and these expectant stakeholders is likely to be higher.

Possessing power and legitimacy, their influence in the organisation is assured, since they form the ‘dominant coalition’ in the enterprise:

We characterise these stakeholders as ‘dominant,’ in deference to the legitimate claims they have upon the firm and their ability to act on these claims (rather than as a forecast of their intentions with respect to the firm they may or may not ever choose to act on their claims) (Mitchell et al 1997, p. 876).

**Figure 3.1: Stakeholder typology of one, two or three attributes present**



Source: Mitchell et al (1997)

After explanations from Mitchell et al (1997) on how to identify different types of stakeholder in relation to the three attributes, it is necessary to consider corporate governance. Initially, corporate governance was simply a three-dimensional structure concerned with financiers, management and the Board. A conflicting view emerged in the late twentieth century which saw organisations being influenced not only by the finances of their shareholders but also by the interests of the different stakeholders. This view can be seen in the Centre for European Policy Studies’ (1995) definition of corporate governance as:

the whole system of rights, processes and controls established internally and externally over the management of a business entity with the objective of protecting the interests of all the stakeholders (p. 5).

This definition encompasses the notion that monitoring of management needs to go beyond suppliers of finance. Managerial decisions impact on more than just the financiers, but also

the wider external stakeholders who have a natural connection to the organisation, for example donors, beneficiaries, employees and the wider community. The increased need for social awareness and corporate responsibility in the modern business environment calls for an alternative theory of governance (Donaldson and Davis, 1991). This view of governance emanates from stakeholder theory which holds that the organisation's responsibility goes beyond that of the financiers, namely to 'those groups which have a stake in the actions of the corporation' (Freeman and Reed, 1983).

Hyndman and McDonnell (2009) present a framework of relationships between a charity and donors, beneficiaries/users and the Regulator (as in Figure 1.3). That shows that charity Boards face multiple problematic accountabilities and have a fiduciary duty both upwards to donors and downwards to beneficiaries. (Kreander et al, 2006). This lack of obligation could lead to lax practices by the organisation, thus the need for more transparency is expected by the Regulator. Since financial aid and donations come out of altruism, unlike in for-profits, accountability will only be derived from the organisation's sense of morality. When Government provides donations, however, these relaxed structures may have to be tightened.

Jensen (2002), an agency theorist, argues that stakeholder theory is flawed as it compels an organisation to have multiple objectives which are usually impossible to attain, rather than a single objective which is easily achievable. This explains the complexity of stakeholder theory as applicable to the non-profit sector. As stakeholder theory does not specify which stakeholders are to be treated as more important, management is left without a clear purpose. Beneficiaries in NPOs may seek quality services and employees seek quality working conditions. Edwards and Hulme (1995) also present the difficulty of accountability in the light of multiple stakeholders. If management is confused as to which objective to maximise, organisational survivability becomes threatened.

Non-profit organisations have multiple stakeholders which makes it difficult to agree to which individuals the management is accountable. If donors restrict their donations to specific purposes, this gives management more pressure to prove that they have used resources according to donors' requirements. That means that if donors do not have a way to ensure that their donations have reached the necessary recipients (Hansmann, 1980), the possibility of 'contract' failure is evident. However, the gift of a donation may not demand such close scrutiny from donors, giving the management budget flexibility.

In summary, stakeholder theory is important in the governance of organisations. An important discovery in stakeholder theory is the connection between stakeholder care and the financial performance of a firm (Waddock and Graves, 1997). In the case of NPOs, this may relate to the ability to attract more resources to the organisation.

### **3.2.3. Signalling theory**

Signalling theory is based on the assumption that not all parties have equal access to information. Information asymmetry in charities can cause inconsistent responses among donors and funders; this can affect the level of donations. Hansman (1996) argued that:

by adopting the non-profit form, charities reduce their potential for goal conflict with donors by constraining their ability to divert funds to their members or officers at the expense of the donors intended recipients. (p. 231)

Because it is difficult for donors to measure the quality of the charity's services received by beneficiaries, the non-profit form may, to some extent, act as an assurance to potential donors. Signalling theory views charities' financial decisions as signals sent by the charity managers to stakeholders in order to address these asymmetries. These signals are the cornerstone of financial communications policy. Hauser (1996) describes a signal as a:

Perceivable action or structure intended to, or has evolved to indicate an otherwise not perceivable quality about the signaller or the signaller's environment. The purpose of a signal is to indicate a certain quality.

Information asymmetry in NPOs promotes signalling. The lack of sufficient information on the inside dealings of an organisation encourages trust in signals shown by such organisations through the characteristics of their trustees or commendable activities carried out by the organisation. Governance in NPOs is usually affected by signalling because performance reports in NPOs are not easily available and in some cases do not exist. Ensuring diverse characteristics in the Board of an NPO, such as gender and ethnicity, may send positive signals to donors and other stakeholders about the safety of their donated resources (Broome and Krawiec, 2008).

## **3.3 Governance Mechanisms**

Governance provides a number of internal and external controls to compel management to meet organisational goals. In for-profits, these mechanisms have been summarised by Allen and Gale (1998) as the Board of Directors, executive compensation, the market for corporate control, concentrated holdings, monitoring by financial institutions, and debt. However,



NPOs are somewhat more limited, with the main focus on the ‘self-perpetuating’ and ‘autonomous’ Board of Directors (Glaeser, 2002). There is no market for corporate control (Allen and Gale, 1998; Glaeser, 2002) and trustees receive no formal incentives. Hence reliance is more on internal than external forms of control. Despite having fewer mechanisms available to them, many appreciate that NPOs still compete within the marketplace.

### **3.3.1 Board of Directors**

In for-profit organisations, the role of the Board of Directors is to ‘hire, fire, monitor and compensate management’ (Baysinger and Zardkoohi, 1986). While theory deems it to be an effective mechanism of corporate governance, in practice this may be different (Denis and McConnell, 2003). Because insiders cannot be controlled by an outside market, the Board should consist of outside Directors (Fama and Jensen, 1983).

In the non-profit sector the Board of Directors is otherwise known as the Board members (Andres-Alonso et al, 2006). Similar to profit organisations, they have Chairs and regular meetings (McFarlan, 1999). However, their role also extends to the management and generation of financial resources (Raugh, 1969). Although a well-known mechanism to monitor managers’ actions, it has not been without criticism. It is suggested that the Board can become ineffective, depending on the power dynamics between the Board of Directors and the CEO. Jensen (1993) recognises that CEOs often decide what information Board members receive; insufficient information could pose a challenge to monitoring CEOs’ actions. Boards have also been criticised for not having sufficient financial expertise.

In line with stakeholder theory, NPO Boards should be large enough to accommodate the many objectives of stakeholders. In this situation, executive committees of the Board which provide a ‘small group atmosphere’ for the Board and who know about the dealings of the Board, may strive for leadership (McFarlan, 1999). Because the Board of Directors is a statutory requirement for NPOs, many Boards may be reduced to ‘rubber stamping’ (Pearce and Zahra, 1991). Hence, Board members of NPOs need the right experience to attract resources and to challenge and evaluate management decisions; otherwise, their role will be rather insignificant.

### **3.3.2 Large institutional donors**

Management behaviour can be monitored by large donors who have access to information and power to monitor that organisation (O’Regan and Oster, 2005). Fama and Jensen (1983)

have long supported this view and Hansmann (1980) explained that contracting costs can be minimised with large donors providing signals to outsiders that resources are well managed under the current management. If an NPO has active donors, who provide large sums, then they will have the motivation to control management. It is interesting to note that because charities have more diverse Boards and self-selection is very common the interests of donors and management can be implicitly aligned.

### **3.3.3 Influence of funding source on relationship between Chairs and CEOs**

Each funding source offers a different set of advantages and disadvantages, and each creates a different level of charity dependence on the external environment (Brooks, 2000). Voluntary income, for example, can generally be used at the CEO's discretion and does not require strict reporting mandates or strict resource distribution. However, organisations that are entirely dependent on voluntary income accept donations with stated restrictions on how funds should be used (Weisbrod, 1998). A high share of funding from voluntary sources provides a measure of legitimacy for the organisation (Froelich, 1999), a prerequisite for securing future donations (Mizruchi, 1996).

On the downside, fundraising activities for voluntary income require time and administrative expenses. The effort to generate voluntary income requires fundraising professionalism by the administrative staff or the use of fundraising agents. In a study of charities' funding strategies, Gronbjerg (1982) reported that annual fluctuations of above 50% in donations received were common. Thus, organisations that rely on voluntary income as a primary source of funding may have strategic flexibility, but will need Board members to navigate the inherent uncertainty of sources. This can have influence on the relationship between the Board itself and the CEO.

Public grants and contracts, which are earned through successful application and bidding, are generally regarded as the most stable revenue source for charities (Froelich, 1999). In many cases, public grants are renewed without contest, provided the organisation has adequately met application criteria (Kelly, 1998). While public grants provide stability for charities, the advantage can be offset by restrictions associated with grants administration (Hodge and Piccolo, 2005). Brooks (2000) warned that charities having a large proportion of their funding from public sources often lock themselves into a 'subsidy trap' which might force a charity to structure itself to meet the criteria for public funding and abandon its initial objectives. Doing so, a charity might limit its potential to diversify or be diverted from its

objectives. Crucially, government contracts are a vulnerable source because of austerity measures to reduce the public sector deficit and increased tendering of contracts by central and local governments.

### **3.4 Charity Survivability**

For charities, meeting objectives and ensuring their survival will demand some measure of financial performance. This means an ability to generate funds. One measure of performance for charities, and a proxy for survival, is the FVI, developed by Tuckman and Chang (1992). This was later extended to the FVI model by Trussel et al (2002), focusing explicitly on the ability of a charity to meet its objectives and survive a financial shock (a description of the measure is provided in Annex 8A). The FVI has been used in a number of studies (Hodge and Piccolo 2005; Greenlee and Trussel, 2000; Trussel, 2002) and, in each case, characteristics of the charity are found to influence the charity's likelihood of survival. Charity size, for example, is positively associated with survival. In addition, charities that draw funding from multiple sources are less vulnerable to financial difficulties (Greenlee and Trussel, 2000).

The amount of resources a charity spends on activities other than delivery of services has significant impact on its financial performance. Because of this impact it has been argued that total overhead costs, which consist of fundraising and administration costs, should not exceed 20% of total charity expenditure (Hyndman and McKillop, 1999). A large proportion of overhead costs make a charity highly vulnerable to funding shocks because of the difficulty in redirecting funds from overheads to delivering the service (Tuckman and Chang, 1991).

Successful charities have influential and productive trustees working closely with the CEO. The importance of having a strong and charismatic chief executive is well explained (Heimovics et al, 1993) but the contribution of a charity's Board often accounts for the difference between financial success and failure (Duca, 1986). For example, in a study of 307 US charities during the early 1990s, Vafeas (1999) linked Board meeting frequency to corporate governance and found that operating performance improved during the years following abnormally high Board activity. This gives weight to the empirical evidence on the effect of the relationship between CEO and trustees on charity survival.

Having established the theoretical underpinnings of this research, Chapter 4 will summarise key literature on issues central to the research objectives.

## CHAPTER 4: LITERATURE SURVEY

### 4.1 Introduction

The literature survey concentrates on prior empirical studies carried out on the relationship between Chairs and CEOs of charities and on how the 2008 economic recession affected charity operations. It is proposed that, if the Board is connected to organisational success and one measure of success is the financial vulnerability status, then the Board ought to play an important part in the vulnerability status of a charity. First, the role of the Board in NPOs needs to be reiterated. Next, the influence of the Chair on Board performance (ie effectively fulfilling their legal duties of being a trustee) and organisational success is evaluated, with a specific focus on Chair characteristics. Finally, financial vulnerability is defined and the discussion ends by identifying gaps in the literature.

Academic literature on governance and accountability in the charity sector in Scotland is scarce. Looking at the UK, most of the available literature is focused on charity accounts and reporting practices. Most of the available literature on governance and accountability in charities focuses on the practices in countries such as the USA, Canada, Spain, New Zealand and Australia. Looking into the UK perspective, most literature on charities is focused on England and Wales; little academic literature on charities in Scotland has been registered during the search for literature. The most recent research on Scottish charities relates to governance and accountability at a time of unprecedented legislative and regulatory reform (Crawford et al, 2009). There are other studies on Scottish charities, most of them conducted in the form of surveys. Most of these surveys have been conducted by the OSCR and the National Council for Voluntary Organisations (NCVO).

This literature review is organised in four substantive Sections (4.2 to 4.5). Section 4.2 focuses on the concepts of corporate governance and accountability. It describes the concept of governance using the business sector model and how it might apply to the charity sector. The remaining three Sections are based on one of the Research Questions, linking each to the questions asked in the questionnaire. The reasons for asking these questions, based on the previous research findings, are also given.

Section 4.3 describes previous publications on governance and accountability in the charity sector. This is relevant to **Research Question 1: *How has recession affected the Chairs' and CEOs' responses on charity governance and accountability issues?***

Section 4.4 describes what has previously been published about signalling behaviour in charities. One of the common characteristics of charities is information asymmetry (Hansmann, 1980), which can lead to signalling behaviour. This is relevant to **Research Question 2: *Are responses from Chairs and CEOs indicating signalling behaviour in charities?*** The Section also explains the terminologies used in the questionnaire in relation to charities and the reason for asking such questions.

Section 4.5 describes studies on bankruptcy prediction in the private sector and the adaptation of methodologies to the charity sector. This is relevant to **Research Question 3: *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?***

## **4.2 The Concepts of Corporate Governance and Accountability**

Corporate governance is a central and dynamic aspect of business. The term 'governance' originates from the Latin word 'gubernare', meaning 'to steer', usually applying to the steering of a ship, which implies that corporate governance involves the function of directing rather than control (Solomon, 2007). Most research on corporate governance has been on for-profit organisations, while research on charities, as with other NPOs, has attracted less interest from academic researchers. Governance can also be described as the set of organisational mechanisms that govern the behaviour of the various actors and define their powers and discretionary space. This power comes from goals assigned to the organisation by various stakeholders, with a view to ensuring transparent management of the organisation. This gives the balance of power between the members of the 'general assembly' of the organisation (Charreaux, 1997; Labie, 2005).

There have been many definitions of corporate governance similar to that proposed by Parkinson (1994) as 'the process of supervision and control intended to ensure that the company's management acts in accordance with the interest of shareholders'. For example, Cannon (1994) defines corporate governance as:

The sum of those activities that make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. It incorporates the trusteeship of assets, their management and their deployment.

Most definitions of corporate governance found in the literature tend to share certain characteristics, one of which is the notion of accountability. Narrower definitions are oriented toward corporate accountability to shareholders but Solomon (2007) defines corporate governance as:

The system of checks and balances, both internal and external to companies which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity.

Accountability can be broadly conceived as being answerable to, and held responsible by, others, or being answerable to ideals or mission and one's own sense of responsibility (Ebrahim, 2003; Najam, 1996). It is a framework for justifying organisational actions, whether they are financial or employment-related (Friedman, 2007). Traditionally, research on corporate governance has adopted an agency theory approach, which focuses on resolving conflicts of interest between corporate management and shareholders (Fama and Jensen, 1983; Jensen and Meckling, 1976) caused by the separation of ownership and control in listed companies (Berle and Means, 1932). In this view, accountability has been interpreted as corporate accountability only to shareholders (Brennan and Solomon, 2008).

#### **4.2.1 The non-profit sector versus the charity sector**

The major difference between for-profit firms and NPOs is that the latter are constrained by the 'non-distribution of profit' condition. The NPO sector describes organisations and activities between Government and the for-profit (business) sector (Anheier, 2005). It is also referred to as the third sector, after the public and business sectors. Government, business and the NPO sectors have been highlighted as the institutional structure of the market economy (Weisbrod, 1975). NPOs have emerged as one of the major economic forces (Salamon, 1999).

Charities are NPOs with purposes and activities that the law in that jurisdiction classifies as charitable: values and practices found in most world cultures and religions (Anheier, 2005). In countries like the UK, the term charity extends to activities like helping the sick, the poor, elderly and disabled, and support for education, heritage and religion. The definition of charity in the UK is established and granted by the statutes. For example, in Scotland, the *Charities and Trustee Investment (Scotland) Act 2005* outlines all charitable purposes and activities for any organisation to be recognised as a charity. Thus, charity means any organisation whose purposes exclusively relate to charitable activities (Connolly and Hyndman, 2000). Charities are NPOs that exist to provide a public benefit; they act as an intermediary between donors (who provide resources, usually in the form of time or money) and beneficiaries (who are the ultimate recipients of donors' gifts) (Connolly and Hyndman, 2000).

Philanthropy describes the practice of humanitarian and voluntary dedication of an individual's wealth, time and skills for public benefit (Anheier, 2005). It is the effort made by individuals to solve social problems. The relationship between charity and philanthropy is through the donations philanthropists make to charity or by their direct involvement in charitable organisations which meet their objectives. The increasing importance of charities has brought more attention to their management, governance and accountability (Anheier, 2005).

#### **4.2.2 Governance and accountability in non-profits**

The internal functioning of NPOs can also focus on the microeconomic principal-agent theory and its related contributions to NPOs' corporate governance (Lapsley et al, 2004). Although principal-agent theory is well developed in the context of the theory of the firm, its influence on charities is still limited, despite its apparent applicability in charity settings (Brody, 1996; Heimovics and Herman, 1991). In the long run, the link between charity performance (as seen from the principal's point of view) and managerial remuneration might be made explicit at the organisational level, although a lot of work still needs to be done on this topic (Baber and Daniel, 2002). The aspirations of the management team may differ from the general interest of the donor; hence, their decisions may diverge from the initial objectives of the organisation (Andres-Alonso et al, 2006). The Board is responsible for guiding the organisation with care, skill and integrity. Agency theory and the contractual literature assert that there are features of the Board (such as size, composition, internal structure and founders' commitment) that help to explain the efficiency of the NPOs (Callen et al, 2003).

Even if this is the case, the agency problem between managers and donors cannot be solved merely by instilling greater altruism in the charity managers or by contractual constraints on the distribution of net cash flows. Mechanisms for monitoring and controlling charity activities continue to be necessary (Andres-Alonso et al, 2006).

Non-profit organisations have grown in numbers and visibility in many parts of the world over the past two decades; they have also been beset by numerous highly publicised scandals concerning accountability (Ebrahim, 2003). Board members and key officers have been accused of wrong doings, ranging from mismanagement of resources and use of funds for personal gain to sexual misconduct and fraud (Ebrahim, 2003).

Ebrahim looked at accountability from the principal-agent perspective in political science and economics. He developed his framework based on four central observations. First, accountability is relational in nature and is constructed through inter- and intra-organisational relationships. Second, accountability is complicated as there is a dual role for NPOs as both principals and agents in their relationship with other actors. Third, characteristics of accountability necessarily vary with the type of NPO being examined. Fourth, accountability operated through external as well as internal oversight and control misses other dimensions of accountability that are essential to NPOs.

Edwards and Hulme (1996) defined accountability as ‘the means by which individuals and organisations report to a recognised authority (or authorities) and are held responsible for their actions’. Fox and Brown (1998) described accountability as the process of holding actors responsible for their actions. From a legal perspective, accountability is either an obligation to meet prescribed standards of behaviour or an obligation to disclose information about one’s actions, even in the absence of a prescribed standard (Chisholm, 1995). For charities in Scotland, such an obligation is largely enshrined in Scottish charity law with oversight by the OSCR.

The major difference between governance and accountability is that governance is concerned with the actions and internal control of both Boards and management, so as to increase and ensure the efficiency of an NPO. Accountability is concerned with how the actions of management can be justified through making all stakeholders aware and satisfied with those actions. Even though principal-agent theory is limited in relation to NPOs, there have been reported conflicts of interest within NPOs, requiring agents to justify their actions to principals, whether donors, beneficiaries or Boards.

The main relationship between governance and accountability is the existence of different players in the NPOs. There are those players whose duties are to manage and operate the NPOs on a daily basis and those whose duties are provision of the resources to ensure the smooth running of the organisations’ missions. These stakeholders cannot clearly be distinguished in most NPOs, which creates a demand both for action and for justification for those actions to avoid conflict of interests. Good governance may lead to proper accountability as the justification of actions is traced through disclosure of information and the proper following of rules and regulations insisted on by the regulatory authorities.



### **4.3 Governance and Accountability of Charities**

This Section reviews past published research on governance and accountability in the charity sector. The first sub-section summarises the organisational characteristics of charities, past research on Board characteristics, Board composition and charity management. The second sub-section reviews what past research has found in respect of governance and accountability in charities, then turning to the relationship of Board Chairs and CEOs.

#### **4.3.1 Characteristics of charity Boards and management**

Callen et al (2003) investigate the relationship between US charity Boards and organisational efficiency using financial data (appearing for December 1994, November 1995 and June 1996) from a large database of New York State regulatory filings and a mail survey to 473 organisations. Only 123 organisations responded to the survey, a 26% response rate. They focused on large organisations in their study, knowing that this affects the potential for generalising results, because large organisations are economically significant. The research used Board size and composition of the Board as governance variables. The research found Board size had a mean of 28.1 and a median of 25 members. The maximum number of Board members was 105. On Board composition, the research found the mean (percentage) for paid staff to be 0.6 (2%); major donors 7.2 (26%); persons with professional skills 10.4 (37%); well-known individuals 5.0 (18%); and others 4.9 (17%).

On charity efficiency, the research used financial data to determine ratios as indicators of efficiency. The ratios include administrative expense to total expense, fundraising expense to total expense, and programme expense to total expense. Ordinary Least Squares regression was performed on the data. The research also investigated the composition of Board committees. The study found significant statistical association between the presence of major donors on Boards and indicators of organisational efficiency.

Most normative studies on the governance and management of NPOs highlight the performance of Boards as one of the strongest factors that influence success (Herman and Renz, 1997). In a later study, Herman and Renz (1998) state that the success of the non-profit sector can be divided into a 'social constructionist' and a 'realist' view. Social constructionism is a philosophy that believes in theories of knowledge that considers how social phenomena or objects of consciousness develop out of social contexts. Adherents believe that it is not the factual evidence that does the justifying, but background social values. Social values do not justify our beliefs: we are moved by our social interests, and our

social values might be indispensable for justification of scientific belief; our beliefs and social values are intertwined. The realist view rests on the philosophical thought that reality exists independently of observers, is the general attempt to portray things accurately from social, visual or emotional facets. These two thoughts are relevant in explaining a charity's ability to meet its objectives and how each charity can measure its success according to these lines of thought. For example, Green and Griesinger (1996) reveal that:

the primary measures of success for a non-profit organisation tend to focus on the mission, goals and objectives, which typically are non-monetary in nature and sometimes difficult to assess fully. (p 382)

These usually coincide with how well the organisation monitors the agency dilemma. However, organisational success can also be defined, in the financial sense, as the ability to sustain the external flow of resources to fund operations (Seashore and Yuchtman, 1967). This is in line with resource dependence theory, as discussed in Chapter 3. It is important to remember that charity goals are complex. If achievement of subjective goals measures success then each stakeholder will have a different view on whether success has been met. In some cases financial measurement could be a more representative measure of organisational success. Nevertheless, it should also be noted that some NPOs which are financially unsuccessful are successful in their charitable purpose.

The general consensus in the literature is that Board practices influence Board performance (Brudney and Murray 1998; Cornforth, 2001) which makes the organisation more successful (Bradshaw et al, 1992; Green and Griesinger, 1996). However, other researchers have found no such links (Herman and Renz, 2004; Heracleous, 2001). In their study, Brudney and Murray (1998) used questionnaires to assess the relationship between the nature of Board reforms and Board performance. Their survey was posted to CEOs of 3,310 Canadian NPOs, with 851 responding (26%). They questioned whether the Board had changed practices in the previous three years and whether this improved Board performance. Board responsibilities (activities Board members spend their time on) and committee structures were changed the most, with Board relationships to outsiders addressed the least. Also worthy of note is that Board composition underwent changes.

Using a Likert scale, Brudney and Murray (1998) found changing internal practices were often having positive performance effects and that change should be implemented by Boards at regular intervals. However, with no proposed measure of performance, other than CEO opinion, the results are somewhat vague. With the CEO being the only respondent the findings could be biased. Using other members of a charity could strengthen the results of the

study. This study found that changes in Board practices were correlated with an increase in organisational budgets. This suggests that Board changes improve Board performance, but also improve the financial situation of an organisation. This is similar to the findings of Bradshaw et al (1992) and Green and Griesinger (1996).

Similarly, in the study undertaken in the UK, Cornforth (2001) confirmed the influence of processes, such as clear Board member responsibilities and common vision, Board structures and their respective sub-committees, Board inputs (such as experience and time), on Board performance even in smaller NPOs. Board processes and inputs were found to mostly influence Board performance. This suggests that the composition of the Board affects performance. As in Brudney and Murray (1998), this study was limited by the use of only one respondent and their subjective opinions to gauge the performance of the Board on a Likert scale, based on how well the Board carried out its functions. There were 737 responses from 2,797 charities (26%), whereby the use of random sampling also captured various types of charities. No objective measures of Board performance were employed.

In contrast, Herman and Renz (2004) did not find that changes in Board practices in a smaller sample of 44 US health and welfare service providers had any impact on Board performance. This may suggest that results vary between countries and could be charity specific, reducing the extent to which the results could be generalised. Using questionnaires as well as interviews and secondary data, they were able to obtain more in-depth responses and mitigate the low response rates common to the two previous studies. What Herman and Renz (2004) uncovered was that it is not only changes in Board practices which influence performance. Providers of funds take performance to be influenced by the status of Board members, which is easier for outside stakeholders to gauge than internal practices. Board members and CEOs also view financial condition as a measure of performance.

Unlike Brudney and Murray (1998), Herman and Renz (2004) define many possible measures of Board performance and chose to focus on a social 'multi-constituency perspective' which considers performance to be whatever stakeholders view it to be. However, their cross-sectional sample (as opposed to the longitudinal method used by Brudney and Murray) may only capture a snapshot of Board performance before changes have time to take effect. It is therefore important to be aware that Board practices or their reform may have an impact on Board performance over time, but practices will not impact other areas such as having the wrong people on the Board. If performance has improved over a period of time, one cannot be certain that this is due to changing practices alone.

To address the limitations of the above studies, much work has focused on the link between the characteristics of Board members and organisational performance. Board characteristics are suggested to be important because they allow the flow of the right resources, which in turn helps improve organisational performance (Hillman and Dalziel, 2003).

The much cited research of Siciliano (1996) explores how the diversity of Board member characteristics affects organisational performance in the Young Men's Christian Association (YMCA) organisation. She questioned whether the diversity of occupation, gender and age in members and the size of the Board will affect organisational performance. Both subjective and objective measures of organisational success were provided: 'social performance' (fulfilment of mission); 'fiscal performance' (revenues to expenses ratio); and 'the level of donations' (Siciliano, 1996). This multi-dimensional view of performance strengthened the findings of Herman and Renz (2004).

A questionnaire was distributed to 298 YMCAs, with a high response rate of 240 (81%), considering the size of the study (Bryman and Bell, 2007). However, the study is limited since only one type of organisation has been tested: there is no evidence that the study's findings can be generalised to different types of NPOs. Even so, this study offers a crucial insight as the author suggests that occupational diversity of Board members has a positive relationship with social and fundraising performance and the level of donations. Gender diversity impacted positively only on social performance, but led to lower budgets and lower ability to raise funds. Diversity in age led to a higher level of donations. This suggests that the aspect of organisational success chosen by a researcher will impinge on the effects of Board member characteristics.

A study conducted by Olson (2000) in the USA tested the effect of Board member characteristics on the level of donations and revenue. Using a sample with different types of NPOs, he concluded that Board size has a positive effect on financial performance, as did the number of years a Board member served in the organisation. In addition, he discovered that having Board members who have a business profession increased total revenue. An earlier Australian study by McDonald (1993) goes as far as to suggest that having a Board member from the financial professions increases survivability. Although the study had the advantage of being longitudinal, unlike Siciliano (1996), Olson's study suffered from a low response rate of 43 out of 430 institutions (10%), questioning the credibility of findings. However, it provides findings consistent with those of Siciliano (1996), whereby the heterogeneity of Board member characteristics causes an increase in the level of donations.

In contrast, part of the study of O'Regan and Oster (2005) surveyed the link between common Board member characteristics and performance features of Boards in New York NPOs. However, they did not find that single Board member demographics such as age or gender affect organisational success. It may be expected that diversity of characteristics has a stronger effect than characteristics on their own. Increased donations were found to depend on the occupation of Board members. They broadened the study by including other variables such as Board tenure and multiple Board service of Directors, finding that longer tenure and multiple Board service result in better performance. Beneficiary status is another variable mostly absent from similar empirical studies. This study focused on how characteristics of trustees such as occupation lead to better resource provision for the non-profit, whereby Board members from lower paid professions can provide less than those from a financial background. This study considered seven characteristics of Board members that might influence organisational success. However, there are other variables which have been shown to influence Board and organisational success, such as Board size (Olson, 2000), but the study was unable to consider a range of such variables due to information constraints.

The literature also discusses two main sources of effect for Board size: increased problems of communication and coordination as group size increases; and decreased ability of the Board to control management, thereby leading to agency problems stemming from the separation of management and control (Jensen 1993; Yermack 1996).

On the gender of Board members, much discussion has been devoted to this characteristic in terms of resource dependence theory. The general finding in empirical studies is that women are less identified with prestigious Boards (Moyers and Enright, 1997; Zald, 1969) as they have limited access to economic and political resources. Women are thus able to impact the non-financial aspects, like meeting the organisation's mission, while making a male majority a feature of financially sound and prestigious organisations (Siciliano, 1996). However, taking a sample of Canadian NPOs, Bradshaw et al (1992) tested how the proportion of women affects Board and organisational success, finding no such relationship no matter whether subjective or objective measures of success were used.

The non-profit literature is widely agreed on how the education of Board members impacts the organisation. The literature suggests that the education level of Board members is linked to leadership style, and the higher education level generates strategic change (Wiersema and Bantel, 1992) which leads to innovation (Bantel and Jackson, 1989). The non-profit literature

also finds that additional qualifications are associated with higher budgets and organisational success (Iecovich, 2005).

Looking at the occupations of Board members, literature shows that experience is important because trustees need to be prepared to fulfil their responsibilities. Most empirical studies carried out in NPOs indicate that the Board comprises many occupational backgrounds, with financial services, law and education in the majority (Steane and Christie, 2001). O'Regan and Oster (2005) also found an equal representation of broad professional experience. Financial experience could mean better exposure to outside financial resources, leading to better financial success (Olson, 2000).

Board members sometimes serve on the charity Board to obtain public recognition; this is an issue which is not directly reflected in the literature. Since managers associate public involvement in NPOs with their reputation (Radbourne, 2003), Board members have been urged to train in public relations and in communications, as high qualifications can loosen the financial constraints on NPOs (Radbourne, 2003). Public recognition may be able to signal to stakeholders the well-being of charity services.

Beneficiaries who are Board members – sometimes referred to as holding client status – may be able to act as a feedback tool between recipients of the service and the staff. Such presence on the Board shows an organisation is looking beyond the donors for sources of funding. Although they did not explore the link between Board characteristics and charity performance in providing services, O'Regan and Oster (2005) reported that client status influences Board behaviour as it results in larger donations and time commitment to the organisation.

The length of tenure of serving charity Board members also has some effects. It should be rather logical that organisations benefit from fresh ideas and new perspectives with the recruitment of new leadership (Gibelman et al, 1997). However, there are mixed views about the length of tenure and organisational success. Greater commitment of Board members as a result of longer tenure positively affects organisational success (Olson, 2000). O'Regan and Oster (2005) found that, for NPOs, longer tenured Board members provide more funds and time to the organisation. On the other hand, average tenure can better serve organisational success (Katz, 1982) as monotony or familiarity could undermine smooth operations.

Multiple Board member service is another issue highlighted by the literature. Although corporate governance views several Board appointments to be time and attention diluting

(Core et al, 1999) and perhaps making effective monitoring unattainable, other empirical studies in the for-profit literature suggests otherwise (Fama and Jensen, 1983; Ferris et al, 2003). A positive relationship has been found between the performance of firms and multiple-Board Directors, whereby such firms enjoyed a higher operating profit margin.

#### **4.3.2 Relationship between Chairs and CEOs**

Iecovich and Bar-Mor (2007) investigated the relationship between Chairs and CEOs, aimed at finding the dominant figure in the relationship. The research used a mail survey sent to 144 NPOs in Israel. Of these, 66 organisations responded to the survey, a 46% response rate. The variables on organisational characteristics were Board composition and characteristics, Chair characteristics, and involvement in the Board. The research found that the prevalent model is that of dominant CEOs, significantly depending on the organisation's established position and the existence of formal governance structures. The clearer the division of labour between the two persons, the more dominant the CEO can become. The research further found that CEO dominance is affected by Board composition and attendance at Board meetings.

Cornforth and Simpson (2002) examined how Boards change and whether various external initiatives to improve performance have effects. The research was conducted by postal questionnaires sent to 2,797 charities registered in England and Wales. Of these, 727 charities responded (27%). The research variables included Board size, Board structure, and frequency of Board meeting. Average Board size was 9.5 members. The research also found that charity size matters because a number of Board characteristics vary with charity size.

Jobome (2006) investigated the CEO pay-setting process and related concerns in UK charities. The research used large charities from 'The UK Voluntary Sector Almanac 2004'. He found that the growth in size of UK charities over the previous few decades was accompanied by the trend for many large charities to adopt business and public sector governance practices.

The literature also suggests that charity CEOs tend to rely on inspiration and charisma to dominate their Board members (Vinten, 2002). This is also an indication that CEOs are most comfortable working with Chairs who are either so passive that they cannot question most of the CEOs' actions or who have less expertise. This is also supported by past research that the balance of power between Board and management is affected by Board member characteristics, organisational characteristics and external factors (Ostrower and Stone, 2006). As with corporate CEOs, NPO CEOs are also likely to favour less controlling, less

independent Boards. Thus, in the charity sector, we should expect to see a relationship between strong Executive leaders and weaker, less independent Boards (Oster and O'Regan, 2002). When charities are dominated by the CEOs, Boards may turn into a rubber stamp.

Other literature shows that the presence of managers and donors on Boards and committees seems to have effects on governance effectiveness, first by exacerbating the agency problems, but perhaps to mitigate them. Both theory and research support the contention that Board composition has important consequences for external effectiveness (Herman and Tupilana, 1985). For example, major donors are essential in monitoring the efficiency of NPOs in ways that are parallel to large shareholders on for-profit Boards (Fama and Jensen, 1983).

Considering Board size, the literature discusses two main aspects: increased problem of communications and coordination as group size increases; and decreased ability of the Board to control management (Jensen, 1993; Yermack, 1996). This indicates that CEOs in charities may prefer a large Board for them to be dominant.

On the issue of employed staff, Cornforth and Simpson (2002) find the representation of staff appears to be higher on committees than on Boards. Larger organisations tend to have larger Boards. Central Government has an important influence on governance through regulation and helping to shape the normative environment in which governance takes place. Cornforth and Edwards (1999) also found a substantial variability among charitable organisations in the use of prescribed Board practices. Though many organisations use most of those practices, organisations depending on government contracts differ very little in their Board practices from those which do not depend on Government (Herman et al, 1997).

In past research there are gaps in the literature on how recession impacts charity governance and influences the relationship between Chairs and CEOs. Based on the literature discussed above, together with the current economic downturn, there is a need to find how these affect the responses of Chairs and CEOs. This leads to the first Research Question:

**Question 1:** *How has recession affected the Chairs' and CEOs' responses on charity governance and accountability issues?*

#### **4.4 Signalling Behaviour and Charity Governance**

Signalling can occur in situations where information asymmetry exists (Hyndman and McDonnell, 2009); charities have problems of information asymmetry (Hansmann, 1980). The existence of information asymmetry in charities increases the likelihood for charities to



engage in signalling behaviour. Looking into the role of major donors in signalling, the literature suggests that major donors on the Board act as a credible signal to other donors that goods or services supplied by the organisation are of reasonable quality and that resources are not being squandered (or captured) by management (Hansmann, 1980). However, major donors may take their responsibilities fairly casually, having little monetary incentive once the donations are given to attend to dysfunctional managerial behaviour (Williamson, 1983). Major donors tend to be more highly represented on fundraising committees than on Boards (Callen et al, 2003).

Mailath (1987) describes signalling as games in which a privately informed agent takes action which is observed by uninformed agents before they in turn choose actions. The literature suggests that charities can engage in signalling behaviour in different forms. For example, charity managers may accept lower wages (Hansmann, 1980) than their for-profit counterparts. Others include Board members having particular characteristics, or charities having a major donor on their Board. In addition, the fact that an organisation is recognised as a charity *per se* may act as a signal (Hyndman and McDonnell, 2009).

The existence and impact of such signals in relationship to the UK charity sector are unknown, as is the case in many other countries. Furthermore, it is not known if major funders (or regulators) rely on certain signals as a basis for monitoring the efficiency and effectiveness of the overall sector (Hyndman and McDonnell, 2009). Answering such questions may make for more effective and efficient fundraising activities on the part of charities by providing a valuable means of communicating with, and increasing the confidence of, donors. Moreover, they may positively impact on the manner and degree of monitoring behaviour.

Glazer and Konrad (1996) examined the plausible motive for charitable giving. The study was based on donors' signalling behaviour using the standard economic model of voluntary provision of public goods. The model considers utility to be a function  $u = u(x, G)$  where  $x$  is the consumption of the private good and  $G$  is the consumption of the public good. The analysis used a small data set from Carnegie Mellon University which listed the amount of each contribution in US dollars. The research used 82 donations between \$1,000 and \$4,999. They established a band 10% above and below the minimum donation of \$1,000. The research found 56 (68%) donations were exactly at the minimum, four were just below and 17 were just above. The research found that individuals who give just above the minimum probably did so because of signalling (ie motivated by a warm-glow) rather than altruism.

Most research on signalling has been focusing on the donors' motives; there is insufficient literature on the role of internal governance in signalling practice. This gap has been addressed by this research when trying to find any signalling by Chairs and CEOs of charities. At a time when charities are facing economic difficulties, they are most likely to use all means available to ensure their charity survives and this might include giving signals of their operation, importance and usefulness to society. Therefore there is a need to investigate signalling behaviour due to the nature of the charity sector which leads to the second Research Question:

**Research Question 2:** *Are responses from Chairs and CEOs indicating signalling behaviour in charities?*

#### **4.5 Charity Financial Conditions and their Vulnerabilities**

Effective charity governance depends on the clear understanding of a charity's financial condition and vulnerability status. Financial vulnerability in charities is not an absolutely new area of study. The 2008 economic recession not only affected the business sector, but also the charity sector. In order to understand the effects of recession on charity governance, this research looks at the financial conditions during the difficult time facing both business and the charity sector. There have been some studies which focus on the predictability of bankruptcy in both sectors.

Bankruptcy prediction has been a popular area of academic research, especially in the corporate sector, since the late 1960s. The area primarily employed accounting measures such as corporate profitability, cash flow and leverage ratios as predictor variables. One of the early studies, which became the most influential, was conducted by Altman (1968). He developed a Z-score based on five variables that had the highest bankruptcy predictive power in a Multivariate Discriminant Analysis Model. In this model, the probability of a business becoming bankrupt increases as the Z-score decreases, and Altman reports that a cut-off value of 2.675 minimises the total Type I and Type II classification errors. The Z-score is still widely used by both academics and practitioners. This model cannot be applied to charities because of the lack of accounting measures (eg profitability).

Other studies in this area include Santomero and Vinso (1977), Ohlson (1980) and Zmijewski (1984). They employed multinomial choice techniques, such as maximum-likelihood logit and probit in predicting bankruptcy. Among these, Ohlson's (1980) one-year prediction model has been a very popular predictor and is widely cited and used. Researchers often rely

on an O-Score calculated using Ohlson's original coefficients from Model 1 as a proxy for financial distress. The popularity of the Altman (1968) and Ohlson (1980) models is reflected in the frequent use of the two models as empirical proxies for bankruptcy risk in accounting research. A study by Begley et al (1996) compares the predictive accuracy of the two models, using both the original coefficients and estimates based on more recent data. They find that the magnitudes (and some of the signs) of several parameter values have significantly shifted for both models. Hillegeist et al (2004) found that the Ohlson model using updated coefficients has greater predictive power than the original Ohlson and Altman models and also the Altman model with updated coefficients. The models cannot be used in the prediction of charity bankruptcy because of the absence of accounting performance measures in the sector.

Denison and Beard (2003) capture the view that the extent of funds depends on the importance of the charitable services. One can assume that Board member characteristics can help to attract extra resources that can be put into reserves to mitigate the reduction of charitable services. For example, since the level of funds is dependent on donations, which are subject to change (Tuckman and Chang, 1991) because of fashion or economic conditions, an increase in donations can help to mitigate the cutting of services. Since donations are not linked to the quality of services as in for-profits, but rather to altruistic behaviour, it is natural to assume that funds may be unstable and so the characteristics of Board members can be used as a signal to attract more donations. It is also expected that the ability to fundraise in times of economic difficulty when donations are low will also help to decrease financial vulnerability. Government support has been thought to be one of the funding sources which are more stable than revenues for organisations with a concentration of private support which requires fundraising efforts (Hodge and Piccolo, 2005). Similarly, vulnerable NPOs are also characterised by low budgets and low operating margins (Denison and Beard, 2003). It is noticeable that these financial issues vary with Board characteristics.

Taken as a whole, the charity sector in Scotland is equivalent to a major industry that employs 5% of the workforce and contributes 1.2% of the national income (Scottish Executive, 2005). Charities exist to provide a public benefit; they do not operate to earn a profit, and no ownership interest can ever be redeemed, transferred or sold (Salamon, 1999). However, charities are similar to business organisations in that they compete for scarce resources (whether in the form of loans, legacies, trust funds, investments, donations or government contracts). The existence of competition removes the immunity of charities from

bankruptcy. Bankruptcy prediction in charities has not been seen as a popular research topic; only a few such studies have been done. There are two primary reasons for this. First, few charities ever declare bankruptcy; to a large extent, they either merge with other non-profits or simply ‘disappear’ (Hager et al, 1996). Second, until fairly recently, it was only possible to examine a small number of charities, since charity databases were largely unavailable (Gordon et al, 1999).

Tuckman and Chang (1991) posited that a charity was financially vulnerable if it was ‘likely to cut back its service offerings immediately when it experiences a financial shock’, such as the loss of a significant source of funds or a general economic downturn. The study identified four accounting ratios that could be used to indicate financial vulnerability: few revenue sources; insufficient net assets; low administrative costs; and low income from operations. They examined a random sample of 4,730 charities’ 1983 Form 990 tax returns to the US Internal Revenue Service (IRS), computed the four ratios and divided the results into quintiles. They defined as ‘severely at risk’ any charity with all four ratios in the lowest quintile. A charity with only one ratio in the bottom quintile was defined as ‘at risk’. They made no attempt to see if these variables could actually be used to predict the future financial distress of these organisations.

Greenlee and Trussel (2000) were the first to use Tuckman and Chang’s ratios to develop a model to predict financial distress in the charity sector. Because of the lack of data on charity bankruptcies, they defined as ‘financially vulnerable’ any charity organisation that saw an overall decline in charitable expenses during a three-year period. Using the recently available Form 990 database provided by the National Centre for Charitable Statistics (NCCS) and a methodology initially developed by Altman (1968), they examined data from the 1992–1995 Form 990s of 6,795 charities. They found a significant relationship between financial distress and three of Tuckman and Chang’s variables.

Trussel and Greenlee (2004) expanded this study in five ways. First, they included size in the model, since smaller organisations may be more vulnerable to financial distress than larger ones. Second, they controlled for six charity sub-sectors, since different types of charities may be impacted differently by changes in the economy. Third, they defined ‘financial distress’ as a ‘significant’ decrease in net assets over a three-year period. Fourth, they tested the resulting models for robustness by applying them to different time periods. Finally, they developed a way to rate the financial vulnerability of each charity. Their composite model was robust and was, with some accuracy, able to predict financial distress. Significant

relationships were found between financial distress and two of Tuckman and Chang (1991) measures, and between financial distress and organisational size.

Trussel (2002) used a broader data set to predict financial vulnerability. The National Centre for Charitable Statistics (NCCS) Core Files include smaller organisations but fewer data fields. The final sample included 94,002 charities for the period 1997–1999 and financial distress was defined as a 20% reduction in net assets over a three-year period. Two of the Tuckman and Chang variables could not be computed since the necessary information was not coded by the IRS (equity ratio and administrative cost ratio). Trussel replaced the equity ratio with a debt ratio (total liabilities divided by total assets) and added a size variable.

Hodge and Piccolo (2005) conducted research which used financial statement data of 42 organisations from a sample of charities providing humane services in Florida, USA. They tested the effect of charities' resource dependency on Board involvement techniques used by the CEOs and on financial vulnerability. Board involvement techniques are techniques used by CEOs to facilitate active involvement among Board members in different practices such as member participation in strategy development, use of a Board member attendance policy, and evaluation of Board member participation. The research found that a charity's funding source significantly influences the CEOs' use of Board involvement techniques. Furthermore, when CEOs engage the organisation's Board in a way that encourages member participation in strategic planning, committee involvement and resource development, the organisation's financial vulnerability is reduced.

Thomas and Trafford (2012) conducted research on 300 large UK charities in the culture, sport and recreation sectors. The research investigated whether charities took advantage of the rapid charity growth of the last decade to strengthen their financial position before the economic recession of 2008. Using Tuckman and Chang's measures of financial vulnerability for the period of 2002–2007, the research found that in 2007 these charities were in a stronger financial position to withstand the economic recession than they were in 2002. This literature has influenced this research's approach to the financial vulnerabilities or otherwise of the Scottish charities participating in this study. The adopted method is explained in Annex 8A.

Looking into the current economic recession and literature discussion about charity vulnerability, there is a need to investigate Chairs and CEOs responses from charities which have been identified as financially vulnerable and those which are not. This leads to the third Research Question:

**Research Question 3:** *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?*

In Chapter 5, the overall research design will be explained and the chosen methodology justified.

## CHAPTER 5: METHODOLOGY AND RESEARCH DESIGN

### 5.1 Introduction

Choosing the appropriate research methods to fit the Research Questions was one of the challenging tasks faced during the research planning process. This was for three main reasons. First, charities in Scotland have no single stand-alone source of data on which to conduct this research. It required the use of more than one source to come up with data that fitted the Research Questions. Most of the charity information in the public domain has been designed for charitable operations like fundraising and trusteeship, with few sets which can be used for the purpose of this thesis. This may be one reason why the sector has attracted little interest from academics.

Second, little is known about the working relationship between Chairs and CEOs during a period when charity funding faces uncertainty. When the British economy was growing steadily, the charity sector faced few challenges, apart from some scandals related to misappropriations or mismanagement. When charity funding became of major concern after the 2008 recession, charity accountability became a highly conflicted phenomenon.

Unlike for-profit organisations, where the principal-agent relationship is much clearer, the absence of shareholders in charities and the presence of the non-distribution of profit constraint make it more challenging to establish accountability relationships. The nature of funding in many charities also makes it difficult for funders to track the use of their donations, especially when funders are not concentrated (eg scattered small public donations) and have little or no expertise in interpreting annual reports and accounts. On the other hand, many large charities have government contracts. This increases the possibility that, if a charity meets its contractual obligations, there is little a questioner, no matter how well informed, can do to question charities on issues outside the contractual agreements. Hence, making the decision on how to approach charity accountability was difficult.

Third, there is a lack of prior research on Scottish charities to provide guidance on a single method of how to conduct research on the sector. It was necessary to design an innovative combination of methods to address problems faced by other research (eg those faced by Crawford et al (2009)) so that the research design minimised or avoided them as far as possible.

This research concerns the views expressed by Chairs and CEOs on charity governance in a sample of large charities in Scotland.

Research on charities registered in Scotland was made particularly problematic by the lack of comprehensive, publicly available data such as annual reports and accounts from a single source. The information available on the OSCR website is limited to charity name, constitutional form, registration number, contact details, charitable purposes and summary of annual returns. Although *Section 23(1)(a) and (b) of the Charities and Trustee Investment (Scotland) Act 2005* stipulates the public's right to request the latest annual accounts and constitutions directly from charities, obtaining the requested information requires huge efforts because of the reluctance to supply the requested materials (Crawford et al, 2009). The absence of publicly available sources of quantitative data has led previous research on charities in Scotland to be conducted using content analysis, face-to-face interviews and case studies which have involved relatively small samples.

Identifying a small sample of charities which have formal internal governance structures suitable for this research was also not easy. This is because there are charities added and removed from the OSCR Register each year; this volatility makes the Register more difficult to use as the main source for identifying charities to be used in the research. There is no certainty that a charity on the OSCR Register will be active at the time of fieldwork.

For this reason, the research faced two methodological options. The first was whether it is possible to obtain a comprehensive list of charities whose characteristics match the research design directly from the OSCR Register. This could help in identifying charities that have formal governance structures so that a research sample could be constructed. To establish such a list would require manually searching the OSCR Register to review all 23,806 charities registered at the time of research design to identify those characteristics. In addition to information available on the OSCR Register, further information about charities required access to trustees' annual reports (TARs), statement of financial activities (SOFAs) and the related annual reports and accounts that are not accessible via the OSCR Register. This option proved not feasible, especially when considering the limited financial resources and time available to conduct this research. In addition to the infeasibility of this option, information obtained online from a few randomly selected charities was not sufficient to answer the Research Questions. Therefore, the research requires much supplementary information that would have to be requested from individual charities.

The second methodological option was to obtain access to those charities which are most likely to have formal governance structures and to conduct face-to-face interviews with top officers from both the Board and the management. The two top officers thought appropriate



were Board Chairs and CEOs. The aim was to secure responses from charity elites who are responsible for decision-making and for day-to-day operations. This would help in the understanding of how they perform their duties in the area of accountability and in the exploration of their working relationships. Limitations on financial resources and time made it impossible to collect information from all charity stakeholders by interviewing them in person. Therefore, an understanding of different stakeholders and their roles in relation to charities relied on the information collected from the Chairs and CEOs. This methodological option was adopted: further discussion is provided in later sections of this Chapter.

This Chapter describes the research design and justifies the methods for selecting the research sample and reviews data collection and the methods used to analyse it. It is arranged in six sections, including the present one. The next section (5.2) describes the population of active charities registered in Scotland and how the sample of study charities was obtained. It also describes the reasons for the sample choice and how different sources of data have been used in answering the Research Questions to meet the research objectives.

Section 5.3 explains the research methods, strategy and plan followed. This links the gaps found in the literature to the Research Questions. It describes how different sets of data have been addressed to specific Research Questions. Section 5.4 explains the selection of the research sample, and the reasons for sample selection from the population of charities. The Section also describes sampling methods and other sources of data used for each Research Question. Section 5.5 explains the development of the questionnaire. This also links the questionnaire to the theories behind each of its sections. It also explains the reasons for collecting each type of data in relation to the literature. Section 5.6 describes the fieldwork and all the processes that have been involved in data collection. It explains how questionnaires were distributed, the conducting of face-to-face interviews and the collection of questionnaire responses. Shortcomings faced are identified and how they have been resolved during the process of data collection. It provides an overview of the data collected. The Section also explains the choice of methods for data analysis. Details of the methods of analysis and of statistical tests are given in Chapters 6 and 7.

## **5.2 Population of Active Scottish Charities and Sources of Data**

At the end of 2008, Scotland had 23,806 charities on the OSCR Register; it was at this time the research process started. Fieldwork started in September 2010 when there were 23,281 active charities on the OSCR Register; there was a net increase to 23,292 by May 2011 when the fieldwork ended. In addition, 503 were listed as in default (ie failed to file annual returns)

in 2010 while 458 were listed in the same category in May 2011. There are 1,000 charities which have been recorded as ‘ceased charities’ since the establishment of the OSCR Register in 2005. In June 2012, there are 23,497 active charities on the OSCR Register.

Volatility in the number of charities on the OSCR Register creates advantages and disadvantages from using the Register as the basis for selecting study organisations. The research objectives and Questions require a study sample which has structured formal internal governance. The OSCR Register is made up of two thirds of charities with annual income of less than £25,000. It is difficult to find charities falling under £25,000 annual income having features which include structured governance (ie typically large charities with a trustee Board responsible for setting a strategy that is put into operation by a management team (Crawford et al (2009, p.128)); these are small charities which have less financial ability to hire professional managers. Therefore, using the OSCR Register for sampling without supplementary sources would increase the risk of obtaining a sample which contains small and large charities.

The advantage of using the OSCR Register includes the *Charities and Trustee Investment (Scotland) Act 2005* requiring all charities operating in Scotland to register with the OSCR to be able to carry out their charitable activity. This requirement gave the research assurance of accessing a full-length list of registered Scottish charities. This access also assures the availability of charity details, such as recent charity contacts, web addresses and annual returns which show a charity’s annual income. Search of the OSCR Register can be made using charity registration numbers, names or an income band; this simplified verification and fieldwork communications. There are some features on the Register which allow searches to be narrowed to charities’ level of income, charitable purposes and characteristics identified by the OSCR. For example, charities which fall in a certain range of income or location can be filtered. Features which allow the extraction of charities based on their income size and number of employees increased the likelihood of obtaining charities which have formal internal governance structures. These search features also increase comparability during the analysis of results by having study organisations of substantial size.

The disadvantage of using the OSCR Register is its inability to identify charities which have structured internal governance; by having charities which have substantial income does not guarantee the presence of features which are required to answer the Research Questions. This implied other sources were required to identify these features; for example, examination of annual reports and other governance documents. Using the OSCR Register to narrow the

search reduced the heterogeneity of the sample. This increases the likelihood of having study charities with similar charitable activities that are more popular in appealing for public donations and funding (ie which makes them large) than other activities. The population of large charities had to be sifted to ensure that a representative sample of large charities was chosen.

As explained above, searching the OSCR Register can help to establish large charities to be used in the sampling; this increases the chance of having study charities with senior employees who have the expertise and knowledge of operating a charity in a professional way. Having charities with substantial income in a sample does not give reasons to conclude that findings will represent the charity sector in Scotland as a whole.

Classification of charity size by range of gross income (ie income bands), as established by an updated guide to the *Charities Accounts (Scotland) Regulations 2006*, will be described later in Table 5.3. Minimum requirements for charity accounts being subject to external scrutiny (eg professional audit scrutiny and independent examination) were also considered as a factor in the sample selection. For example, if a random sample was chosen, it was inevitable that some smaller organisations not meeting these reporting requirements would have been included. Therefore, when deciding on the sampling method to be used, it was necessary to rule out the use of random sampling methods which would lead to a sample which included charities that employ two people and charities that employ two thousand people. Avoiding random sampling methods meant a reduction in the comparability problem, but it also implies the results cannot be generalised to the Scottish charity sector as a whole.

After considering the advantages and disadvantages of using the OSCR Register, it was necessary to find alternative sources of data to complement the Register. One source considered was the Charity Aid Foundation, but this was disregarded because of lack of coverage of different legal forms. The *Top 1,000 Charities in Scotland 2009* (CaritasData, 2009) better served the needs of the research as a supplement to the OSCR Register.

### **5.2.1 Sources of data**

The absence of a publicly available single source of data giving all information on the charity population in Scotland forced the research to consider many sources. The diverse nature of the charity sector makes the use of more than one source helpful when seeking a homogeneous sample. Consideration was given to the use of data from compiled lists of charities such as the Charity Aid Foundation, telephone book listings, directories of professional fundraisers and advertisements in the media for charities seeking public

donations. However, such lists tend to create a database of public fundraising charities which might exclude charities which depend on other sources of finance. For instance, there are some charities which do not advertise in the media, such as those depending solely on Government contracts and fees. Accordingly, these sources were discarded.

Statutory responsibility for the OSCR to monitor, encourage and facilitate charity compliance with the *Charities and Trustee Investment (Scotland) Act 2005* and keep records of all charities operating in Scotland makes the Register a reliable source for cross-checking study organisations. However, the non-availability of financial accounts, constitutions and details of charity trustees, as well as information that could only be asked directly from the charities, made the Register a necessary but insufficient source for this study.

CaritasData, publisher of *Top 1,000 Charities in Scotland 2009*, used to have an online service for basic data on charities, but that is no longer available online. The list was, however, available in book form, and this was purchased and became the main source to choose the sample organisations. This list is prepared using information from annual reports and accounts of approximately 17,000 charities. The combination of data from the OSCR Register and CaritasData was considered the most suitable and convenient way of establishing a sample of charities which have characteristics leading to the presence of structured governance, before initiating any form of contact with the organisations.

The decision to use CaritasData was also influenced by the three criteria used during its preparation. The first is about the charities being registered by the OSCR according to sections 7 and 8 of *Charities and Trustee Investment (Scotland) Act 2005*. The second criterion is about cross-border charities; the law specifies that charities registered by the Charity Commission for England and Wales under section 4 of the *Charities Act 1960*<sup>1</sup> must also be registered by the OSCR if they have significant fundraising, grant making or other charitable activities in Scotland. The third criterion was the exclusions of charities which are: diocesan Boards of finance and their equivalent; schools and other academic institutions; housing associations which do not carry out a significant amount of other charitable activities; hospitals and healthcare establishments funded primarily by Government; and closed and open-ended mutual investment organisations operating in a similar way to investment and unit trusts.

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<sup>1</sup> Although there is more recently enacted charity law in England and Wales (*ie Charities Act 2006*), the 1960 Act was used by CaritasData in their compilation process leading to the *Top 1,000 Charities in Scotland 2009*. Therefore, it was necessary for the research to refer to the same section of the law as used to compile the list of charities used for sampling.

In addition to the above criteria, this research narrowed the sample of study organisations from CaritasData to charities falling under the four criteria established by the ONS when defining a ‘general charity’. First is the presence of independent governance which is separate from Government and business. Second is the presence of non-profit distribution which rules out co-operative businesses and mutual societies. Third is the presence of charitable objectives that have wider public benefit extending beyond the charity membership. Fourth, the charity should not be a sacramental religious body, such as a place of worship.

These criteria from the ONS exclude a number of organisations that are legally recognised as charities, but would not be viewed as charities in the everyday sense. For example, among the exclusions are universities, religious bodies, trade associations and professional bodies (Hyndman and McDonnell, 2009). However, religiously-affiliated charities, which have social welfare or overseas development objectives, were included. A degree of judgement was involved in making these exclusions, but the decisions are believed to be justified.

Theories used in the research suggest that data collection about the researched phenomena be from a number of different sources using multiple theoretical perspectives. Recalling Chapter 3, these perspectives were described as a synthesis of elements of stakeholder theory, resource dependence theory and signalling theory. The theoretical views adopted in the research allow the use of a mixed-methods approach, which uses both qualitative and quantitative research methods to facilitate the exploration of the governance and accountability of charities. For example, data collection can be made using a relatively small number of face-to-face semi-structured interviews with a pre-circulated questionnaire. In addition, theory suggests the use of quantitative data collected from annual reports and accounts as well as Likert-scaled and ranking statements.

The basis behind using a qualitative approach is to obtain insights on Chairs’ and CEOs’ subjective experiences on charity governance, operations, policy developments and implementation. In addition, the research used quantitative methods to collect data that can be expressed as precise numerical data collected from respondents (Neuman, 2000).

### **5.2.2 Relationship between Research Questions and collected data**

The Research Questions below reveal the necessity of using both qualitative and quantitative research methods. Sources of data for each Research Question are described below.

**Research Question 1** asks *How has recession affected the Chairs’ and CEOs’ responses on charity governance and accountability issues?* This suggested the use of numerical data from

annual reports and accounts as well as a pre-circulated questionnaire independently completed by Chairs and CEOs.

**Research Question 2:** asks *Are responses from Chairs and CEOs indicating signalling behaviour in charities?* This suggests an understanding of the main types of charity stakeholders and characteristics of people who serve the charity as Board members and as CEOs. Charity dependence on external funding sources prompts the type of actions seen as signals to current and potential sources of funding. Data collection requires the research to provide methods that describe the actions of charities intended to impress the resource providers. For example, information on Restricted Funds and General Funds suggests the use of applied research approaches which use qualitative methods to facilitate the exploration of the relationships between charities' signalling behaviour and the responses of Chairs and CEOs.

**Research Question 3:** *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?* This suggested investigation by collecting numerical data from annual reports and accounts for the periods ending 2009 and 2010 or both. It also suggests the use of a pre-circulated questionnaire for Board Chairs and CEOs. The research is also interested in charity survival during difficult economic times. However, the period of economic prosperity is used for understanding the constructed forces that impact on the 'survivability' of the charities. The research plan made provision for both types of data inquiry.

### **5.3 Research Plan**

The plan for this research has been divided in four stages. The stages are identified below, together with description on how they have been executed.

#### **At Stage 1: Selection of the study organisations**

This was a challenging stage, especially on how to determine an appropriate sample of charities. As discussed above, the nature of the research required charities which suit the study of governance and accountability. Features required for the study were most likely to be found in large charities. It was impractical to obtain a study sample of large charities using unbiased sampling procedures. This is because the OSCR Register had a population of 23,806 charities in 2009, of which 5.6% contributed 93.7% of total sector income.

It was therefore necessary to use a 'convenience' method to come up with a sample of charities suitable for the research. The *Top 1,000 Charities in Scotland 2009* was used for

sampling. These represent the top 4.2% of charities (ie all are part of the 5.6%) with only 1.4% of those charities left out. Using CaritasData is a convenient way to obtain a research sample of large charities, which are most likely to have structured internal governance. Following the sampling procedure, which is described in sub-section 5.3.1, a sample of 41 charities was established, later reduced to 39 after further checking of their status. One charity was removed when it was discovered during the contacting process for the fieldwork that two charities included in the sample were governed by exactly the same Directors. Another charity was excluded after being found to violate the definition established by the ONS, which requires a general charity to be independent from Government.

### **At Stage 2: Development of questionnaire, pilot study and participation requests to charities**

A questionnaire (Annex 6A at the end of Chapter 6) was developed, pilot tested and adjusted for minor corrections. The development took about eight months. The survey was then tested by sending the draft to two contacts: one was the Chair of a large charity registered in England and Wales and one had been the Vice-Chair of a small charity, also registered in England and Wales. These out-of-research-scope charities were used to avoid contamination of the study charities. The organisations chosen to test the questionnaire were selected on the following criteria:

- They do not have affiliation with any organisation in the study sample
- Each comes from a registration jurisdiction (ie England and Wales) away from Scotland
- Their governance structure is autonomous from Government influence, regardless of their legal status
- They had different levels of income (one large charity from England to test the need for big charities without contaminating the study sample in Scotland and one small charity in England as a follow-up after corrections were made to the questionnaire following the big charity interview).

Following the piloting, changes were made in wordings and also by merging and rearranging some pages. These included the second page which contains respondent's personal information being made the last page. Others were rewording of sub-sections A1 and A3. Merging of other sub-sections was made to reduce their number: for example, A6 resulted after merging A10, A11 and A12 while A4 resulted after merging A4, A5, A6, A7 and adding another statement on 'specialist expertise'.

A major change was made on sub-section C4 from ranking (1 to 13) to a Likert score on the scale of 1 to 5. The format of the questionnaire emailed to the study sample was 12 A4 pages printed on one side only with one blank page for further explanation.

After the questionnaire development and testing, contacts were made with the chosen sample charities in Scotland. This was followed by sending letters (Annex 5A of this Chapter) requesting separate interviews with the Board Chair and the CEO, initially to those charities registered only in Scotland. These letters were addressed to the CEOs by name and designation obtained from the respective charity websites. The sending of the letters took place between August and October 2010. Further details of this process are explained in Section 5.4 which describes the fieldwork process. Encouraging responses were received in the following months. The next batch of letters requesting participation were sent in October 2010 to the remaining charities registered both in Scotland and England. These are identified as 'cross-border' or 'dual-registered' charities.

Letters to 37 charities were sent to their Scotland headquarter offices and two were sent to their England headquarters because they do not have established offices in Scotland. For charities that agreed to participate, an electronic copy of the questionnaire was sent for both Chair and CEO about ten days before the arranged interview for completion in advance.

The questionnaire served two purposes. The first was to collect data and information which were missing from the annual reports and accounts. It also serves as a protocol for face-to-face interviews which were primarily based on questionnaire responses and on specific issues identified in the annual reports and accounts as needing clarification.

The second purpose was to obtain data on a range of organisational matters as well as the personal characteristics of the interviewees in order to create the data needed to investigate the Research Questions. It also established sufficient rapport to request the detailed annual reports and accounts from the charities. The sending of the questionnaire also served as an opportunity to personally request complementary information which was not accessible online or request the Uniform Resource Locator (URL) leading to an internet file which has relevant information.



### **At Stage 3: Fieldwork based on questionnaire**

Independently completed questionnaires were collected from the Chairs and the CEOs in the study sample who had agreed to participate. Qualitative data were collected to answer the Research Questions. This approach allowed the Research Questions to be investigated from the perspective of those responsible for executing day-to-day operations in charities, policy-making and decision-making. Because the constraint on resources ruled out professional transcription of such a large volume of interview tapes, the interviews themselves are not used in this thesis for addressing the Research Questions. The triangulation that provided the evidence base went from the quantitative data collected from the questionnaire to the review of public domain information (eg organisation websites, regulatory and sector data bases and publications) to the study of the annual reports and accounts of sample charities. Data quality and representativeness of questionnaire results are much higher because of interviews being an integral part of the research methodology, even though direct use as originally planned proved impossible.

### **At Stage 4: Review of annual reports and accounts and related governance documents**

This was carried out on the 28 charities whose Chair and/or CEO agreed to participate in the research. As stated at stage 3, this involved documents which were requested directly from the charities and documents already in the public domain. The review served two main purposes. First, was identifying sources of funding, assets, liabilities and expenditure for each charity in order to establish financial vulnerability indices (**Research Question 3: *Does financial vulnerability status of a charity affect the responses on governance and accountability from Chairs and CEOs?***). The review involves annual reports and accounts for the years 2009 and 2010.

The second purpose was to cross-check figures provided in the questionnaire. This also helped to obtain an immediate clarification of issues identified in the completed questionnaires from the respondents (especially CEOs) during the interviews. Information obtained from the review helps to compute vulnerability indices and then group charities into Financially Non-Vulnerable Charity (FNVCs) and Financially Vulnerable Charity (FVCs).

Table 5.1 summarises the relationships between the Research Questions, the population of charities, the sample and the chosen research methods.

**Table 5.1: Summaries of sample, methods and sources of data used with respect to the Research Questions**

Research Questions	Samples	Methods	Sources	Chapter
1. How has recession affected the Chairs' and CEOs' responses on charity governance and accountability issues?	Convenience sample	Stage 3	CEOs and Chairs from 28 charities registered in Scotland	Mostly Chapter 7
		Questionnaire responses assisted with face-to-face interviews		
		Stage 4	2009 or 2010 annual reports and accounts for 28 charities registered in Scotland	
		Review of annual reports and accounts		
2. Are responses from Chairs and CEOs indicating a signalling?	Convenience sample	Stage 3	CEOs and Chairs from 28 charities registered in Scotland	Mostly Chapter 8
		Questionnaire responses assisted with face-to-face interviews		
		Stage 4	2009 or 2010 annual reports and accounts for 28 charities registered in Scotland	
		Review of annual reports and accounts		
3. Does financial vulnerability status of a charity affect the responses on governance and accountability from Chairs and CEOs?	Convenience sample	Stage 3	CEOs and Chairs from 28 charities registered in Scotland	
		Questionnaire responses assisted with face-to-face interviews		
		Stage 4	2009 or 2010 annual reports and accounts for 28 charities registered in Scotland	
		Review of annual reports and accounts		

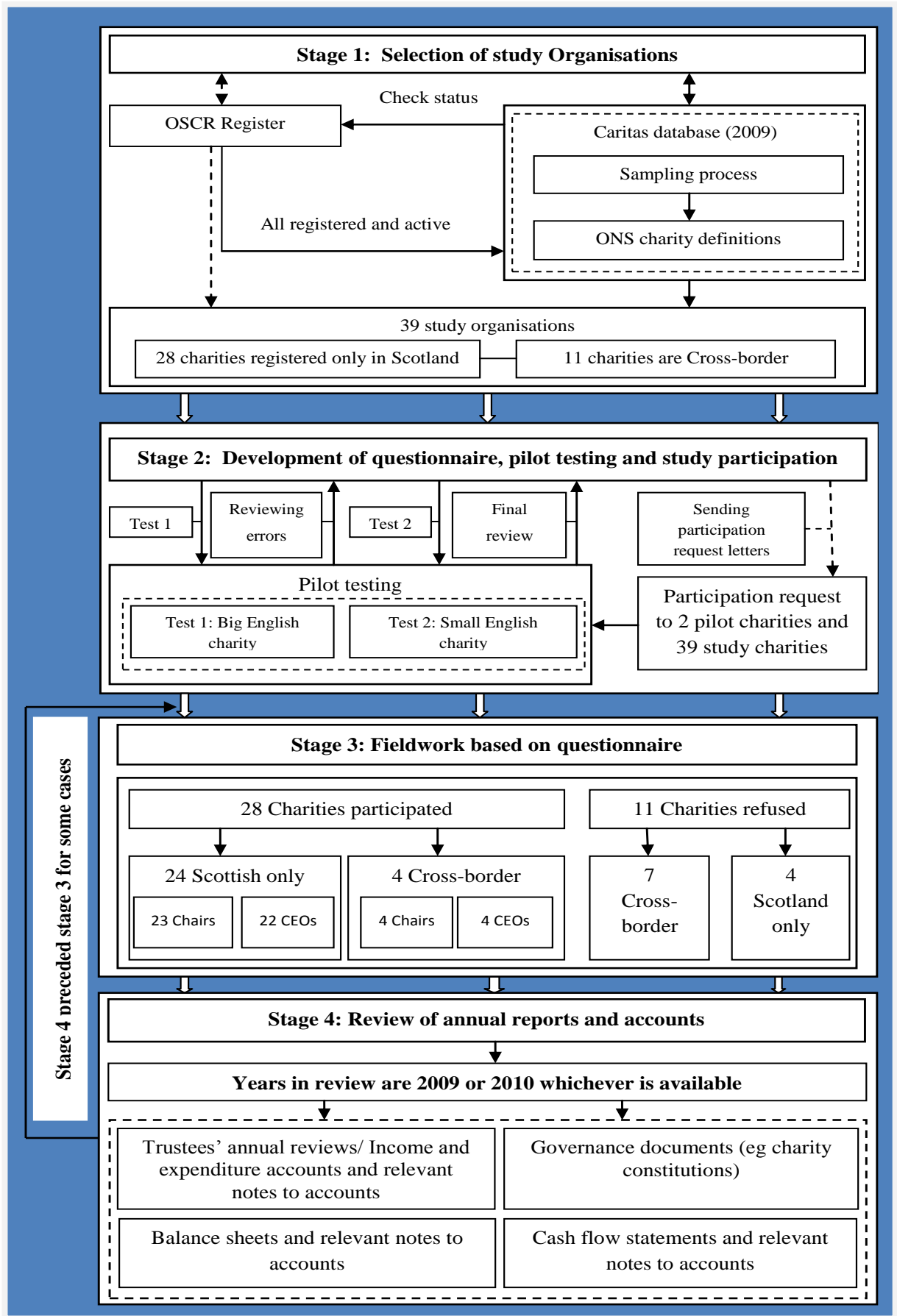
Note: The fieldwork interviews were part of the research methodology but the thesis rests principally upon the evidence base provided by the questionnaire.

The Research Questions have used similar methods and sources of data collection, as shown in Table 5.1. Results on Research Question 1 are discussed in Chapter 7 while Research Questions 2 and 3 are dealt with in Chapter 8. Table 5.2 summarises elements under investigation, with variables and indicators. The research plan and execution from stages 1 to 4 are summarised in Figure 5.1.

**Table 5.2: Summary of variables under investigation**

Element under investigation	Variables	Indicators	Sources and measurement methods
Internal governance	Board composition	<ul style="list-style-type: none"> <li>• Donors</li> <li>• Beneficiaries/users</li> <li>• Paid employees</li> <li>• Volunteers</li> <li>• Non-executive with specialist expertise</li> <li>• Executive Directors</li> <li>• Age</li> <li>• Gender</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaire responses boosted by face-to-face interviews</li> <li>• Review of annual reports and accounts</li> </ul>
	Board size	<ul style="list-style-type: none"> <li>• Fundraising activities</li> <li>• Time used by members on charity services</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaire responses boosted by face-to-face interviews</li> <li>• Review of annual reports and accounts</li> </ul>
	Use of governance codes	<ul style="list-style-type: none"> <li>• Understanding of the governance codes involved</li> <li>• Training and recruitment procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaire responses boosted by face-to-face interviews</li> <li>• Review of annual reports and accounts</li> </ul>
	Board-Chief Executive roles	<ul style="list-style-type: none"> <li>• Fulfilment of Board's directives</li> <li>• Proper planning and executions of activities</li> <li>• Board involvement in decision-making process</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaire responses boosted by face-to-face interviews</li> <li>• Review of annual reports and accounts</li> </ul>
	Accountability relationships	<ul style="list-style-type: none"> <li>• Identification of stakeholders</li> <li>• Sense of accountability</li> <li>• Major donors</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaire responses boosted by face-to-face interviews</li> <li>• Review of annual reports and accounts</li> </ul>
Signalling behaviour	Characteristics of Board members	<ul style="list-style-type: none"> <li>• Presence of major donors on Board</li> <li>• Monitoring behaviour</li> <li>• Publication of voluntary information</li> <li>• Fundraising activities</li> <li>• Presence of special interests in the Board</li> <li>• Charitable activities carried out</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaire responses boosted by face-to-face interviews</li> <li>• Review of annual reports and accounts</li> </ul>
Charity vulnerability to funding	Financial vulnerability indices	<ul style="list-style-type: none"> <li>• Debt ratio</li> <li>• Revenue concentration</li> <li>• Surplus margin</li> <li>• Administrative cost ratio</li> <li>• Size</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaire responses boosted by face-to-face interviews</li> <li>• Review of annual reports and accounts</li> </ul>

**Figure 5.1: Summary of the research plan and execution**



### **5.3.1. The construction of a convenience sample**

Construction of the convenience sample was done after considering three main challenges to the research. These are the diverse nature of charities registered in Scotland, the difficulty which would arise when it came to generalisation of the results, and achieving a response rate which would be acceptable for reaching research conclusions.

In establishing the sample, two main considerations were taken into account. First, is how to increase the chances of having charities which have structured formal internal governance. The *Top 1,000 Charities in Scotland 2009* was the suitable document to provide a sample of large charities.

The second consideration is the availability of audited annual reports and accounts. The annual reports also form part of the sources of data needed to answer the Research Questions. *Section 10 (1) (a) to (d) of The Charities Accounts (Scotland) Regulations 2006* requires that all charities that are not companies which have annual income over £500,000 or total assets exceeding £3.26 million publish audited annual reports and accounts. This means that, when using charities which have annual income of more than £500,000, there is an assurance of the existence of audited annual reports and accounts, regardless of the charity's legal form. Since the research is about the funding, governance and accountability of charities, this gives justification for the sampling process to focus on *Top 1,000 Charities in Scotland 2009*.

Table 5.3 explains the bands for gross income. Charities falling in different gross income bands are subject to different types of scrutiny of their accounts. The focus of this research is the last band which requires charities falling within it to produce annual reports and accounts audited by a registered auditor. This increases the reliability of the information published in the annual reports and accounts for the research analysis.

**Table 5.3: Requirement for scrutiny of charity Accounts by gross income (as the legislation stood on 1 April 2011) (All figures in £000)**

<i>Minimum form of accounts scrutiny permitted</i>	<i>England and Wales</i>	<i>Scotland</i>	<i>Northern Ireland</i>
Approval of accounts by trustees only – no external scrutiny required	£0 to £25	Not permitted	Not permitted
Independent examination (lay IE)	£25 to £250	£0 to £250 <sup>2</sup>	£0 to 100
Independent examination (Professional IE)	£250 to £500	£250 to £500	£100 to £500
Audit by a registered auditor <sup>3</sup>	£500 and above	£500 and above	£500 and above

*Source: Morgan (2011)*

Using large charities that assure the presence of the two criteria discussed above was not only economically feasible but also the optimal use of the allocated time for completion of the research project. Therefore the sample was established by use of a section in *Top 1,000 Charities in Scotland 2009* which lists the top 50 charities on four categories of funding and on the number of employees.

The convenience sampling approach was adopted to create a sample which contains a range of the known characteristics of large charities registered in Scotland. The sample is most likely to have structured internal governance and formal accountability mechanisms. A section of *Top 1,000 Charities in Scotland 2009*, which establishes the top 50 charities on each of the five categories, was the focus for the sampling process. These five categories were:

- the top 50 Scottish charities by legacy income
- the top 50 Scottish charities by voluntary income
- the top 50 Scottish charities by public grants
- the top 50 Scottish charities by investment income, and
- the top 50 Scottish charities by number of employees.

<sup>2</sup> Only if accounts are on a receipts and payment basis.

<sup>3</sup> An audit can also be required at a lower income if the charity's total assets exceed £3.26 million (applicable in England, Wales and Scotland).

In addition to these categories, the sample was then narrowed to those charities falling under the four criteria defining a general charity as used by the ONS (see Section 5.2.1). The criteria used by CaritasData took into account the definition used by the ONS, except the non-sacramental requirement and the presence of independent governance which is separate from Government and business.

The sampling procedure is described below. The process was carried out using Excel spreadsheets. The steps have been sequenced from 1 to 9 that lead to the final sample:

1. The top 50 charities on each category were entered into the Excel spreadsheet
2. Each category was given a unique text colour to distinguish it from others in case one charity appeared in more than one category
3. All five categories were combined together to form 1 to 250 charities, regardless of any overlapping charities (ie charities on more than one category list)
4. The charities were then sorted in alphabetical order from A to Z, bringing together the overlapping charities
5. Overlapping charities were identified and duplicates eliminated, arriving at a total of 166 separate charities. A number, in brackets, was written beside each charity, indicating the frequency of that charity appearing on a category list
6. To arrive at a convenience research sample, the 166 charities were then ranked according to how often they appeared in the five 'Top 50s'; those appearing in more than one category were 57 charities which were taken to the next step
7. The 57 charities were then checked for any Government control or affiliation; 14 charities were Governmentally owned or affiliated and these were excluded, reducing the sample to 43 charities
8. Two religious organisations were excluded, reducing the sample to 41
9. Using the last band in OSCR's five annual income bands (£500,000 or more), it was confirmed that all 41 charities were in this band. Therefore none were excluded for not passing this threshold.

A sample of 41 charities meeting the criteria was constructed. The selection came with a full range of organisational characteristics including size of assets held, expenditure classification, number of employees and legal form, all useful in answering the Research Questions. By accepting the exclusions used by the ONS, 16 charities were removed from the list of 57 that satisfied the condition of being in the top 50 on at least two of the CaritasData

categories. The charities left in the sample were confirmed to be operationally active by checking against the OSCR Register.

However, the number then dropped to 39 when two of the charities were found to be governed by the same Directors. The Chair and CEO of these charities were willing to talk for both charities but they were asked to focus on the charity which had more gross income. There was a further drop-out when another charity was later found to be a Government-controlled Trust. This brought the total to 39 charities in the sample.

Table 5.4 below summarises how the sample of 41 charities was obtained. The whole sampling process, including how the list of 39 charities which were contacted for their participation was obtained, is described in Figure 5.2.

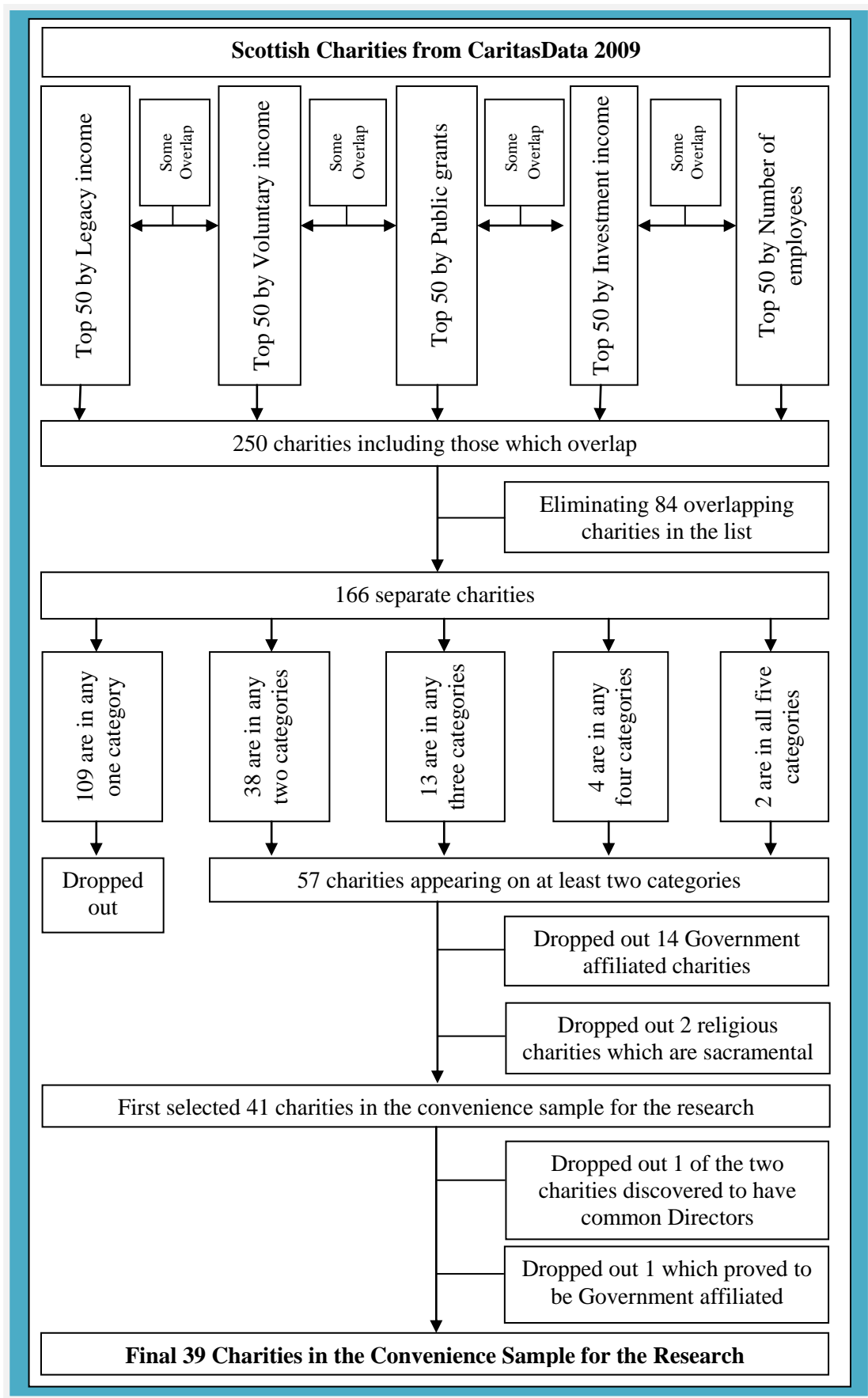
**Table 5.4: Summary of the sample selection process**

Number of charities in all five categories	250				
Total separate charities	166				
Number of charities appearing in a category	<b>In any one only</b>	<b>Any two</b>	<b>Any three</b>	<b>Any four</b>	<b>All five</b>
	(109)	38	13	4	2
Number appearing in at least two categories	57				
Number of Government affiliated	(14)				
Number of religious which are sacramental	(2)				
Convenience sample	41				

Note: Brackets indicate the exclusion (minus) in the final sample.



**Figure 5.2: Summary of the sampling process**



In terms of available legal forms, there are two major groups that can be identified in the OSCR Register. The first comprises legal forms which have other statutory obligations in addition to the requirements of the *Charities and Trustee Investment (Scotland) Act 2005*; for example, charities falling under the *Companies Act 2006*. Available legal forms include ‘companies limited by guarantee’, ‘industrial and provident societies’, ‘statutory corporations’, ‘educational endowments’, ‘trusts’ and ‘unincorporated associations’. The second group comprises the legal form established under section 7 of the *Charities and Trustee Investment (Scotland) Act 2005*. This is the ‘Scottish Charitable Incorporated Organisation’ (SCIO) which was not available at the sampling date. It was desirable that the convenience sample included organisations with different legal forms. However, this was beyond the control of the research as top charities in Scotland are dominated by companies limited by guarantee.

Table 5.5 provides a summary of the sample frame. The left-hand column shows the CaritasData expenditure classification and the top row shows the respective legal forms for the sample of 39 charities. The number in each cell indicates a charity in a specific expenditure classification constituted in a specific legal form. There are 28 charities which are companies limited by guarantee, followed by seven charities which are statutory corporations. There are two charities constituted as industrial and provident societies and two charities that are unincorporated associations.

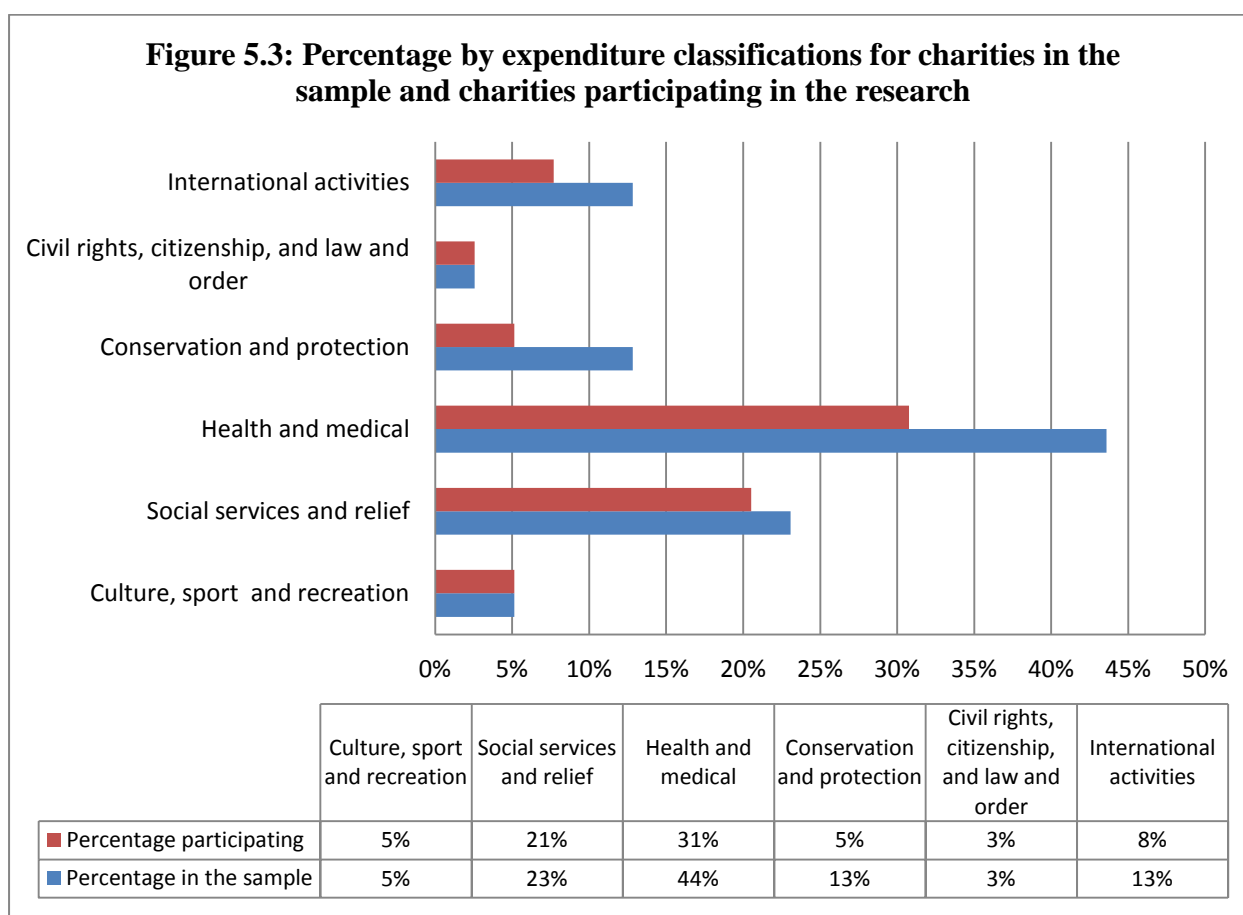
**Table 5.5: Number of charities in a sample under each legal form expenditure classification**

Expenditure classification	Legal forms			
	Company	Statutory corporation	Industrial and provident society	Unincorporated association
Health and medical	13	3	1	-
Social services and relief	6	2	1	-
International activities	4	-	-	1
Conservation and protection	2	2	-	1
Culture sport and recreation	2	-	-	-
Civil rights, citizenship, and law and order	1	-	-	-

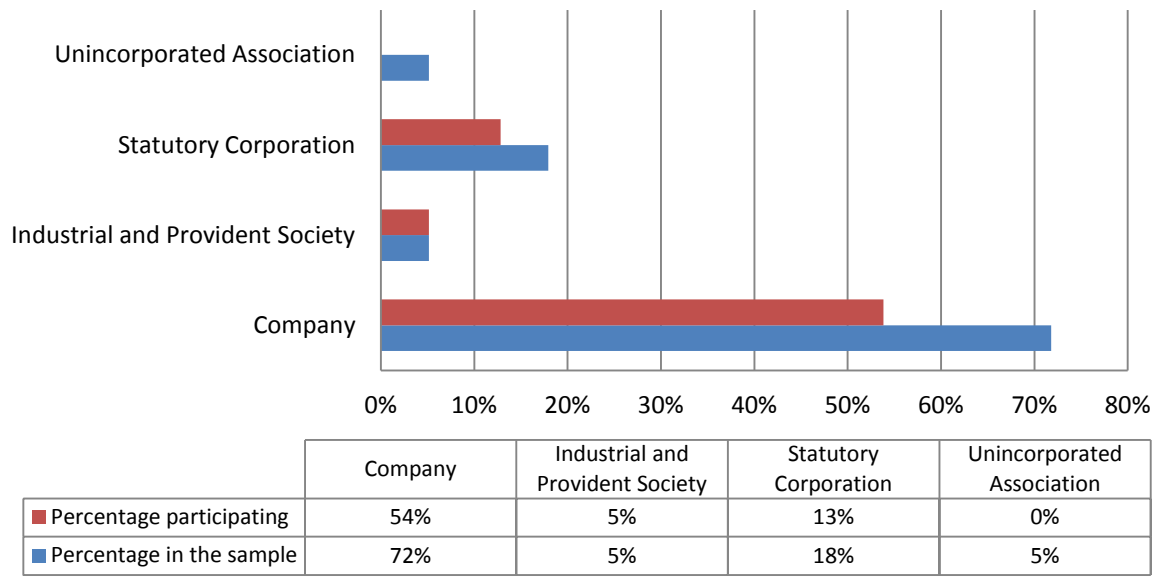
Descriptions for the study sample and participating charities are shown in Figures 5.3 (expenditure classification) and (5.4 legal form) below. Figure 5.5 shows the percentages of cross-border charities versus Scotland-only charities for both study sample and participating charities.

Table 5.6 gives the gross income at 31 March 2010 of the sample by their legal form. Figures were extracted from annual returns in the OSCR Register. The last column shows the total gross revenues for the charities in the year ended 31 March 2010. In the participating charities (Figure 5.4), 21 charities are registered as a company limited by guarantee. Statutory corporation had five registered charities followed by two charities registered as industrial and provident societies while no charity from unincorporated associations participated.

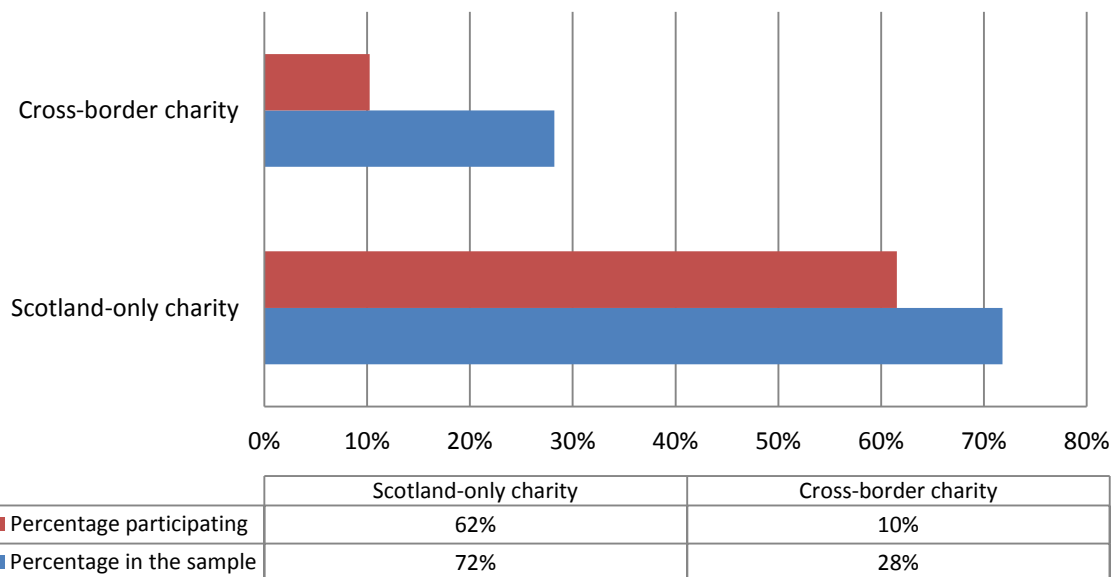
Thirty charities agreed to participate after all 39 had been contacted. Two then withdrew at the last minute for different reasons. Charities participating in the research were therefore 28.



**Figure 5.4: Percentage by legal forms for charities in the sample and charities participating in the research**



**Figure 5.5: Percentage by registration jurisdictions for charities in the sample and charities participated in the research**



**Table 5.6: Sample frame for convenience sample**

	<b>Legal form</b>	<b>Number of charities</b>	<b>Total gross income (£)</b>	<b>Overall Gross income (£)</b>
<b>1</b>	Company Limited by Guarantee	<b>28</b>	1,103,077,617	1,652,917,181
<b>2</b>	Statutory Corporation	<b>7</b>	442,865,832	
<b>3</b>	Industrial and Provident Society	<b>2</b>	94,218,000	
<b>4</b>	Unincorporated Association	<b>2</b>	12,755,732	
<b>Gross income of participating charities</b>				1,128,627,447

*Basis of figures: OSCR's annual returns for the year ended 31 March 2010.*

It has been noted that most charities included in the sample are companies limited by guarantee, which form 72% of the sample and 54% of the charities participating in the research. These charities have income of £1,103,077,617, being 66% of the sample total. Next in terms of the number of charities in the sample are statutory corporations, though it is emphasised that charities which receive their funding from the Government and are indirectly controlled by Government were excluded: those which have autonomy in terms of governance and funding being included in the sample. They form 18% of the sample and 13% of the participating charities. They have income of £442,865,832 (27% of the sample's total income). With the exception of unincorporated associations, which did not participate in the research, there were at least two charities from each legal form participating in the research.

Looking at the expenditure classification of the participating charities in Figure 5.3, 'health and medical' forms 31% followed by 'social services and relief' (21%). Other percentages by expenditure classification include 'conservation and protection' (5%), 'international activities' (8%), 'culture, sport and recreation' (5%) and 'civil rights, citizenship, and law and order' (3%). There is at least one charity participating from each expenditure classification.

## **5.4 Data Collection Methods and Fieldwork**

This section describes the three different data collection methods used in this research and how the fieldwork was carried out. The questionnaire was distributed by email after agreement had been reached with the participants themselves or via their personal assistants on a date for a meeting. Second, there were semi-structured interviews based on the completed questionnaire, in separate meetings with Chairs and CEOs. Third, a review was conducted of the annual reports and accounts and related governance documents of the participating charities.

Prior to the fieldwork, covering letters (see Annex 5B) were sent to every charity in the sample, requesting the participation of the CEO and the Chair in the research. All letters were directly addressed to the CEO by their name and designation. The first batch of letters was sent in August 2010, targeting charities registered in Scotland only; later in October 2010 a second batch was sent to the remaining charities which are registered in England and Wales and in Scotland (known as cross-border charities or dual-registered).

All covering letters were signed by Professor David Heald on the researcher's behalf to reduce the likelihood of being ignored or denied access to meet these top officers. After the charity agreed to participate, an agreement was then made for the date of interview which was preceded by emailing the questionnaire about ten days before the interview. The exact timing depended on the availability of the interviewees. In some cases the duration was shorter than ten days while others were longer as a result of emergency rescheduling of the date of interviews. These methods are described in detail below.

### **5.4.1 Questionnaire distributed by email**

The first stage of data collection consisted of sending the questionnaire via email. Additional information was also included in the emails to individual charities on how to handle the questionnaire in order to avoid influencing the responses between Chair and CEO. The questionnaire was only emailed to charities which agreed to participate. It aims to seek data on the organisational characteristics identified in the literature review as those expected to influence governance and accountability relationships in charities. Further, it was designed to obtain the general views and responses of Chairs and CEOs. A copy of the questionnaire is attached as Annex 6A in Chapter 6.

The questionnaire has four parts: Part A, which focuses on Board composition; this has six main questions, each containing sub-questions and statements. Questions and statements have been divided into fact-finding, five-point Likert scale, 'Yes' or 'No', and multiple choices.

Part B focuses on charity funding and staffing; it contains six main questions, each with sub-questions and statements. Questions and statements have been divided into ranking, five-point Likert scale, 'Yes' or 'No', and multiple choices.

Part C focuses on regulation, governance and accountability relationships; it contains four main questions, each with sub-questions and statements. Questions and statements have been divided into five-point Likert scale, 'Yes' or 'No', and listing in increasing importance.

At the end of Parts A to C, blank spaces for additional comments were provided. On the last page of the questionnaire, general information about the charity's name, year of establishment and legal status, and the respondents' specific information are also asked. Respondents' information and contact details were asked to ensure that the researcher could contact them in the case that clarification was required later.

There are two forms of five-point Likert scale statement. The first form has been used in all Likert statements, except statements in sub-section C4. This form has 5 = strongly agree, 4 = generally agree, 3 = neither agree nor disagree, 2 = generally disagree and 1 = strongly disagree. The second form is used in sub-section C4 which asks 'Please score your Board's sense of responsibility to the following stakeholders'. A score of 5 = very high, 4 = high, 3 = medium, 2 = low, or 1 = very low was to be applied.

Emails were sent ten days prior to the agreed interview date, with attachment of the questionnaire. Additional information on how the questionnaire should be handled and filled in independently by both the Chairs and the CEOs was also included. When applicable, these emails were sent directly to the personal assistants of the CEOs for those charities which agreed to participate in the research. The information was then passed to the Chairs and the CEOs via personal assistants who took pivotal roles in arranging most of the interviews. There were a few charities whose CEO did not have a personal assistant; therefore, communication was done directly with the CEO to establish the interview arrangements. It was made clear on the emails that, for cases where both the CEOs and the Chairs agreed to participate, they should not discuss the questionnaire with each other to avoid biased responses. There was no standard form for the additional information written in emails

because each one of them depended on the situation with the charity in hand. A sample of the additional information sent by email with the questionnaire is shown in Figure 5.6.

**Figure 5.6: Sample of information sent with the questionnaire**

<p>[Personal assistant's name]</p> <ol style="list-style-type: none"><li>1. Many thanks for arranging these meetings. I agree with your suggested date of [date of the interview] at [time of the interview] for conducting separate interviews with [Chief Executive's name] and [Chair's name].</li><li>2. Attached is the questionnaire I would like both [Chief Executive's name] and [Chair's name] to complete before the interviews, on the following basis:<ol style="list-style-type: none"><li>a) Chief Executive should not discuss the contents of the questionnaire with his Board Chair before the meeting, as that might bias the responses</li><li>b) At the interviews which would be held separately between me and [Chief Executive's name] and later me and [Chair's name], both of us would require a copy of the completed questionnaire. It would therefore be helpful if I could arrive half an hour before interview time say at [time] and collect the completed copies from you. It would be helpful if I could use a small room to consider how best to use the interview time.</li></ol></li></ol> <p>Many thanks and best wishes</p> <p>Omary</p>
---

On the second paragraph of the front page of the questionnaire, the following message was prominent:

These questions are for separate interviews with the Chair of the Board (or Trustees) and the Chief Executive/Manager of the charity. Not all questions will necessarily be important to all respondents. Unless the question indicates to the contrary, each respondent should give their own views and answers in relation to their own charity. Interview responses will be treated as confidential and they will be used only in an anonymised format.

Recognising that more charities face increasing problems caused by recession, which are directly or indirectly impacting their present and future operational perspectives, encouragement to respond was made using multiple emails sent to all charities who did not



give direct answers on whether they agreed to participate or not. Further emails were also sent to charities which agreed to participate and then went quiet. All reminders were sent after waiting two weeks for a response. The encouragement to respond was aimed at increasing the response rate to the questionnaire and interviews.

#### **5.4.2 Pre-circulated questionnaire with face-to-face semi-structured interviews**

The research plan and execution (refer back to Figure 5.1) requires a combination of different methods. All three Research Questions call for methods that obtain ‘rich’ data about opinions on the issues raised in the questionnaire. The research seeks to obtain opinions and experience from both Chairs and CEOs on the governance and accountability of charities; the research considers that a questionnaire with semi-structured face-to-face interviews as a means of increasing the response rate best suited this inquiry.

The choice of method to obtain the views of Chairs and CEOs of charities about governance and accountability is vital for this research because the method selected may influence the nature of the data collected (Rubin and Rubin, 2005). There are several means available to obtain the views of Chairs and CEOs; using face-to-face semi-structured interviews with a pre-circulated questionnaire was considered to make possible the collection of data required by the research.

Semi-structured face-to-face interviews employed the questionnaire as a protocol in an effort to clarify responses and to raise open questions based on annual reports and accounts. The follow-up questions, depending on the answers given, were not only used to encourage more understanding of the specific answers given, but also to obtain more explanation of their views about a particular issue.

Collecting completed questionnaires, which was associated with the face-to-face interviews, started on 10 September 2010 and ended on 5 May 2011. The plan was to finish the fieldwork by 24 December 2010; the date was not met because the severe weather conditions (heavy snow) created uncertainty of transportation from Aberdeen to the central belt of Scotland where most interviews took place. More delay for the fieldwork ending date was caused by some respondents who kept changing the interview dates because of their busy schedules. There was also a sustained effort to encourage more responses by sending reminders to charities which replied and then went quiet, until they either gave a formal refusal or agreed to the interviews.

After the interview date was set and the questionnaire was sent, the next step was to search for the location of the interviews. Face-to face interviews took place at three main agreed locations: the headquarters of charities, the private places for some interviewees, and at the Business School. There were a total of 53 questionnaires collected with corresponding face-to-face interviews conducted throughout the fieldwork period. Forty nine of the questionnaire respondents were interviewed at the headquarters of Scotland-only registered charities or at the offices in Scotland of dual-registered charities. Three of the respondents were interviewed at the private places or residences of the interviewees and one interview was conducted at the Business School.

Before the interviews, the completed questionnaire was collected and then the researcher took 10 to 15 minutes planning the best use of time during the interviews. The interview duration was between 45 minutes to 65 minutes, depending on time allowed by the interviewees. With the exception of one interview whose interviewee refused to be recorded, the rest of the interviews were recorded after asking for the consent of the interviewees. However, the recording equipment failed during the first two interviews. Where both Chairs and CEOs were available on the same day for interviews, there was a break of 10 to 20 minutes before meeting the second interviewee. There was no information passed from one interviewee to another, though the researcher met some challenges when the later interviewee tried to probe what the other interviewee had said about a particular issue. The researcher approached each interviewee with an open mind without revealing the discussion with the previous interviewee. There were a few problems. The Chair of one charity refused to address the questionnaire after the researcher had arrived for the appointment; this was treated as a refusal. There was another problem faced when the Chair of one charity refused to fill in the questionnaire in advance; the filling of the questionnaire was done by the researcher during the interview. This was included as a completed response. For the first few interviews the researcher was accompanied by his supervisor who observed the process and sometimes intervened to speed things up and make the interview process successful.

The first step taken by the researcher during the interviews was self-introduction: this included the purpose of the research and assurance of confidentiality, anonymity in reporting the results, and thanking the interviewee for participation. The next stage was for both the interviewee and researcher to sign the participant consent form that had been developed in accordance with the ethics procedure of the University of Aberdeen Business School. Then, the consent of the interviewee was secured to use the recording equipment. This was done

after establishing good rapport which seemed to convert the mind of some interviewees who were initially hesitant to allow recording. Figure 5.7 below summarises that aspect of the interview.

**Figure 5.7: Self-introduction and establishment of rapport during interviews**

My name is Omary Fadhil; I would like to thank you again ... Professor/Dr/Sir/Mr/Miss ... for agreeing to participate in this research interview.

This interview has been approved by University of Aberdeen Business School research ethics. One of the pre-requisites for research approval is using it for academic purposes only. All results should be presented anonymously which cannot give any clue of the source, whether the person or the charity involved. Therefore feel free for discussion.

Before we start our conversations, I would like to ask for your consent on the recording of our conversations ... ['Yes' or 'No' reply expected from the interviewee]

This research interview has two main objectives. First, as a PhD student, to complete my studies successfully and the second objective is making contribution and extending my knowledge towards public policy issues.

As explained on the top page of the questionnaire, this interview will have two main parts. The first is looking into your questionnaire responses, specifically the reasons for your responses and the second part will be on the general issues about your charity experience, and on the annual reports and accounts published.

### **5.4.3 Data handling**

Questionnaire, recorded interview sound clips and interview notes were collected after interviewing 27 Chairs and 26 CEOs. All questionnaire and interview notes were marked with the name and title of the respondent following the sequence of the interview dates. For example, the first charity to be interviewed was named '*CHARITY 1- CH*', indicating the first charity to be interviewed and the response came from the Chair. '*CHARITY 1- CE*' indicated the first charity to be interviewed and the response came from the CEO. All completed questionnaires were hole-punched and attached to one file which was always locked in a filing cabinet. The naming helped to conceal the identity of charities and respondents.

All interview sound clips were downloaded in the computer from the voice recorder and saved using the same names as the questionnaire and interview notes. All clips were saved in the Windows Media Video (WMV) formats in one folder in the computer. The intention was to transcribe the sound clips by manually listening and writing the transcripts, but the number of interviews made this impossible. There was also a plan to use software like NUDIST

(Non-numerical Unstructured Data Indexing, Searching and Theorising) for analysing transcripts. This proved to be not economically viable given the level of resources available to the research. Therefore, analysis of the interviews has not been included for these reasons. Although this is disappointing, the researcher learned much from the interviews and the existence of interviews is why so many questionnaires were completed. The researcher's interpretation of the questionnaire results has been influenced by conversations with 53 officers in the charity sector.

In summary, participation requests for Chairs and CEOs were mailed to 39 charities. Twenty eight charities agreed and participated in the research (response rate 72%). Out of 39 charities, 28 were registered only in Scotland and 11 were registered in England and Wales as well as in Scotland (cross-border or dual-registered). Of the participating charities, four were dual-registered (ie 36% of the total dual-registered in the sample) and 24 were Scotland-only registered (ie 86% of the total Scotland-only registered). With the exception of one Chair from the dual-registered who was interviewed, the rest of the participants from dual-registered charities were not the top officers as these are based in England. Therefore, the Chairs of Scottish Committee, Board, or equivalent were interviewed as 'Chairs' while Scottish Directors or heads were interviewed as 'CEOs'. All Chairs and CEOs from participating dual-registered charities were interviewed whereas two Chairs and one CEO from the Scotland-only registered charities refused. Reasons given were that the two CEOs were recently appointed to their current position. One Chair was met but was not willing to complete the questionnaire and therefore was classified as a refusal.

### **5.5 Review of Annual Reports and Accounts**

Annual reports, accounts and related governance documents were also part of the information used in answering the Research Questions. These documents were obtained in two main ways. The first was from publicly available documents obtained direct from websites. The second way was by asking for the missing documents directly from charities. The annual reports and accounts collected were for the years ending 2009 or 2010. The 2009 or 2010 reports were requested because they were prepared during the time of financial recession; these documents reflected a lot of policy changes, making them suitable for analysing the financial vulnerability of charities.

Annual reports, accounts and related governance documents were used to prepare post-interview notes and questions after going through the completed questionnaire during the

face-to-face interviews. Another use of the annual reports and accounts was to establish the database of assets, liabilities, revenues and expenditure for each charity. The database was then used to establish financial vulnerability indices which classify the status of charities as FNVCs and FVCs, in answering **Research Question 3: *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?***

The three sets of collected data were analysed by three different methods. The first method is quantitative statistical analysis which is used to contribute answers to all three Research Questions. This includes the use of MS-Excel spreadsheets and SPSS (Statistical Package for Social Sciences) statistical software on data collected via the questionnaire. The second method used for data generation was qualitative, with face-to-face semi-structured interviews with Chairs and CEOs from a convenience sample. This also contributed to answers on all three Questions. The third method was to create financial vulnerability indices from the information presented in the annual reports and accounts, in order to investigate **Research Question 3: *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?*** The indices were used, together with results from other methods, to find the existence of any connection between responses on governance and vulnerability status.

Financial vulnerability status has been measured using the financial vulnerability index model proposed by Trussel et al (2002). The model uses five financial distress indicators, which are: debt ratio; revenue concentration; surplus margin; administrative cost ratio; and charity size. Detailed explanation on the computation of the financial vulnerability indices is presented in Annex 8A to Chapter 8.

## **5.6 Selection of Statistical Tests**

Choosing between parametric and non-parametric tests can be easy or difficult depending on the data used in the research (Motulsky, 1995). It is easy to choose a parametric test if you are sure that your data are sampled from a population that follows a normal distribution (at least approximately). Otherwise non-parametric tests should be selected in three situations:

- The outcome is a rank score and the population is not normally distributed. For example, the ranking of importance of types of income to a charity, measured on a scale of 1 to 12 and where all scores are integers and where 1 is most important and 12 is least important
- Even if the population is normally distributed, some values are 'out of the scale' (ie too high or too low to measure). It is impossible to analyse such data with a parametric test

because you do not know all values (the ‘no response’ options in the questionnaire qualify as unknown data). Using non-parametric tests with these data can be made simpler by assigning the ‘no responses’ to missing values, then perform a non-parametric test. This is because non-parametric tests deal with the relative ranks of the values and it will not matter if you do not know all the values exactly

- If the research is sure that the population is not normally distributed. If the data are not sampled from a normal distribution, consideration is made on whether data values can be transformed into a normal distribution. This can be performed by taking the logarithm or reciprocal of all data values.

Choosing the right test between the two groups of parametric and non-parametric tests to compare measurements is not easy. This is because statistical tests are based upon the assumption that the data are sampled from a normal distribution, or not. When the data are sampled from a normal distribution, the tests to be used are parametric tests. The commonly used parametric tests are listed in the first column of Table 5.7 and include the t-test and analysis of variance (ANOVA).

On the other side, statistical tests that do not make assumptions about the population distribution are referred to as non-parametric tests. Commonly used non-parametric tests rank the outcome variable from low to high and then analyse the ranks. These tests are listed in the second column of Table 5.7 and include the *Wilcoxon signed-rank test*, *Mann-Whitney U test*, and *Kruskal-Wallis test*. These tests are also termed as distribution-free tests.

It is not always easy to decide whether a sample comes from a normal population. Therefore the following points should be considered:

- If you collect many data points (eg more than 100), as was the case for this research, it is important to look at the distribution of data to see whether it is approximately bell-shaped (ie normally distributed). Statistical tests like *Shapiro-Wilk test* and plots like *Normal Q-Q plots* can be used to test whether the distribution of the data comes from a normal distribution
- Research can also look at the previous data if such exists. What matters is whether the sample comes from a normal distribution, not the sample itself meeting the normal assumptions. Research needs to look at all available data
- Consideration is also made to the sources of scatter. When the scatter comes from the sum of different sources with no dominant source, data is expected to be approximately

normally distributed. Some may choose a parametric test because they are not sure the normal assumption is violated while some may choose non-parametric because they are not sure the normal assumption is met.

When considering the sample size, the central limit theorem states that:

When samples are large (ie above about 30) the sampling distribution will take the shape of a normal distribution regardless of the shape of the population from which the sample was drawn (Field, 2009).

The central limit theorem ensures parametric tests work well with large samples even if the population is non-normal. When a large sample from a normally distributed population uses a non-parametric test, p-values tend to be a bit too large, but the discrepancy is small. In other words, non-parametric tests are only slightly less powerful than parametric tests with large samples. When using a non-parametric test with data from a normal population, the p-values tend to be too high; this removes statistical power when using small samples.

Contrary to non-parametric tests which are powerful, parametric tests are robust when using large data sets even when the population from which the data have been derived deviates from normal distributions. This implies it is safe to use parametric tests when having at least 30 data points on two groups. When the sample is small parametric tests will give inaccurate p-values; therefore it is safer to use non-parametric tests on small samples. This research has a total of 28 participating charities which is less than the suggested minimum.

The absence of publicly available information on which the nature of the distribution of the population of charities in Scotland can be established implied that the use of parametric tests carries more risks of inaccurate results. The small sample size and small number of respondents also increase the uncertainties of using parametric tests. Tests of normality have been performed in Chapter 7 and the tests and plots of data show the absence of a normal distribution. It is therefore safer to focus on the use of non-parametric tests (ie those bolded in Table 5.7).

To satisfy the requirements of the Research Questions, for comparing two unpaired groups (ie aggregate groups between Chairs and CEOs; FNVCs and FVCs), a 2-tailed (exact method) *Mann-Whitney U test* was used. For the comparison of matched data (ie Chair and CEO from the same charity), a two-tailed (exact method) *Wilcoxon signed-rank test* was used.

**Table 5.7: Selected statistical tests chosen**

Goal	Type of Data			
	Measurement (from Normal Population)	Rank, Score, or Measurement (from Non-normal Population)	Binomial (Two Possible Outcomes)	Survival Time
Describe one group	Mean, SD	Median, inter-quartile range	Proportion	Kaplan Meier survival curve
Compare one group to a hypothetical value	One-sample <i>t</i> test	Wilcoxon ranked sum test	Chi-square or Binomial test	
<b>Compare two unpaired groups</b>	Unpaired <i>t</i> test	<b>Mann-Whitney U test</b>	Fisher's test (chi-square for large samples)	Log-rank test or Mantel-Haenszel
<b>Compare two paired groups</b>	Paired <i>t</i> test	<b>Wilcoxon signed-rank test</b>	McNemar's test	Conditional proportional hazards regression
Compare three or more unmatched groups	One-way ANOVA	Kruskal-Wallis test	Chi-square test	Cox proportional hazard regression
Compare three or more matched groups	Repeated-measures ANOVA	Friedman test	Cochrane Q	Conditional proportional hazards regression
Quantify association between two variables	Pearson correlation	Spearman correlation	Contingency coefficients	
Predict value from another measured variable	Simple linear regression or Nonlinear regression	Nonparametric regression	Simple logistic regression	Cox proportional hazard regression
Predict value from several measured or binomial variables	Multiple linear regression or Multiple nonlinear regression		Multiple logistic regression	Cox proportional hazard regression

Source: Motulsky (1995)

### 5.7 Chapter Summary

To sum up, there are 53 participants from 28 large charities. All participants completed the questionnaire and all were interviewed based on their questionnaire responses. Interviews analysis has been excluded because of insufficient financial resources available to the research. Non-parametric tests have been used for data analysis. This completes the explanation and justification of methodology. Results are presented in Chapters 6 and 7.



**ANNEX 5A: SAMPLE OF LETTERS SENT TO CEOs REQUESTING PARTICIPATION**

Chief Executive  
.....  
.....  
.....

Tel: +44 (0)XXXXXXXXX  
Email: [x.yyy@abdn.ac.uk](mailto:x.yyy@abdn.ac.uk)

2nd August 2010

Dear Prof/Sir/Dr/Ms/Mr.....

**The Governance and Accountability of Scottish Charities**

My doctoral student, Omary Fadhil, is researching the governance and accountability of Scottish charities, a sector which is very important to Scottish economy and society but attracts the attention of relatively few researchers.

As explained in the attached project summary, he has selected a sample of 41 Scottish charities at each of which he wishes to interview separately both the Chief Executive and the Chair of the Board/Trustees. [Charity name] is one of his sample and I plan to accompany him during the early part of his fieldwork.

I am writing on his behalf to request the participation of yourself as Chief Executive and of [Chair's name] as Chair. I would greatly appreciate if you would agree to participate and then ask your Personal Assistant to contact me in order to fix mutually convenient dates.

A week before the interview date Omary would send you a short questionnaire to complete. The idea is that this will be done in advance of the interview to avoid the need to ask a lot of questions and that Omary would be provided with a completed questionnaire, either by post or 15 minutes before the beginning of the interview. This will allow a free-ranging discussion of the answers and of governance matters in charities. Except where the questionnaire specifically generalises to all charities, it should be answered from the perspective of roles as, respectively, Chief Executive and Chair of [Charity name].

I would introduce Omary and then let him run the interview. The interview should last about 45 minutes. I will only intervene to speed up the proceedings, if necessary. All responses will be treated in the strictest confidence and all use of the material will be in an anonymised format which does not reveal the name of the charity or of the respondent. We are just commencing the fieldwork which will be undertaken in the period August to December 2010.

I look forward to receiving your response to my request. If there are any points you would like to discuss in advance, please use my email or phone number as provided above.

Yours sincerely

Professor David Heald

## Synopsis of Research Project

### The Governance and Accountability of Scottish Charities<sup>4</sup>

Charities and other not-for-profit organisations have been growing in number and visibility in many parts of the world over the past three decades. The dramatic increase in the number of charities in the United Kingdom began during 1980s, partly because of government withdrawal from the direct involvement in certain service delivery programmes. Since then, the main challenge for many charities has been to maintain their charitable operations without disruption.

Therefore the main objectives of the research are:

- To explore the internal governance of charities, their accountability relationships to stakeholders, and their signalling behaviour, particularly in relation to funding sources
- To examine the impact of funding sources (voluntary income, public grants, legacy income and investment income etc) on the capacity of Scottish charities to fulfil their objectives and to survive

There are currently 23,281 registered charities in Scotland. A sample of leading charities has been constructed from the top 1,000 in Scotland listed in the CaritasData, using different measures of size. The sample of 41 are ‘general charities’, as defined by the Office for National Statistics; the study excludes worshipping organisations, universities and charities which are classified to the public sector.

In order to achieve the above objectives, in light of the previous literature, the researcher has developed a short questionnaire covering matters of external and internal governance and of the effects of the recession on funding sources and charities’ operations. The aim is to interview, separately, the Chair and Chief Executive of each study organisation. Ideally, the questionnaire will have been completed in advance of the interview of about 45 minutes, which will then be used to explore the reasoning behind the answers provided by respondents.

The project has been approved through the University of Aberdeen Business School’s ethics procedure. In particular, the researcher will only report responses in an anonymised format which prevents the respondents from being identified. The research forms the central part of Omary Fadhil’s doctoral thesis and, after completion, will be made available to the academic and charities’ community through articles written in collaboration with his supervisor.

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## **CHAPTER 6: RESEARCH QUESTIONS AND QUESTIONNAIRE**

### **6.1 Introduction**

After developing the Research Questions (Chapter 4), based on the gaps found in past literature, the main focus was to design a mechanism to address them. A questionnaire and charity annual reports and accounts provided useful information as described in Chapter 5.

This Chapter addresses two main issues which form part of the research process. First, it describes how the Research Questions have been linked to the questionnaire (Section 6.2) and, second, how the main parts of the questionnaire have been developed based on previous literature (Section 6.3). Figure 6.1 describes how theories used have been linked to questionnaire sections, showing why different questionnaire questions or statements have been used. The Chapter finishes with a brief Chapter Summary.

Section 6.2 focuses on the three main parts of the questionnaire: Board composition and roles (ie inputs); charity funding and effects of recession (ie structures and performance); and regulations, good governance and accountability relationship (ie outputs (functions)). The Section is also linked to the three Research Questions. However, as described in Chapter 5, annual reports and accounts were also used to supplement the questionnaire in answering the Research Questions. The three main questionnaire sections were adopted from the four variables groups used by Cornforth (2001). He identified these as inputs, structures, processes, and outputs. This research excluded the 'processes' variables as the research found its relevance in addressing the Research Questions was minimal.

Section 6.3 focuses on attributes of the three main parts of the questionnaire and the rationale for asking them as supported by evidence from past research findings. It describes how different statements and questions were designed to achieve the research objectives. The Section also describes how the three parts of the questionnaire are related to theories (see Chapter 3) used in the research.

Chapter 4 described how the Research Questions have been developed based on the current problems facing the charity sector in Scotland and their connection to the previous literature.

### **6.2 Relationship between Questionnaire and Research Questions**

The development of the questionnaire (Chapter 5) took more than eight months. During this period the focus was on ensuring that the questions and statements were designed to achieve the research objectives. In order to meet these objectives more emphasis was placed on how

each of these questionnaire variables would address the Research Questions. The questionnaire was divided into three main sections as A, B and C. Each of these sections was developed to link Board inputs, structures and performance, and outputs (functions) with the Research Questions. The three Research Questions developed in Chapter 4 were:

**Research Question 1 (RQ1):** *How has recession affected the Chairs' and CEOs' responses on charity governance and accountability issues?*

**Research Question 2 (RQ2):** *Are responses from Chairs and CEOs indicating signalling behaviour in charities? and*

**Research Question 3 (RQ3):** *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?*

The questionnaire's three main parts have been divided into sub-sections and linked to the Research Questions:

**Section A:** *Board composition and roles (Inputs),*

**Section B:** *Charity funding and-effects of recession (Structure and performance) and*

**Section C:** *Regulations, good governance and accountability relationships – External relations and accountability (Outputs).*

The three main sections of the questionnaire were organised to make it easier for Chairs and CEOs to understand the variables (ie statements and questions) and make transition from one variable to another when providing their responses. Caution was given that not all variables under these main sections belong to that section, the logical flow of questionnaire response was taken first into consideration before the group in which the variable belongs. Classifications of variables according to their main group have been emphasised more during data analysis which are also reflected in the Conclusion and Recommendation chapter (Chapter 9). The three groups of variables identified above are the main links to the Research Questions.

The attributes of the questionnaire's main sections are shown in the finalised questionnaire used to collect data, as attached as Annex 6A at the end of this Chapter. The attributes include Board size, types of Board members, effect of Board composition, and recruitment. Others include demographic of Board members, length of service, types of funding sources and their risks. Others include attributes on charity response to funding reduction, impact of

recession on governance, remunerations to paid staff and role of volunteers. Also included are regulations, use of good governance guides and accountability relationship.

Research Question 1 (RQ1) utilises all non-factual variables in the questionnaire; Research Question 2 (RQ2) has been addressed using some selected variables; and Research Question 3 (RQ3) has been addressed using all variables plus additional information from outside the questionnaire (ie annual reports). In answering RQ3, a combination of all Likert and ranking questionnaire variables and the FVI computed using charity annual reports and accounts have been used in conducting statistical tests. This section describes how each Research Question connects to the questionnaire variables and supplementary data. Sub-section 6.2.1 describes the reason for designing the 15 variable groups as shown in Table 6.1 below. Sub-section 6.2.2 describes RQ1, RQ2, and RQ3 in relation to the questionnaire variables and the use of additional data to address them.

### **6.2.1 The link between Research Questions and questionnaire variables**

The Research Questions have been formulated following gaps found in the previous literature. This follows the fact that most charity research was conducted at a time when the economy was not in trouble and the main focus was on the effective use of resources and governance and reporting issues. Following the 2008 recession, charity Chairs and CEO were more likely to face funding and governance challenges which might shape their approach to charities' governance and accountability. More charities are now admitting that recession has brought challenges to their operations. The survey by Charity Finance Group (2012) revealed that more charities are facing a 'perfect storm' as demand for charitable services increases while funding for these services is decreased. Following these events research is needed to address the new challenges facing charities.

Following the literature review and the development of Research Questions in Chapter 4 the emphasis is on testing how Chairs and CEOs see different issues of governance and accountability in charities. As described in Chapter 5, responses to the questionnaire can change and vary according to how the statement or questions (variables) have been framed; these variables were designed to take into account the existing economic situation for charities caused by the 2008 recession. Therefore the variables used subjected both Chairs and CEOs to the same set of questions.

Table 6.1 below gives a summary of 15 variables with reasons for including them in the questionnaire. These variables are shown in Sections A (A1 to A6); B (B1 to B6) and C (C1 to C4)

**Table 6.1: Questionnaire variables used with reason(s) for their use**

<b>No</b>	<b>Questionnaire variables</b>	<b>Reason for using</b>
1	<b>A1:</b> Board size	This variable was designed to test the optimal Board size and existence of dominant CEOs. It also probes the Chair–CEO working relationship, and Board performance. This relates to the Board size findings by Lecovic and Bar-Mor (2007), Cornforth (2001) and Bradshaw et al (1992).
2	<b>A2:</b> Types of Board members	This variable tests Board composition and how different types of members can affect charity governance and accountability as well as performance. It also tests signalling behaviour in charities and probes the Board members’ skills. This was derived from the research agenda suggested by Hyndman and McDonnell (2009), and findings by Cornforth (2001).
3	<b>A3:</b> Effect of Board composition	This variable was designed to probe different types of Board member and how different Board member characteristics affect charity operations and governance as per Chair and CEO responses.
4	<b>A4:</b> Recruitment of new Board members	This variable was used to probe Board maintenance and Board changes which can be brought by newly recruited Board members. It was also used to probe the review of Board performance. This was derived from the findings of Cornforth (2001) and Bradshaw et al (1992).
5	<b>A5:</b> Demographic of Board members	This variable was used to probe Board member characteristics to determine the time spent by members on Board service as well as probing different expertise and experience brought by the diversity of Board members.
6	<b>A6:</b> Length of services on a Board	This variable was designed to probe the length of tenure of Board members on the same charity Board and its effect on governance and accountability. Time served on the Board is said to impact on performance and governance.
7	<b>B1:</b> Types of funding sources	This variable was used to probe how different sources of funding affect governance and accountability relationships in charities. Charities which fundraise for their operations sometimes focus on Board members who will benefit the charity in fundraising issues. The variable was also used in accordance with the explanations provided in resource dependence theory and stakeholder theory.
8	<b>B2:</b> Risks associated with funding sources	This variable was designed to explain sources of funding risks as a result of the 2008 recession. It is connected with the types of funding (see 7 above). It probes Chair and CEO responses on the financial vulnerability status of charities, following the findings from the Trussel et al (2002) study.

**Table 6.1 Continues...**

9	<b>B3:</b> Response to funding reduction	This variable was designed following the 2008 recession, Charities from all over UK and specifically Scotland (which this research focuses on) admitted to facing difficulties in securing funding for their operations. This situation has also been explained in the Charity Finance Group et al (2012) in their latest report series titled ' <i>Managing charities in the new normal - A perfect storm?</i> '
10	<b>B4:</b> Impact of recession on charity governance	This variable was included following the impact of the recession in 2008; it also probes Chair and CEO responses which have also been reflected in the Charity Finance Groups latest survey report on charity governance.
11	<b>B5:</b> Staff payment	This variable was included to probe signalling behaviour in charities following Hyndman and McDonnell's (2009) research agenda. Charity staff payment issues have also been brought to public attention following the 2008 recession whereby trade unions complained about excessive pay by charities to CEOs during an economic downturn (the issues highlighted in the article by Davies (2009) in <i>The Guardian</i> newspaper).
12	<b>B6:</b> Roles of volunteers	This variable was included to probe Chair and CEO responses on roles played by volunteers during an economic downturn. The latest report by Charity Finance Group (2012) highlighted that charities are now turning to volunteers for different charitable activities.
13	<b>C1:</b> Regulations	This variable was included to probe Chair and CEO responses on how charities fulfil their legal obligations (eg filling annual returns to the OSCR) and the burden on charitable operations associated with them. It was designed following the finding by Cornforth (2001).
14	<b>C2 and C3:</b> Use of good governance guides	This variable is a continuation of regulations (see 13 above), probing responses from Chairs and CEOs on charity professionalism and maintenance of public trust. It follows the findings of Crawford et al (2009).
15	<b>C4:</b> Accountability relationship	This variable was used to probe responses from Chairs and CEOs on charities' assurance and accountability to their stakeholders (eg donors, staff, beneficiaries, and the public). It also probes how the different interests of stakeholders are represented, both internally and externally, and how these relationships contribute to fundraising and securing other resources for charities. This follows the findings by Cornforth (2001), Trussel et al (2002), and Hyndman and McDonnell (2009).

### **6.2.2 Research Questions in relation to questionnaire variables**

All the Research Questions have direct relationships with all or with specific variables used in the questionnaire. This sub-section shows the connection between the Research Questions with specific variables as well as any supplementary data used to address them. Table 6.2 below shows details of how these connections have been made. The Table also displays some additional data used in connection with the Research Questions.

With the exception of factual questions which have been used to probe existing factual information about charity governance and operation, the rest of the questions and statements in the questionnaire were designed following past research findings during different economic times and to connect to the current environment of economic downturn.

The Table has six columns with rows showing the three major group variables (ie Section A, B and C of the questionnaire). The third column shows sub-group variables which have been described in Table 6.1 above. The fourth column shows the probed issues which have been explained in detail in Table 6.1 above. The fifth column shows additional data which include charity annual reports and accounts utilised to answer the Research Questions. Specifically this column shows Research Question 3 (RQ3) as the one which has used the information for empirical work (ie statistical tests). The last column shows which number of Research Question has used which variable in addressing it. The numbers '1' indicates RQ1, '2' indicates RQ2 and '3' indicates RQ3.



**Table 6.2 Research Questions in relation to questionnaire variables**

No	Questionnaire's group variable	Sub-group variable	Probed issue(s)	Additional data used by	Used by RQ Number
1	A	A1	Facts about existing Board size and governance process.	RQ3	General view
		A2	Board size in relation to resource dependence theory	RQ3	1, 2, 3
		A3	Facts about existing Board size and types of Board member.	RQ3	1, 2, 3
		A4	Board types and different roles played in relation to existence of signalling behaviour	RQ3	1, 2, 3
		A5	Availability of potential Board members and recruitment procedures	RQ3	1, 2, 3
		A6	Demographic characteristics of Board members and the time served in relation to Board's effectiveness	RQ3	1, 2, 3
2	B	B1	Funding sources and the impact of 2008 recession on each of them	RQ3	3
		B2	Funding types and associated risks in the past, present and future	RQ3	3
		B3	Charity's state of funding and action plans in relation to resource dependence, signalling and accountability relationships	RQ3	1, 2, 3
		B4	Impact of recession on charity governance and charitable activities	RQ3	1, 3
		B5	Risks associated with different sources of funding in relation to charity operations, governance and accountability	RQ 3	1, 3
		B6	Charity's emergency plans to deal with impact of recession. Probing the importance of volunteers and paid employees	RQ3	1, 2, 3
3	C	C1	The impact of regulation on charity governance at a time of economic downturn	RQ3	1, 2, 3
		C2 and C3	The use of charity governance guides and their effectiveness on governance	RQ3	1, 2, 3
		C4	Accountability relationships	RQ3	1, 2, 3

*Note: RQ stands for Research Question*

### **6.3 The link between questionnaire variables and previous literature**

This Section describes how the three main group variables of the questionnaire have been linked to the literature: 82 (1 to 5 scale) Likert variables, 66 (1 to 12) ranking variables and 50 fact finding questions or statements. Therefore the Section comprises three sub-sections 6.3.1, 6.3.2 and 6.3.3 while sub-section 6.3.4 describes main theories used in relation to the questionnaire. Sub-section 6.3.1 describes Board composition and roles (as inputs) in relation to the literature, sub-section 6.3.2 describes charity funding and effects of recession (ie structure and performance as described by Cornforth (2001)), and sub-section 6.3.3 describes regulations, good governance and accountability relationships (ie external relations and accountability (outputs)).

#### **6.3.1 Board composition and roles (Inputs)**

At a time of economic uncertainty, charity efficiency and effectiveness are very important. Cornforth (2001) found Board inputs and process variables are important in explaining Board effectiveness. He identified three process variables as being ‘the Board members having the time, skills and experience to do the job’, ‘clearly established Board roles and responsibilities’ and ‘the Board and management sharing a common vision of how to achieve their organisational goals while reviewing their working relationship periodically’.

He also examined how various aspects of Board structure, processes and inputs contribute to the Board’s effectiveness. Board processes include the size, and meeting practices. In his study he identified Board inputs as being the mix of Board members’ skills, experience and time devoted to Board activities. In general Board structure comprises the Board size, frequency of Board meetings and quorum. These variables were all used in the questionnaire in this research to probe responses from Chairs and CEOs relating to these issues in a time of economic downturn. These variables are broken into statements and factual questions as shown in the questionnaire attached as Annex 6A to the Chapter.

Board size, which is categorised as a structural variable, was found by both Bradshaw et al (1992) and Cornforth (2001) to be unrelated to Board effectiveness. It is one of the variables which describe changes that can take place within the Board as a result of various internal and external factors such as the current economic downturn. In addition, Yermack (1996) observation found small corporate Board size to be more efficient than larger boards because of a negative relationship between Board size and firm value. Charities operate on a non-profit motive; therefore this variable has been used to probe views of Chairs and CEOs on

Board size to see if it has any effect on charities' efficiency and effectiveness. Board size covers Board maintenance including recruitment of new Board members and reviewing Board performance to ensure that they work well in supervising and supporting management. It also includes Board performance in selecting and monitoring CEOs and senior staff. These variables have been included in the form of statements and questions probing senior staff pay in the questionnaire.

Looking at Board member characteristics, this variable has been included following the study by Olson (2000) on relationships between various aspects of Board characteristics at 43 independent colleges and the colleges' gifts and total revenues. He found a significant positive relationship between Board size and total gifts received but not with revenues (eg fees and other services charges). Therefore by including Board members characteristics, the research probes both Chairs and CEOs about their importance in helping charities to attract more donations and other resources based on resource dependence theory. Board member characteristics also help to establish types of Board member who serve charities and how these types affect charities in the overall meeting of their charitable objectives. These characteristics have been used in section A of the questionnaire (see Annex 6A). Other variables relating to Board member characteristics include gender, age, ethnicity and employment status (ie employed, self employed or retired). All these characteristics have practical implications or governance and accountability.

As discussed in Chapter 4, Jensen (1993) and Yermack (1996) also considered two main effects of Board size. First, the increased problems of communication and coordination as group size increases. Second, the decreased ability of the Board to control management, leading to agency problems arising from the separation of management and control. These problems have also been reflected in the questionnaire. Board size has also being connected to the existence of dominant CEOs and signalling behaviour in the questionnaire.

Continuing the focus on the effect of Board size on increased competition for resources and poor economic growth, Board structural issues can help to understand how Board size can be used to mitigate the current problems in charities. Variables which associate Board size with helping a charity to fundraise have been included to probe these possibilities.

These Board inputs can be measured to understand whether the Board had the right mix of skills and experience and whether Board members are capable to providing the necessary time to do the job well. Variables probing tenure of service of Board members have been

designed to explore this issue with Chairs and CEOs, specifically in Section A of the questionnaire. Cornforth (2001) found that increasing the overall effectiveness of Boards to be important in helping fundraising and bringing other resources to the organisation. He identified four variables which explain variances in Board effectiveness: the Board having a clear understanding of its role and responsibilities; the Board having the right mix of skills and experience whose members also have time to do their jobs; the Board and management sharing a common vision of how they should go about achieving the charity's goals; and the Board and management periodically reviewing their working relationship. These variables have also been used in Sections B of the questionnaire. This leads to the next main section of the questionnaire (ie structure and performance) as explained in sub-section 6.3.2 below.

### **6.3.2 Structure and performance**

This sub-section looks at charity funding and the effects of the 2008 economic recession. Charity Boards act as stewards who oversee the financial management of organisations. The Board should also ensure that the organisation also has adequate financial systems and procedures which monitor performance and are able to take action against management when required. The 2008 recession created a lot of funding challenges for many charities; this increased the need for both Board and management to ensure continued charitable operations. During this time, on many issues, charities have been under constant pressure because of the economic downturn. These issues include types of funding sources such as corporate donations being either reduced or in some case not existing any more. Charity difficulties are also increased by the proposed government spending cuts. Understanding responses to these funding reductions was vital for this research. All these funding problems might trigger governance challenges as there was the possibility of changing governance structure for some charities and moving towards more defined roles for Board and management. Variables which have been included in this sub-section are those described in Section B of the questionnaire. The questionnaire probed Chairs and CEOs on existing roles of paid employees and volunteers as well as payment to employees (senior management and below senior management) to determine any structure and performance changes.

A survey conducted by the Charity Finance Group in collaboration with PriceWaterhouseCoopers (PwC) and The Institute of Fundraising (Charity Finance Group et al 2012) found a lot of funding and operational difficulties facing charities. The survey identified an increase in demand for charitable services while charity funding diminished.

Section B of the questionnaire used this variable to probe responses from Chairs and CEOs. More charities plan to focus on fundraising activities by increasing their current activities and expanding to new areas. Based on this finding from CFG, the questionnaire used a variable relating to this finding to probe Chairs and CEOs on issues relating to governance and accountability. CFG also identifies an increase in competition for resources among charities because of the economic downturn, increased by the proposed government spending cuts.

### **6.3.3 Regulations, good governance and accountability relationships (Output)**

This section forms the third part of the questionnaire. Discussing the overall effectiveness of the Board, Cornforth (2001) used a regression model to identify five important Board functions: setting the organisation's mission and values; raising funds and other resources for the organisation; overseeing the financial management of the organisation; reviewing and deciding the strategic direction of the organisation; and reviewing Board performance. The Board can take charge when things go wrong, at the same time representing the organisation externally. Being responsible for governance, the Board has an obligation to ensure that the charity fulfils its legal obligations (eg filling annual returns to the OSCR) and management is held accountable to different stakeholders (eg funders/donors, staff, beneficiaries, public).

The study conducted by Crawford et al, (2009) found that, on issues of governance and accountability arrangements in Scottish charities there are varying levels of compliance with regulations. This created a concern that some charities may be taking advice from incompetent professionals in the sector. This led to the inclusion of variables in the questionnaire which probe the use of professional advisers (section C of the questionnaire). The study also found improved discharge of accountability by Scottish charities since the establishment of the OSCR and its guidance has proved to be useful. All these findings are reflected in the questionnaire. Variables included sought to explain issues on regulations, use of governance codes and guides, and accountability relationships, as well as identifying the most important charity stakeholders.

### **6.3.4 The Link between questionnaire and theories used**

The development of the questionnaire also took into account the theories used in the research. This sub-section highlights how sections of the questionnaire have been linked to theories. Three theories are used to illuminate the research. The theories, described in Chapter 3, are stakeholder theory, resource dependence theory and signalling theory. The main theory used

is resource dependence theory and is the one which is discussed in this sub-section. Figure 6.1 illustrates the sections of the questionnaire in connection to the theories.

Resource dependence theory is the dominant theoretical approach used to guide this research to explain a range of governance and accountability issues addressed in the questionnaire. Other theories have also been used whose explanations are inter-connected to resource dependence theory.

Resource dependence theory suggests that the Board is likely to recruit new members who can assist in bringing critical resources to the charity or who can provide management with valuable information about the criteria used to evaluate the charity (Miller-Millesen, 2003). Empirical research conducted by Zald (1969, 1970) and Pfeffer (1972, 1973) also provide much of the framework for viewing Boards as a mechanism to reduce environmental uncertainty and provide access to critical resources (Johnson et al, 1996). Studies by Harlan and Saidel (1994) and Provan et al (1980) used the underlying assumptions of resource dependence theory to build a more complete understanding of the ways in which the charity Board's ability to bring resources to a charity from the environment can increase agency power relative to organisations competing for the same resources. Middleton (1987) identified four primary functions of the Board, the first being the reduction of organisational uncertainties by developing 'exchange relationships' with external stakeholders. These exchange relationships reduce the number of organisational resource dependencies while increasing the flow of resources to the organisation.

Second, the Board ensures that the organisation maintains capacity to be adaptive by collecting and interpreting information from the external surroundings. In this capacity, the Board processes complex (often competing) information so that the organisation can remain competitive in an uncertain economic climate. Based on this observation, the research expected more Board involvement with charitable operations after the onset of the 2008 economic recession. Strategies such as contracting, colluding, buffering, and acquisition or mergers reduce uncertainty in the operating environment and increase dynamism, thus creating more stable operating conditions (Dess and Beard, 1984). All these issues, directly relating to resource dependence, signalling, and stakeholder theories, have been included as questionnaire variables.

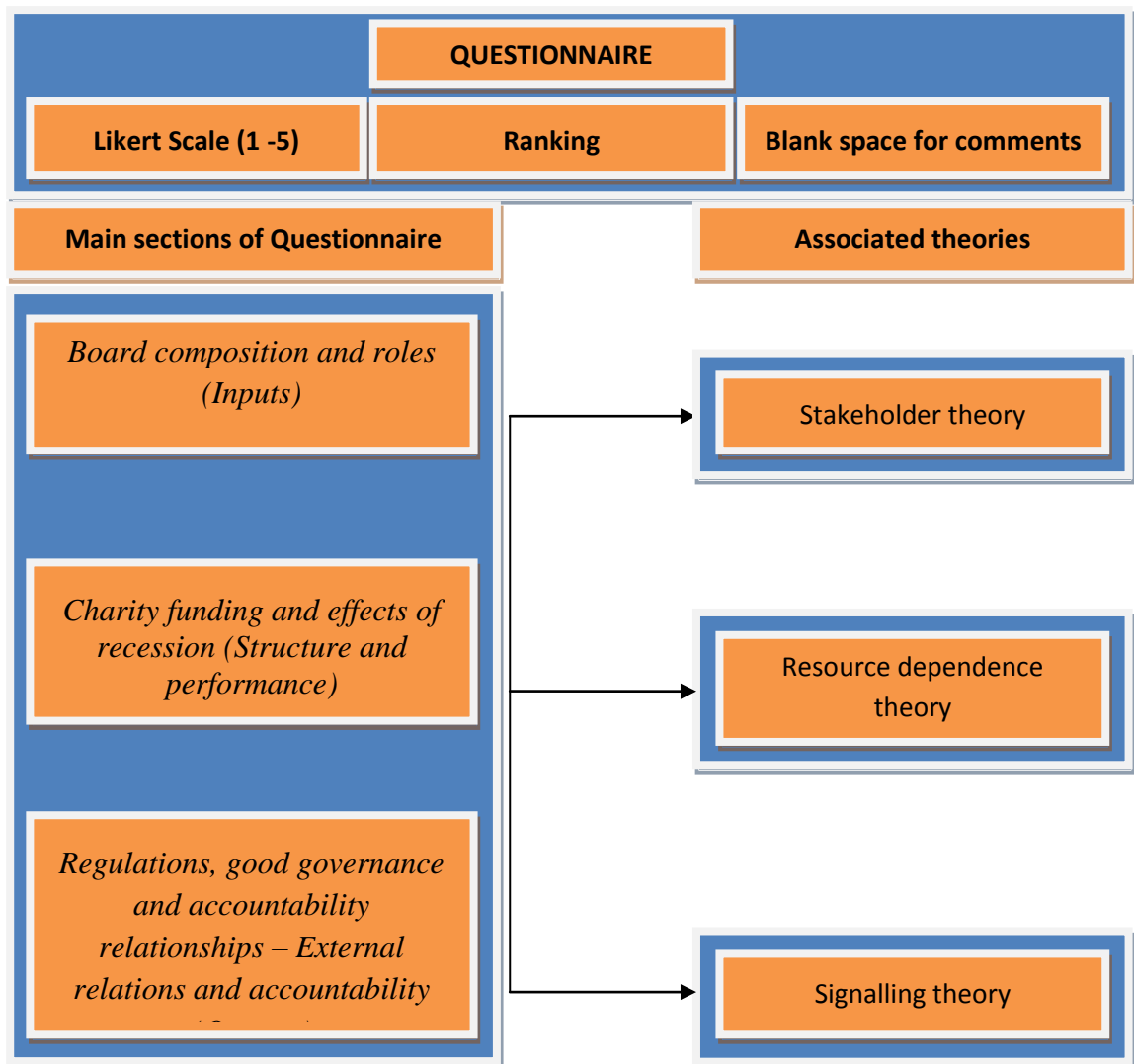
Third, the Board protects the organisation from external interference by only disseminating information that is important to organisational operations. Finally, the Board represents the

charity to external stakeholders. Following Middleton's propositions, Board roles and responsibilities that reflect a resource dependence view include ensuring that the agent (ie CEO) has adequate resources to meet the charitable objectives, identifying appropriate candidates for new Board member recruitment, and advancing the charity's public trust. Following these propositions, the variables used in the questionnaire have taken into account Board and management roles in relation to their current operating environment (ie following the 2008 recession). The aftermath of the recession includes the UK Government fiscal review and a reduction on corporate donations to charities, while demand for charitable services is increasing.

Resource dependence theory also explains the extent to which estimations of organisational effectiveness and legitimacy are externally honoured. The Board serves as a crucial link to those who evaluate the charity externally. Therefore issues relating to Board recruitment, accountability relationships, and charity funding are included as questionnaire variables.

Unlike for-profit organisations, organisational effectiveness is more difficult to assess in charities. Different charity stakeholders with conflicting interests in the charity's resources assess the charity's activities, performance, effectiveness, and overall legitimacy using different evaluation criteria (Kanter and Summers, 1987). These different stakeholders have the power to control the financial health of the organisation because they control substantial resources that the organisation needs to survive. Existing research (Pfeffer, 1973; Zald, 1967) draws attention to the idea that functions performed by NPO Boards are likely to be influenced by the degree to which the organisation depends on external sources of funding, environmental complexity, and the need for information. Pfeffer (1972, 1973) and Pfeffer and Salancik (1978) developed a set of general propositions regarding the degree to which a Board is likely to focus on specific behaviours. They predicted that, in highly complex environments where the organisation is dependent on the environment for the resources it needs to survive, the Board will focus on this. All variable have been designed to accommodate these theories as described above. Figure 6.1 shows how the questionnaire sections on the left side are connected to the theories on the right side.

**Figure 6.1: The link between questionnaire and theories used**



#### 6.4 Chapter Summary

This Chapter described the reasons for using the questionnaire variables in relation to the previous literature, the theories used and the current economic downturn. Annex 6A to this Chapter provides the full questionnaire used in the field work.

Chapter 7 describes aggregate analysis and analyses questionnaire responses from Chairs and CEOs.



## **ANNEX 6A: QUESTIONNAIRE**

# **THE GOVERNANCE AND ACCOUNTABILITY OF SCOTTISH CHARITIES**

**This fieldwork is part of the doctoral project of Omary Idd Fadhil, who is supervised by Professor David Heald and Professor Roger Buckland of the University of Aberdeen Business School. The intention is that respondents will complete the questionnaire before the interview, which will then explore the reasons for the answers chosen.**

**These questions are for separate interviews with the Chair of the Board (or Trustees) and the Chief Executive/Manager of the charity. Not all questions will necessarily be relevant to all respondents. Unless the question indicates to the contrary, each respondent should give their own views and answers in relation to their own charity. Interview responses will be treated as confidential and they will be used only in an anonymised format.**

**The questions explore the governance and accountability of Scottish charities, including the effect of funding sources. There are three sections, A to C, with a blank space after each section in which the respondent may write additional comments.**

Some questions require factual responses and some questions ask you to place items in rank order. Other questions ask you to indicate whether you agree or disagree with statements. In these cases, please circle the number assigned to your chosen response. The scale is:

- Strongly agree 5  
 Generally agree 4  
 Neither agree nor disagree 3  
 Generally disagree 2  
 Strongly disagree 1

If you have no view on a question, please tick the "No view" box.

<b>A</b>	<b>Board composition and roles</b> <i>The term "Board members" should be read to include "Trustees". The term "Board" refers to the governing body of the charity</i>	
	<b>A1</b>	i How many Board members does your charity have? <input type="text"/>
		ii How many members of your Board are Non-Executive Directors? <input type="text"/>
		iii How many times a year does your Board meet? <input type="text"/>
		iv What is the average length in hours of a Board meeting? <input type="text"/>
		v What is the average number of members attending Board meetings? <input type="text"/>
		vi What is the quorum for a Board meeting? <input type="text"/>
		vii Has there been an inquorate Board meeting in the last 12 months? YES <input type="checkbox"/> NO <input type="checkbox"/>

<b>A2</b>	<b>Board size</b>	Strongly agree	Generally agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
	i A Board with few members leads to a dominant chief executive	5	4	3	2	1	
	ii A Board with a large number of members leads to a dominant chief executive	5	4	3	2	1	
	iii A Board with a large number of members leads to a dominant inner core prevailing over other Board members	5	4	3	2	1	
	iv The existence of a large Board is supportive of fundraising	5	4	3	2	1	
	v The optimum size of a Board is as follows: <i>Please tick box or boxes, as appropriate.</i>						
	• Less than 5 <input type="checkbox"/>						
	• Between 6 and 10 <input type="checkbox"/>						
	• Between 11 and 15 <input type="checkbox"/>						
	• Between 16 and 20 <input type="checkbox"/>						
	• 21 and over <input type="checkbox"/>						

<b>A3</b>	<b>Composition of Board</b> One person may fall into more than one category	
	i	How many major donors are on your Board? <input style="width: 100px;" type="text"/>
	ii	How many users/beneficiaries or their representatives are on your Board? <input style="width: 100px;" type="text"/>
	iii	How many paid employees are on your Board? <input style="width: 100px;" type="text"/>
	iv	How many members of your Board also undertake other roles in your charity in a voluntary capacity? <input style="width: 100px;" type="text"/>
	v	How many Non-Executives with specialist expertise are on your Board? If these exist, please briefly describe the nature of the specialist expertise. <input style="width: 100px;" type="text"/>
	vi	How many Board members do not fit into any of the above categories? If these exist, please briefly describe their value to your charity (eg experience as Board member in the private, public or charity sector; or representational role). <input style="width: 100px;" type="text"/>

<b>A4</b>	<b>Effects of Board composition</b>	<b>Type of Board member</b>					
	<p>The statements (i) to (v) below all relate to the effects of Board composition. Mark your response in each cell alongside the statement under each type of Board member. Please use the following scale:</p> <p style="text-align: right;"><b>Strongly agree</b>                    5  <b>Generally agree</b>                    4  <b>Neither agree nor disagree</b>   3  <b>Generally disagree</b>                2  <b>Strongly disagree</b>                 1</p> <p>If you do not have a view relative to a particular cell, please write <b>N</b> in that cell. Please respond with reference to your own charity; not every column may be applicable.</p>	<b>Major Donors</b>	<b>Beneficiaries/Users</b>	<b>Paid employees other than Executive Directors</b>	<b>Those undertaking other roles in your charity in a voluntary capacity</b>	<b>Directors with specialist expertise</b>	
	i	These act as a mechanism for monitoring the efficiency of our charity	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	ii	These act as a mechanism for monitoring the effectiveness of our charity at meeting its objectives	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	iii	These are seen to represent the interests of stakeholders in our charity	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	iv	These increase the legitimacy of our charity with current and potential funders	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	v	These may give rise to conflicts of interest in our charity	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

<b>A5</b>		<b>Board member recruitment</b>
		<b>Which methods of recruitment does your charity use in recruiting new Board members?</b> <i>(Please tick appropriate boxes.)</i>
	i	Advertises in the media <input style="float: right;" type="checkbox"/>
	ii	Uses a commercial headhunter <input style="float: right;" type="checkbox"/>
	iii	Uses a charity brokerage service <input style="float: right;" type="checkbox"/>
	iv	Takes personal recommendations from existing Board members <input style="float: right;" type="checkbox"/>
	v	Takes suggestions from other charities <input style="float: right;" type="checkbox"/>
	vi	Other – please specify .....
		.....
		.....

<b>A6</b>		<b>Please indicate below the age, ethnicity and employment status of Board members</b>																																
		<table style="width: 100%; border: none;"> <tr> <td style="width: 40%;">Male (number) <input style="width: 80px;" type="text"/></td> <td style="width: 60%;">Number of Board members currently</td> </tr> <tr> <td>Female (number) <input style="width: 80px;" type="text"/></td> <td>Full-time employed <input style="width: 80px;" type="text"/></td> </tr> <tr> <td>Age: 16 – 19 <input style="width: 80px;" type="text"/></td> <td>Part-time employed <input style="width: 80px;" type="text"/></td> </tr> <tr> <td>    20 – 29 <input style="width: 80px;" type="text"/></td> <td>Self-employed <input style="width: 80px;" type="text"/></td> </tr> <tr> <td>    30 – 39 <input style="width: 80px;" type="text"/></td> <td>Retired <input style="width: 80px;" type="text"/></td> </tr> <tr> <td>    40 – 49 <input style="width: 80px;" type="text"/></td> <td>Not Known <input style="width: 80px;" type="text"/></td> </tr> <tr> <td>    50 – 59 <input style="width: 80px;" type="text"/></td> <td></td> </tr> <tr> <td>    60 – 64 <input style="width: 80px;" type="text"/></td> <td>Board members serve for specified terms? <b>Yes/No</b></td> </tr> <tr> <td>    65 or above <input style="width: 80px;" type="text"/></td> <td>If Yes, how many years in a term? <input style="width: 50px;" type="text"/></td> </tr> <tr> <td></td> <td>If Yes – renewable once <input style="width: 50px;" type="text"/></td> </tr> <tr> <td></td> <td>    – renewable more than once <input style="width: 50px;" type="text"/></td> </tr> <tr> <td>White (number) <input style="width: 80px;" type="text"/></td> <td></td> </tr> <tr> <td>Mixed (number) <input style="width: 80px;" type="text"/></td> <td></td> </tr> <tr> <td>Asian (number) <input style="width: 80px;" type="text"/></td> <td></td> </tr> <tr> <td>Black (number) <input style="width: 80px;" type="text"/></td> <td></td> </tr> <tr> <td>Other (number) <input style="width: 80px;" type="text"/></td> <td></td> </tr> </table>	Male (number) <input style="width: 80px;" type="text"/>	Number of Board members currently	Female (number) <input style="width: 80px;" type="text"/>	Full-time employed <input style="width: 80px;" type="text"/>	Age: 16 – 19 <input style="width: 80px;" type="text"/>	Part-time employed <input style="width: 80px;" type="text"/>	20 – 29 <input style="width: 80px;" type="text"/>	Self-employed <input style="width: 80px;" type="text"/>	30 – 39 <input style="width: 80px;" type="text"/>	Retired <input style="width: 80px;" type="text"/>	40 – 49 <input style="width: 80px;" type="text"/>	Not Known <input style="width: 80px;" type="text"/>	50 – 59 <input style="width: 80px;" type="text"/>		60 – 64 <input style="width: 80px;" type="text"/>	Board members serve for specified terms? <b>Yes/No</b>	65 or above <input style="width: 80px;" type="text"/>	If Yes, how many years in a term? <input style="width: 50px;" type="text"/>		If Yes – renewable once <input style="width: 50px;" type="text"/>		– renewable more than once <input style="width: 50px;" type="text"/>	White (number) <input style="width: 80px;" type="text"/>		Mixed (number) <input style="width: 80px;" type="text"/>		Asian (number) <input style="width: 80px;" type="text"/>		Black (number) <input style="width: 80px;" type="text"/>		Other (number) <input style="width: 80px;" type="text"/>	
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Black (number) <input style="width: 80px;" type="text"/>																																		
Other (number) <input style="width: 80px;" type="text"/>																																		

*Please provide any additional comments in relation to Board composition and roles*

**The next Section of the questionnaire relates to sources of funding and the impact of recession**

<b>B</b>	<b>Sources of funding and the impact of recession</b>			
<b>B1</b>	Please rank the following sources of income in order of increasing importance to your charity's operation ( <b>from 1 to 12, with 1 = most important and 12 = least important</b> ). Leave blank those that are not relevant. Your responses may differ between the three time periods.			
		<b>In the period before the recession</b>	<b>During the recession</b>	<b>Expectations about the future</b>
	i Legacies	<input type="text"/>	<input type="text"/>	<input type="text"/>
	ii Cash collections	<input type="text"/>	<input type="text"/>	<input type="text"/>
	iii Regular/contractual giving of cash	<input type="text"/>	<input type="text"/>	<input type="text"/>
	iv Donations of goods, services or assets	<input type="text"/>	<input type="text"/>	<input type="text"/>
	v Fees and charges for services provided	<input type="text"/>	<input type="text"/>	<input type="text"/>
	vi Trading income from shops etc	<input type="text"/>	<input type="text"/>	<input type="text"/>
	vii Grants from public sector bodies	<input type="text"/>	<input type="text"/>	<input type="text"/>
	viii Contract income from public sector bodies	<input type="text"/>	<input type="text"/>	<input type="text"/>
	ix National Lottery	<input type="text"/>	<input type="text"/>	<input type="text"/>
	x Corporate sponsorship	<input type="text"/>	<input type="text"/>	<input type="text"/>
	xi Interest, dividends and rental income	<input type="text"/>	<input type="text"/>	<input type="text"/>
	xii Other (please specify) .....			

<b>B</b>	<b>Riskiness of different sources of funding</b>			
<b>B2</b>	Please rank the following sources of income in order of increasing risk of funding disruption to your charity ( <b>from 1 to 12, with 1 = least risky and 12 = most risky</b> ). Leave blank those that are not relevant. Your responses may differ between the three time periods.			
		<b>In the period before the recession</b>	<b>During the recession</b>	<b>Expectations about the future</b>
	i Legacies	<input type="text"/>	<input type="text"/>	<input type="text"/>
	ii Cash collections	<input type="text"/>	<input type="text"/>	<input type="text"/>
	iii Regular/contractual giving of cash	<input type="text"/>	<input type="text"/>	<input type="text"/>
	iv Donations of goods, services or assets	<input type="text"/>	<input type="text"/>	<input type="text"/>
	v Fees and charges for services provided	<input type="text"/>	<input type="text"/>	<input type="text"/>
	vi Trading income from shops etc	<input type="text"/>	<input type="text"/>	<input type="text"/>
	vii Grants from public sector bodies	<input type="text"/>	<input type="text"/>	<input type="text"/>
	viii Contract income from public sector bodies	<input type="text"/>	<input type="text"/>	<input type="text"/>
	ix National Lottery	<input type="text"/>	<input type="text"/>	<input type="text"/>
	x Corporate sponsorship	<input type="text"/>	<input type="text"/>	<input type="text"/>
	xi Interest, dividends and rental income	<input type="text"/>	<input type="text"/>	<input type="text"/>
	xii Other (please specify) .....			

		Is your charity subject to reduced funding or greater riskiness of funding? <b>Yes</b> <input type="checkbox"/> <b>No</b> <input type="checkbox"/> (If answer is “ <b>Yes</b> ” proceed to <b>B3</b> below.) (If answer is “ <b>No</b> ”, please explain on <b>page 11</b> how your charity has been able to avoid reduced funding or greater riskiness of funding. Then proceed to <b>B4</b> below).							
<b>B3</b>		<b>Your charity’s responses to reduced funding or greater riskiness of funding</b>	Strongly agree	Generally agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view	
	i	Reduction of funding has forced our charity to reduce its expenditure	5	4	3	2	1		
	ii	Our charity has reduced expenditure by increasing efficiency without reducing the services provided to beneficiaries/users	5	4	3	2	1		
	iii	Our charity has reduced expenditure but this has involved reducing the services provided to beneficiaries/users	5	4	3	2	1		
	iv	Our charity has scope to increase its efficiency without reducing the services provided to beneficiaries/users	5	4	3	2	1		
	v	Our charity has reduced expenditure by reducing the number of paid management-level staff	5	4	3	2	1		
	vi	Our charity has reduced expenditure by reducing the number of paid operational staff	5	4	3	2	1		
	vii	Our charity has reduced expenditure by reducing the number of volunteers (ie those working without payment, but excluding the undertaking of Board duties)	5	4	3	2	1		
	viii	Our charity expects to become smaller in terms of expenditure and activities because of reductions in funding	5	4	3	2	1		
	ix	Our charity expects to become smaller in terms of expenditure and activities because future funding now appears riskier	5	4	3	2	1		
	x	Our charity will have sufficient funding available to continue to provide the same level of all services	5	4	3	2	1		
	xi	Our charity will have sufficient funding available to continue to provide the same level of some services but other services will have to contract	5	4	3	2	1		
	xii	Our charity is seeking other sources of funding which would be less risky	5	4	3	2	1		
	xiii	Our charity has established other sources of funding which are less risky	5	4	3	2	1		
	xiv	The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity	5	4	3	2	1		
	xv	Our charity will seek to increase the size of General Funds relative to Restricted Funds	5	4	3	2	1		

B4		Impact of recession on charity governance and operations	Strongly agree	Generally agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
	i	Recession has increased demand for the services of our charity	5	4	3	2	1	
	ii	Our charity has not been able to meet the increased demand for our services	5	4	3	2	1	
	iii	There is concern about the ability of Charity Boards and Management Teams to make the correct decisions in difficult times	5	4	3	2	1	
	iv	Charity Boards and Management Teams are now more focused on their charity's survival	5	4	3	2	1	
	v	Our charity's Board and Management Team are now more focused on our charity's survival	5	4	3	2	1	
	vi	Charity Boards and Management Teams are now more likely to consider mergers with other charities	5	4	3	2	1	
	vii	Our charity's Board and Management Team are now more likely to consider mergers with other charities	5	4	3	2	1	

B5		Respective roles of Board and Management Team after reduced funding and/or greater riskiness of funding	Strongly agree	Generally agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
	i	Changes in the funding climate have resulted in a review of the roles of our Board and Management Team	5	4	3	2	1	
	ii	Changes in the funding climate have altered the roles of our Board and Management Team	5	4	3	2	1	
	iii	Changes in the funding climate have resulted in our Board and Management Team working more closely together	5	4	3	2	1	
	iv	Reductions in funding have resulted in the Board taking a more prominent role in the decision-making of our charity	5	4	3	2	1	
	v	Greater riskiness of funding has resulted in the Board taking a more prominent role in the decision-making of our charity	5	4	3	2	1	

Please provide any additional comments which you may have in relation to sources of funding and the impact of recession

<b>B6</b>		<b>The statements below relate to paid employees and to volunteers (ie those who work for your charity without payment, other than as Board members). Please respond with reference to your own charity by ticking a box alongside the statement under Yes, No and No view.</b>	Yes	No	No View
	i	Our charity is focusing on fundraising activities by hiring employees with fundraising expertise and experience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	ii	Our charity recognises a trade union to represent the interests of our employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	iii	The use of volunteers reduces our charity's operating costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	iv	The use of volunteers reduces the quality of our charity's services to beneficiaries/users	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	v	Our paid employees sometimes work on a voluntary basis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	vi	Our paid employees are sometimes concerned that volunteers will replace them	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	vii	Our charity differentiates the work to be done by volunteers from that done by paid employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	viii	Our charity uses a separate company for trading activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Please tick the appropriate box alongside the two statements below			
			<b>above market rate for job</b>	<b>at market rate for job</b>	<b>below market rate for job</b>
	ix	Our charity pays its senior management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	x	Our charity pays its employees below senior management level	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Please provide any additional comments which you may have in relation to employees and volunteers</i>					

**The next section of the questionnaire relates to regulation, good governance and accountability relationships**



C			Strongly agree	Generally agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
<b>C1</b>		<b>Regulation, good governance and accountability relationships</b>						
	i	Compliance with the reporting requirements associated with legal status is a costly task for our charity	5	4	3	2	1	
	ii	The requirement for registration with the Office of the Scottish Charity Regulator improves public confidence in the operation of charities	5	4	3	2	1	
	iii	Dual registration, in Scotland as well as in England, significantly increases the regulatory burden on our charity [ <i>Charities which are registered only in Scotland should indicate 'No view'</i> ]	5	4	3	2	1	
	iv	Compliance with the reporting requirements of the Office of the Scottish Charity Regulator is a costly task for our charity	5	4	3	2	1	
	v	The reporting requirements of the Office of the Scottish Charity Regulator are proportional to the risks of charity failure	5	4	3	2	1	
	vi	Regulation makes our charity more accountable to the Office of the Scottish Charity Regulator than to other stakeholders	5	4	3	2	1	
	vii	Preparing our annual report and accounts in accordance with the Charities' Statement of Recommended Practice (SORP) is a costly task for our charity	5	4	3	2	1	
	viii	Our annual report and accounts meet the needs of our stakeholders	5	4	3	2	1	
	ix	The needs of our stakeholders are met by forms of communication other than our annual report and accounts	5	4	3	2	1	

<b>C2</b>		<b>Charity's use of governance codes and guidance</b>
		There are many sets of guidance for charities, some of which cover matters relating to good governance.
	i	Our charity has made use of codes or guidance on good governance. <b>Yes</b> <input type="checkbox"/> <b>No</b> <input type="checkbox"/>
	ii	If Yes, please list those codes or guidance on good governance that your charity has used. Also, rank them in order of usefulness (1 = most useful, then 2, 3 etc).

C3		Use of “good governance” guidance	Strongly agree	Generally agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
			5	4	3	2	1	
	i	Charities improve their effectiveness at meeting their objectives by using guidance on good governance	5	4	3	2	1	
	ii	Charities should use good governance guidance to improve their governance	5	4	3	2	1	
	iii	The use of good governance guidance increases the professionalism of charities	5	4	3	2	1	
	iv	The use of good governance guidance protects the reputation of charities	5	4	3	2	1	
	v	Good governance guidance has benefited our charity	5	4	3	2	1	

C4	Accountability relationships	
	Please score your Board’s sense of responsibility to the following stakeholders: (1 = very low; 2 = low; 3 = medium; 4 = high; 5 = very high; Leave blank for “No view”)	
	i	Beneficiaries/users <input type="text"/>
	ii	Charity advisers <input type="text"/>
	iii	Charity Commission for England and Wales <input type="text"/>
	iv	Charity’s own employees <input type="text"/>
	v	Charity’s own volunteers <input type="text"/>
	vi	External auditor <input type="text"/>
	vii	Large donors <input type="text"/>
	viii	Local authority/authorities <input type="text"/>
	ix	Office of the Scottish Charity Regulator <input type="text"/>
	x	Scottish Government <input type="text"/>
	xi	Small donors <input type="text"/>
	xii	UK Government <input type="text"/>
	xiii	Others – please specify..... .....
Please provide any additional comments which you may have in relation to accountability relationships.		

**SPACE FOR FURTHER COMMENTS ON CHARITY GOVERNANCE**

NAME OF CHARITY \_\_\_\_\_

YEAR ESTABLISHED \_\_\_\_\_

MEMBERSHIP ORGANISATION: Yes  No

**LEGAL STATUS OF SCOTTISH CHARITY: (Tick the appropriate box)**

- 1. Unincorporated association
- 2. Educational endowment
- 3. Industrial and Provident Society
- 4. Company limited by guarantee
- 5. Trust
- 6. Scottish Charitable Incorporated Organisation
- 7. Other (please specify) \_\_\_\_\_

**RESPONDENT INFORMATION**

NAME: \_\_\_\_\_

POSITION: \_\_\_\_\_

QUALIFICATIONS: \_\_\_\_\_

EXPERIENCE (IN YEARS): Private Sector \_\_\_\_\_

Public Sector \_\_\_\_\_

Charity Sector \_\_\_\_\_

**MEMBERSHIP OF PROFESSIONAL BODIES**

1. \_\_\_\_\_ 2. \_\_\_\_\_  
(YEAR QUALIFIED): ( \_\_\_\_\_ ) ( \_\_\_\_\_ )

**AGE AND ETHNICITY:**

Years: 16 – 19	<input type="checkbox"/>	White	<input type="checkbox"/>
20 – 29	<input type="checkbox"/>	Mixed	<input type="checkbox"/>
30 – 39	<input type="checkbox"/>	Asian	<input type="checkbox"/>
40 – 49	<input type="checkbox"/>	Black	<input type="checkbox"/>
50 – 59	<input type="checkbox"/>	Other	<input type="checkbox"/>
60 – 64	<input type="checkbox"/>		
65 or more	<input type="checkbox"/>		

GENDER: Male  Female

COMPLETION DATE: \_\_\_\_\_

INTERVIEW DATE: \_\_\_\_\_

CONTACT DETAILS: Email \_\_\_\_\_

Tel no \_\_\_\_\_

**THANK YOU VERY MUCH FOR YOUR ASSISTANCE**

Omary Idd Fadhil, Doctoral Research Student,  
University of Aberdeen Business School, Dunbar Street, Aberdeen, AB24 3QY.  
Email: [o.fadhil@abdn.ac.uk](mailto:o.fadhil@abdn.ac.uk)

## **CHAPTER 7: AGGREGATE QUESTIONNAIRE RESULTS**

### **7.1 Introduction**

This Chapter presents the aggregate findings from the questionnaire which was sent to 28 charities registered in Scotland. These had agreed to participate in the research project after 39 charities had been contacted following the procedures explained in Chapter 5. The overall participation rate was 72%. The plan was to have both Chair and CEO from each charity responding independently to the questionnaire and then being interviewed to probe reasons for their questionnaire responses. This gave the expected responses from the participating charities as 56 people.

For different reasons, two CEOs (both were recently employed) and one Chair (refused during the interview) were not willing to participate, thus giving 53 respondents (95% of the possible total). Some respondents did not address all statements, so it is necessary to look at each statement's response rate as a considerable number of non-responses might bias reported results. The results tables in this Chapter have been sorted on the basis of agreement from high to low, though the statement numbering as it appeared in the questionnaire has not been altered. All discussions and analysis precede the Tables or Figures presenting the results.

This Chapter focuses on the aggregate results. Chapter 8 will analyse the differences between groups of respondents, followed by a comparison of matched CEOs and Chairs. Analyses of statistical differences are presented there. Where appropriate, there is also discussion in Chapter 8 of the differences between Financially Non-Vulnerable Charities (FNVCs) and Financially Vulnerable Charities (FVCs).

The findings will be presented in accordance with the main three Sections of the questionnaire. The first Section is about charity Board issues. The second Section is about charity funding and staffing issues. The third Section is about governance, accountability and relationship issues.

### **7.2 The Charity Board**

This Section is organised in three sub-sections which are derived from the results in Part A of the questionnaire. The first sub-section is about Board size, which includes the responses of Chairs and CEOs about optimal Board size and how these reflect actual Board sizes. Further, the sub-section describes the effects of Board size on the possible existence of a dominant inner core or a dominant CEO, then on fundraising ability.

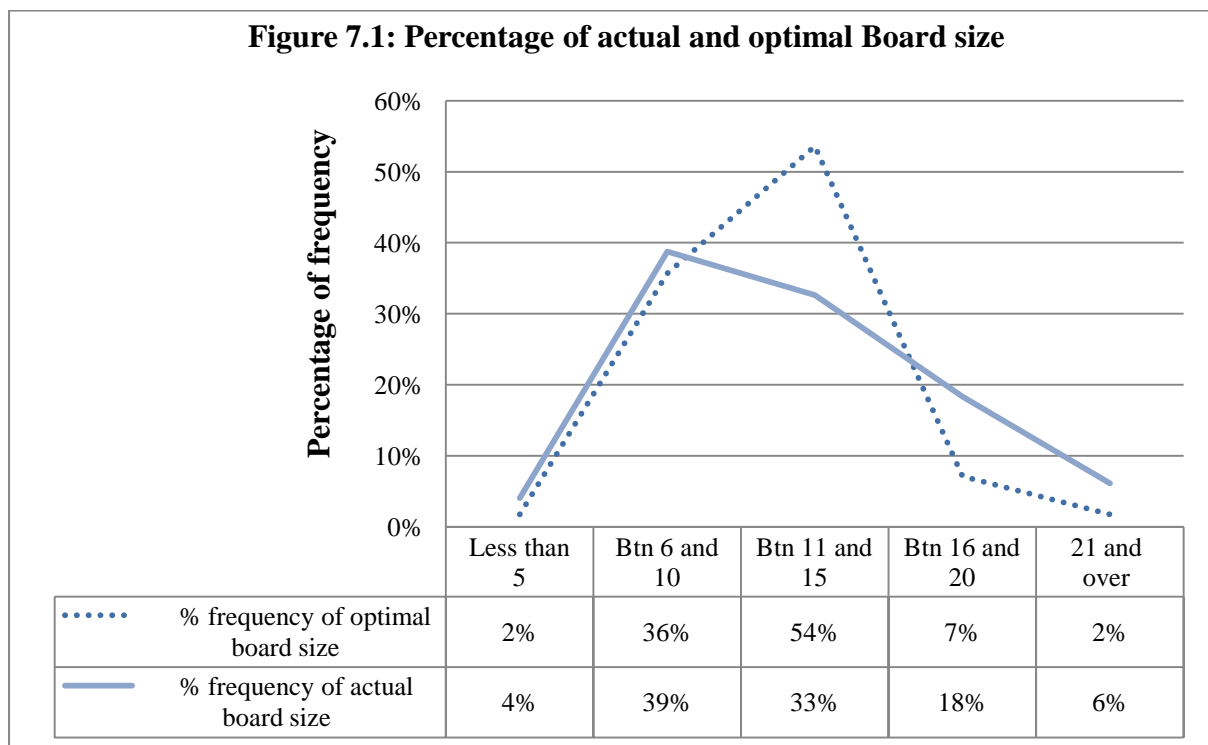
The second sub-section is about Board composition. This focuses on the five types of Board member. The first type is *Directors with specialist expertise* such as business, finance, academic, medical, and other expertise in the public and private sectors. The second type is *Directors who are taking roles in a voluntary capacity beyond being Board members*. These are Directors who are either working as volunteers on the front-line for delivery of charitable services directly to beneficiaries/users, or are doing any other works in their charities which are not Board-related. The third type is beneficiaries/users, usually people who either are directly receiving the charity's services or people whose relatives or children are directly receiving services from charities on which they serve on the Boards. The fourth type is *Directors who are major donors*; these are individuals or institutions which contribute a significant amount of resources which, if ended, will affect the charity's operations. The fifth type is *Directors who are paid employees*; this relates to paid employees working below senior management level. These five types are not mutually exclusive; one Director might fit more than one type while serving on a Board.

The third sub-section is about recruitment and the demographic and employment status of Board members. The discussion on results for recruiting new Board members mainly focuses on whether charities are using methods such as taking personal recommendations from Board members, advertising in the media for Board vacancies, or taking suggestions from other charities. Other discussions on the results include the use of commercial head-hunters or the use of charity brokerage services. Discussion of other methods which are specifically employed by individual charities will also be included whenever applicable. On demographic characteristics, the focus is on the gender, age, ethnicity and employment status of Board members.

### **7.2.1 Board size**

Results on responses of Chairs and CEOs about optimal Board size and how these relate to actual Board size are presented in Figure 7.1. About 90% of respondents perceived an optimal Board size of between 6 and 15 members (ie combining together two of the size bands offered), while 72% mentioned their actual Board size as between 6 and 15 members. There is the possibility that some respondents gave their responses of the optimal Board size based on their actual Board size, as is evidenced in Figure 7.1. Contrary to Oster (1995) who suggested larger non-profit Boards are expected to take advantage of fundraising and other tasks, this is not the case for the participating charities, though there are outliers supporting large Boards. The reasons could be either rewards for large Boards are not important to these

charities or there is a problem of recruiting new Board members to satisfy the needs of the charities.



**Note:**

1. **Optimal Board size:** Care has to be taken when interpreting these responses because one CEO did not answer and four Board Chairs answered two options each. The option for responding on more than one band of optimal Board size means the frequency total does not necessarily equal that of respondents.
2. **Actual Board size:** Four people from different charities did not respond to this statement (ie two CEOs (Charity 9 and Charity 25) and two Chairs (Charity 23 and Charity 24)).

Results on the effects of Board size on the existence of a dominant inner core, or on a dominant CEO, as well as on a charity’s fundraising ability, are presented in Table 7.1 below. Four statements about Board size required a respondent to score them on a Likert scale. The column headings are self-explanatory. Agreement combines: Strongly Agree (5) and Agree (4). Disagreement combines: Disagree (2) and Strongly Disagree (1). The responses naturally depended on how the statements had been worded. If the statements had been worded in the opposite way, the response would change from Agree to Disagree, and vice versa.

On all the statements reported in Table 7.1, a very high percentage of respondents provided answers (94%–98%). A majority of respondents (56%) agreed with the statement *A Board with a large number of members leads to a dominant inner core prevailing over other Board members* while 17% disagreed. Respondents were asked to answer according to the experience of their own charities. This statement was expected to have a strong proportion of

agreement. This is in accordance with the literature which suggests two main effects of large Board size. One is the increase in communication and coordination problems as group size increases, and the other is the reduction in the Board's ability to control management (Eisenberg et al, 1997). However, some studies suggest that large Board size could provide the diversity and expertise that would help charities to secure crucial resources and would reduce the uncertainties facing the organisation (Pfeffer, 1987; Pearce and Zahra, 1992).

The communication problem and decreased Board ability to control the management might lead to the creation of a dominant inner core within a Board. An inner core can formulate the organisation's policies and prepare decision proposals for the Board. The literature suggests that this may be more frequent in small organisations where Boards are more active in management (Murray, 1997). Overall, in relation to all respondents, there is support for the theoretical view that large Boards tend to promote the evolution of a dominant inner core (ratio agreement to disagreement stands at 3.3:1).

Other interesting responses in Table 7.1 were from the remaining three statements which received either a slight majority or highest proportion of neutral responses (58%, 49% and 46%). The research was expecting the results to show the majority of the respondents agreeing with the statement *The existence of a large Board is supportive of fundraising*, but the majority of respondents remained neutral (ie 58%) while only 24% agreed with the statement; the ratio of agreement to disagreement was 1.3:1. This response does not conform to the literature from past studies on the role of Board size on fundraising. The literature suggests that large Board size, which is said to be relatively common among charities, is associated with fundraising and generous giving. Fundraising and other tasks reflected in charities are expected to take advantage of larger non-profit Boards (Oster, 1995). The majority of neutral responses can be associated with two observations on the charities involved in the study. The first is that almost all charities involved had a small number of Board members (Figure 7.1 above); therefore a Board member can decide to remain neutral on the statement when required to answer on the basis of one's own charity. The second issue which could influence neutral responses is some charities' partial or whole dependence on government contracts and grants as a source of income for the fulfilment of charitable objectives. Dependence on government contracts and grants may reduce the likelihood of fundraising being part of the Board's role in these charities. Looking at the 24% of respondents who agree with the statement, some members might be involved with other Boards in small charities which count fundraising as part of the Boards' role. This



explanation in terms of Board involvement in fundraising activities for small charities does not exclude the possibility of some large charities using Board members to fundraise.

Looking at the remaining two statements in Table 7.1, the greater proportions of respondents' answers are neutral (ie 49% and 46%). The research was expecting a majority of respondents to agree with the statement *A Board with a large number of members leads to a dominant chief executive*; the result that 49% of respondents were neutral does not conform to the literature. The research was expecting the majority of respondents to disagree with the statement *A Board with few members leads to a dominant chief executive*, whereas 46% remained neutral and 38% disagreed.

The results from these two statements may reflect two main issues; the first one is the existence of dominant CEOs in charities, as reflected in the literature, but Board size is not the only cause for the existence of dominant CEOs. The second issue is that the statement may have been too sensitive for respondents and that remaining neutral was the best option. Murray (1997) explained dominant CEOs as those who hold the information and prepare decisions for the Board. Looking into this definition, it is clear that most respondents would not like to be perceived to be serving on a rubber-stamping Board. By deciding to remain neutral, the respondent might be sending one of two signals: either a charity is professionally governed in accordance to the laws and regulations or there is a problem of a dominant CEO in charity governance which they were not ready to discuss with the researcher because of its sensitivity.

Summarising the sub-section, it is clear that charities involved in the study do not have large Boards. The view of most respondents on Board size (between 6 and 15) is reflected in actual Board size. Two main issues can also be included in the discussion of the reasons for small Boards. First, the difficulty in recruiting new Board members makes the need for a large Board seem unnecessary for these charities. People serving on the Boards might be motivated by different issues such as prestige and maintaining or building a public image. Second, the nature of the income and size of these charities does not create rewards for having large Boards. The literature suggests charities normally have large Boards; this is not always the case as motivations for large Boards may not exist in most of these participating charities.

**Table 7.1: Effect of Board size**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(iii) A Board with a large number of members leads to a dominant inner core prevailing over other Board members	3.40	4.0	1.00	0.29	52	98%	56%	27%	17%
(iv) The existence of a large Board is supportive of fundraising	3.04	3.0	0.86	0.28	50	94%	24%	58%	18%
(ii) A Board with a large number of members leads to a dominant chief executive	2.76	3.0	0.84	0.30	51	96%	16%	49%	35%
(i) A Board with few members leads to a dominant chief executive	2.73	3.0	0.84	0.31	52	98%	15%	46%	38%

### 7.2.2 Board composition

Table 7.2(a) below shows the types reflected in the composition of charity Boards. Answers from Chairs and CEOs are closely aligned, which gives confidence in these responses. The types of Director are not mutually exclusive (Directors may fit more than one category). *Directors with specialist expertise* were found to dominate the charity Board member types, followed by members taking other roles in a voluntary capacity, and beneficiaries/users. Major donors and paid employees were found to be not very common on charity Boards. These types are then reflected in the discussion of their effect on charity efficiency, effectiveness on meeting objectives, representation of stakeholders, legitimacy and conflict of interest.

**Table 7.2(a): Number and percentage of types of Board member**

BOARD COMPOSITION	Total aggregate number and percentages mentioned by			
	Chairs		CEOs	
	Aggregate number	% of total aggregate number	Aggregate number	% of total aggregate number
Directors with specialist expertise	199	53%	189	53%
Taking other roles in voluntary capacity	90	24%	92	26%
Beneficiaries/Users	49	13%	53	15%
Major donors	23	6%	7	2%
Paid employees	16	4%	17	5%

**Note:** Respondents were told that a person may serve in more than one category. The questionnaire did not ask about elected members to Boards. Also, there were three charities where only one of the Chair and CEO responded.

The effects of Board composition are addressed in Tables 7.2(b) to 7.2(f); the layout of each follows the pattern established by Table 7.2(a). These report highly structured statements intended to probe the differences between types of Director. The participants were asked to give their response based on the types of Director serving on their own charity Board. This gave some statements a high response, others a low response depending on the types of serving Director. The discussion below focuses on the statements which received a high response rate.

Focusing on Table 7.2(b), a very high proportion of respondents agreed with statements concerning efficiency, effectiveness and legitimacy. *Directors with specialist expertise act as a mechanism for monitoring the efficiency of a charity* recorded 90% agreement, a ratio of 15:1. The parallel statement about effectiveness also recorded 90% agreement (ratio 23:1). This supports stakeholder theory as explained by Mitchell et al (1997) in line with the three attributes of legitimacy, urgency and power. Stakeholders who possess all three attributes, who are described as ‘definitive stakeholder’, seem to be referred to in charities as ‘salient stakeholders’.

The research expected the responses to these statements to conform to literature and to record high proportions of agreement. Literature suggests that it is very difficult to measure efficiency and effectiveness in NPOs. Some literature defines efficiency as the ratio of output per unit of input (in charities this might be the cost per charitable service), whereas effectiveness is the relationship between the output results of a charity and its objectives. Although it is difficult to assess the effectiveness of NPOs (Miller-Millesen, 2003), different ways of measuring effectiveness have been used. For example, Bradshaw et al (1992) found effectiveness being measured by the extent of avoiding deficits and overseeing three consecutive years of budget growth. Where there is no proper corporate governance and no consensus on the Board on how to measure efficiency and effectiveness, members tend to monitor in ways that reflect their personal or professional competency (Miller, 2002). However, when Directors with specialist expertise use their personal or professional competency to monitor performance in their charity, this might create conflict and confusion between governance roles and management roles.

The statement about legitimacy generated strong agreement: 86% agree, with a ratio of 43:1. The result conforms to research expectation. This linked to the roles that Directors with specialist expertise play on efficiency and effectiveness. Slim (2002) described ‘legitimacy’ as *‘the status instilled and perceived at any particular time that enables an organisation to*

*operate with the consent of the general public, Governments and other organisations'*(p.6). Thus legitimacy is morally and legally driven; having Directors with specialist expertise is a positive sign to stakeholders that the charity is run efficiently and effectively. The existence of information asymmetry in charities prompts the sending of signals to outsiders that a charity is run efficiently and effectively to earn legitimacy in the perceptions of different stakeholders. One way to show this is for Directors with specialist expertise to serve on Boards. This brings different knowledge to charities as the literature suggests; performance, support and knowledge give added value to a charity's legitimacy. Charities seek donations in different forms; by having Directors with specialist expertise they could be obtaining consultancy free of charge.

A majority (56% of respondents) agreed with the statement *Directors with specialist expertise are seen to represent the interests of stakeholders in a charity* (ratio 3:1). The research expected majority disagreement. Charities have diverse types of stakeholders (this will be discussed later) which makes it difficult for these to be represented by Directors with specialist expertise or by any single group of Directors. The response may show a signal being sent to external stakeholders that the charity is representing their interests by operating professionally.

The research was expecting a disagree response to the statement *Directors with specialist expertise may give rise to conflicts of interest in a charity*. On this 13% agree, 71% disagree (ratio 1:6). This is common when asking questions about possible conflict of interest; it is always difficult for respondents to agree.

**Table 7.2(b): Effects of Directors with specialist expertise**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(i) Act as a mechanism for monitoring the efficiency of a charity	4.39	5	0.83	0.19	51	96%	90%	4%	6%
(ii) Act as a mechanism for monitoring the effectiveness of a charity at meeting its objectives	4.36	5	0.85	0.20	50	94%	90%	6%	4%
(iv) Increase the legitimacy of a charity with current and potential funders	4.14	4	0.78	0.19	50	94%	86%	12%	2%
(iii) Are seen to represent the interests of stakeholders in a charity	3.56	4	1.07	0.30	48	91%	56%	25%	19%
(v) May give rise to conflicts of interest in a charity	2.06	2	1.19	0.58	48	91%	13%	17%	71%

Concerning the sub-section about Directors who take on other roles in a voluntary capacity (Table 7.2(c)), it was made clear to respondents that this referred to voluntary activities in that charity beyond their role of being Directors. A significant proportion of respondents agreed with statements concerning ‘effectiveness’, ‘interests of stakeholders’, ‘efficiency’ and ‘legitimacy’. The proportion of statement responses ranges from 70% to 74%.

The statement *Directors who also take other roles in voluntary capacity act as a mechanism for monitoring the effectiveness of a charity at meeting its objectives* received 69% agreement, with the ratio of agreement to disagreement being 6.9:1. This was then followed by the statement *Directors who also take other roles in voluntary capacity are seen to represent the interests of stakeholders in a charity* which recorded 65% agreement, a ratio of agreement to disagreement of 4.6:1. The statement *Directors who also take other roles in voluntary capacity act as a mechanism for monitoring the efficiency of a charity* recorded 62% agreement, with the ratio of agreement to disagreement being 4.8:1. These responses conform to the researcher’s expectations and a study conducted by Miller-Millesen (2003) who found that effective Boards of Directors were engaging in policy formation, strategic planning, programme monitoring, financial planning and control, resource procurement, Board development and dispute resolution. When carrying out voluntary work beyond their role as Directors, Board members are not only donating in kind, but are learning about front-line operations which help them to formulate strategies.

The statement on ‘legitimacy’ received 56% agreement, a ratio of agreement to disagreement of 4:1. When Board members are working in a voluntary capacity and seen by other stakeholders, it sends a powerful signal to other stakeholders that the charity is legitimate which sometimes may give encouragement to potential stakeholders to commit themselves to that charity. Board members working in a voluntary capacity increase their visibility to stakeholders which Brown (2005) suggested could bring a sense of legitimacy to the organisation by working with or representing stakeholders. However, Chapter 8 will show contrasting views on this issue between groups of respondents.

The statement *Directors who also take other roles in voluntary capacity may give rise to conflict of interest in a charity* recorded 68% disagreement against 13% agreement. This meets the expectation of the research, that while including in the questionnaire variables, this was a sensitive question which might find respondents disagreeing to its legal nature. It was important to include all variables regardless of their sensitive nature to invite responses on charity governance: the concept of conflict of interest is sensitive and complex in most

organisations. If the problem does exist, few people may be willing to acknowledge this or talk about it (disagree in terms of the questionnaire) or to express a neutral view (18% of total respondents).

**Table 7.2(c): Effects of Directors who also take other roles in voluntary capacity**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(ii) Act as a mechanism for monitoring the effectiveness of a charity at meeting its objectives	3.82	4	1.00	0.26	39	74%	69%	21%	10%
(iii) Are seen to represent the interests of stakeholders in a charity	3.70	4	1.02	0.28	37	70%	65%	22%	14%
(i) Act as a mechanism for monitoring the efficiency of a charity	3.74	4	1.07	0.29	39	74%	62%	26%	13%
(iv) Increase the legitimacy of a charity with current and potential funders	3.51	4	1.05	0.30	39	74%	56%	28%	15%
(v) May give rise to conflict of interest in a charity	2.21	2	1.04	0.47	38	72%	13%	18%	68%

Focusing on Table 7.2(d), beneficiaries/users received response rates between 57% and 60%. The statements on *'the interests of stakeholders'* and *'legitimacy'* received the highest proportions of agreement, 91% and 88% respectively. The statement *Directors who are beneficiaries/users are seen to represent the interests of stakeholders in a charity* has the ratio of agreement to disagreement standing at 15:1, whereas the ratio for the statement *Directors who are beneficiaries/users increase the legitimacy of a charity with current and potential funders* stands at 29:1. These results were expected by the research. Literature suggests that, when beneficiaries are included on a Board, they not only represent the interest of beneficiaries but also increase the legitimacy of the charity to stakeholders.

The statements on *'efficiency'* and *'effectiveness'* also received high proportions of agreement. The statement *Directors who are beneficiaries/users act as a mechanism for monitoring the effectiveness of a charity at meeting its objectives* received 83% of agreement, with no disagreement. The statement *Directors who are beneficiaries/users act as a mechanism for monitoring the efficiency of a charity* received 69% agreement, with a ratio of agreement to disagreement of 6:1.

The statement *Directors who are beneficiaries/users may give rise to conflict of interest in a charity* recorded 50% disagreement, with 31% expressing agreement and 19% expressing neutrality. Someone who has a conflict of interest cannot be viewed as building legitimacy, or monitoring the effectiveness or efficiency of the organisation. The expectation was for more to agree with the statement, based on the literature which suggests that when beneficiaries are included on a Board this might create a situation where they would protect areas where they are benefiting, by influencing policies which favour those areas.

**Table 7.2(d): Effects of Directors who are also beneficiaries/users**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(iii)Beneficiaries/users, are seen to represent the interests of stakeholders in a charity	4.38	4.5	0.94	0.22	32	60%	91%	3%	6%
(iv)Beneficiaries/users, increase the legitimacy of a charity with current and potential funders	4.28	4	0.77	0.18	32	60%	88%	9%	3%
(ii)Beneficiaries/users, act as a mechanism for monitoring the effectiveness of a charity at meeting its objectives	4.2	4	0.71	0.17	30	57%	83%	17%	0%
(i)Beneficiaries/users, act as a mechanism for monitoring the efficiency of a charity	3.91	4	1.03	0.26	32	60%	69%	19%	13%
(v) Beneficiaries/users, may give rise to the conflict of interest in a charity	2.75	3	1.08	0.39	32	60%	31%	19%	50%

The focus on major donors in Table 7.2(e) shows low statement response rates between 38% and 40%. The low response rates might be due to participating charities being less likely to have major donors. Some of these charities' major sources of funding are government contracts and the charging of service fees. Leaving aside the low response rate, 76% agree on legitimacy to current and potential funders being brought by the presence of major donors on Boards. This agrees with Fama and Jensen (1983), who maintained that major donors are essential in monitoring the efficiency of non-profit organisations. Major donors on Boards help to minimise contracting costs by acting as a credible signal to other donors that the goods or services supplied by the organisation are of reasonable quality and that resources are not being misappropriated by management (Callen et al, 2003).

**Table 7.2(e): Effects of Directors who are also major donors**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(iv) Major donors, increase the legitimacy of a charity with current and potential funders	3.86	4	1.24	0.32	21	40%	76%	10%	14%
(v) Major donors, may give rise to the conflict of interest in a charity	3.10	4	1.41	0.45	20	38%	50%	15%	35%
(iii) Major donors, are seen to represent the interests of stakeholders in a charity	2.90	3	1.37	0.47	21	40%	43%	19%	38%
(ii) Major donors, act as a mechanism for monitoring the effectiveness of a charity at meeting its objectives	2.80	3	1.15	0.41	20	38%	30%	30%	40%
(i) Major donors, act as a mechanism for monitoring the efficient of a charity	2.81	3	1.21	0.43	21	40%	29%	29%	43%

Paid employees serving on Boards elicited mixed responses. This implies that few paid employees, other than executive Directors, serve on Boards. Internal policy in some charities may exclude paid employees from serving in that capacity.

Table 7.2(f) received very low response rates for the reasons discussed above. The results show response rates of between 36% and 42%. There is a spread on answers. This implies few participating charities currently have this type of Board member. Using the Table to draw conclusions might give a biased view of this type of Director.

Summarising the sub-section, it is clear from the results on Board composition that charities are seeking people of different types of background, but mostly those with professional expertise to serve on their Boards. The difficulties in measuring performance in charities makes Directors who are recognised in public and business serve as a signal of legitimacy and of successful running of charities. Not only is using Directors with specialist expertise the best way for charities to legitimise themselves to their stakeholders, but also having Board members who are willing to work in a voluntary capacity is seen as useful, using the skills and expertise of Board members free of charge. This implies charities are keen to attract Directors who can donate their expertise in other roles beyond serving on the Board.

Beneficiaries/users are also Board members in some charities. Some charities are less likely to have beneficiaries/users serving directly on the Board because of biological or legal status (eg animals, children or people who are vulnerable). However, some charities include



representatives of beneficiaries/users on their Boards. Having only a small number of major donors serving on Boards can be an indication that the funding for these charities does not depend upon these major philanthropists, but depend on other types of funding (eg government contracts, and small donations). This is contrary to findings by Callen et al (2003) who found a significant statistical association between the presence of major donors on the Board and indicators of organisational efficiency. But also contradicts resources dependence nature of charities. Even though few individual major donors are serving on charity Boards, some charities have included representatives of their main sources of funding, such as representatives from local councils.

**Table 7.2(f): Effects of Directors who are also paid employees other than executives**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(ii) Act as a mechanism for monitoring the effectiveness of a charity at meeting its objectives	3.05	3	1.61	0.53	19	36%	47%	11%	42%
(iii) Are seen to represent the interests of stakeholders in a charity	3.05	3	1.39	0.46	20	38%	45%	20%	35%
(i) Act as a mechanism for monitoring the efficiency of a charity	3.23	3	1.51	0.47	22	42%	41%	27%	32%
(v) May give rise to the conflict of interest in a charity	3.10	3	1.25	0.40	20	38%	40%	25%	35%
(iv) Increase the legitimacy of a charity with current and potential funders	2.90	3	1.34	0.46	21	40%	33%	29%	38%

### 7.2.3 Recruitment, demographic and employment status of Board members

Information about the demographic characteristics and employment status of Board members has been obtained directly from the questionnaire responses. The percentages cited below are those provided by CEOs. The numerical differences seen between Chairs and CEOs in Table 7.3(a) resulted from the three refusals and from some respondents not answering fully. The research found charity Boards being dominated by white people in the ratio of 98:1, a demographic reflected in the 2001 Scotland census results. The majority of Board members were found to be male (66%), the ratio of males to females standing at 2:1. The proportion of Board members aged 50 years or above was 81% and those aged 60 years or above 50%. This indicates the great majority of Board members are either approaching retirement or are above the 'normal' retirement age.

A large proportion of Board members being of middle or retirement age indicates that monetary gain is not a major motivation for people to serve on charity Boards. Section 67 of

*The Charities Trustee and Investment (Scotland) Act 2005* requires Board members to serve in a voluntary capacity (ie prevented from being paid), except in particular circumstances:

- 1) A charity trustee may not be remunerated for services provided to the charity (including services provided in the capacity as a charity trustee or under a contract of employment) unless subsection (2) entitles the trustee to be so remunerated.
- 2) Where a charity trustee of a charity—
  - (a) Provides services to or on behalf of the charity, or
  - (b) Might benefit from any remuneration for the provision of such services by a person with whom the trustee is connected,

The statutory provision above might have a direct negative impact on attracting people with specialist expertise willing to serve on charity Boards while in the early years of their careers. This may be one of the challenges facing charities in attracting young people with professional expertise. When focusing on Table 7.3(a) below, it shows only 48% of Board members are in full-time employment or are self-employed. This leaves the proportion of Board members who are either retirees, part-time employed or not known contributing 52% of Board members.

**Table 7.3(a): Demographic characteristics and employment status of Board members**

	Frequency of demographic number and percentage of responses from Chairs and CEO			
	Chairs		CEOs	
	Frequency (f)	% of total (f)	Frequency (f)	% of total (f)
Male	189	65%	180	66%
Female	103	35%	91	34%
Age between 16 - 19	0	0%	0	0%
Age between 20 - 26	1	1%	0	0%
Age between 30 - 39	9	5%	6	4%
Age between 40 - 49	23	14%	25	15%
Age between 50 - 59	41	25%	51	31%
Age between 60 - 64	44	27%	40	25%
Age between 65 or above	47	28%	40	25%
White (number)	263	99%	244	98%
Mixed (number)	0	0%	0	0%
Asian (number)	0	0%	4	2%
Black (number)	0	0%	1	0%
Other (number)	4	1%	0	0%
Full time or self-employed	145	49%	127	48%
Part time employed	24	8%	21	8%
Retired	106	35%	113	43%
Not known	24	8%	2	1%

Focusing on Board member recruitment, the results in Table 7.3(b) indicate that ‘*taking personal recommendations*’ is the most popular method, mentioned by 52% of Chairs and

53% of CEOs. This practice may have the effect of having people who are pre-connected to the current Board members being given first priority to be invited to serve on charity Boards. This may limit the chances for willing people not connected to current Boards to be appointed to serve. Methods of recruitment such as advertising in the media and taking suggestions from other charities are used to widen the choice of people suitable to serve on charity Boards.

Summarising the sub-section, in addition to questionnaire results, it was clear from the face to face interviews that most charities rely on middle-aged or retired people who work, or had worked, in the private and public sectors to serve as Board members. The gender gap between males and females serving on charity Boards might be a result of Board recruitment methods which heavily rely on personal recommendations from existing Board members.

**Table 7.3(b): Board recruitment methods**

	Frequency for Board recruitment methods			
	Chairs		CEOs	
	Frequency (n)	% of total (n)	Frequency (n)	% of total (n)
Taking personal recommendations	24	52%	21	53%
Advertises in the media	13	28%	11	28%
Takes suggestions from other charities	5	11%	7	18%
Uses commercial head-hunter	4	9%	1	3%
Uses charity brokerage services	0	0%	0	0%
Other	0	0%	0	0%

#### **7.2.4 Lessons from charity Boards**

Charities are increasingly important contributors to the economy. Due to their increasing role, they are adopting a business model in their operations. This is evidenced by the research findings on how most charities are focusing on attracting people with different backgrounds to serve on their Boards. Using people with specialist expertise from the business and public sectors on their Boards brings different talents and knowledge to the charity sector and helps to meet their charitable objectives. As part of the voluntary sector, it is clear from the research that people serving on charity Boards are those seeking non-monetary gains such as public recognition or in some cases having someone closely related to them receiving services provided by that charity. Another reason might be to network with people who are successful in the private sector who are also serving on charity Boards.

Most literature on NPOs involves studies conducted in the USA and Canada which suggest that the majority of people who serve on charity Boards are male. This has proved to be the case in these participating charities from a sample derived in Scotland. Being on a charity Board may serve different purposes; one might be the use of a Board position as a place for creating networks of people with different views and backgrounds. Other charity Board membership might be more about prestige based on the nature of charitable activities.

Measuring charity performance is a difficult subject, especially in the absence of performance indicators like profitability or share price as in the for-profit sector. Charity Board composition can send a good signal on the performance of charities to stakeholders. This can be in the form of including people on the Boards who are working or have been working in private sector companies which are performing well. Others include publicly recognised people who are working in or have worked in the public sector. Clearly this sends a powerful signal to stakeholders that a charity is doing well at meeting its objectives.

Due to the difficulty of recruiting Board members, some were found to serve in more than one charity in the same or different capacity. For example, some Chairs and CEOs are working in other charities. A CEO in one charity can work as a Board member or Chair in another which is not considered as a competitor in the same expenditure category. This practice might be good in promoting small charities but might have two effects. When both charities are submitting bids for government contracts, there may be a conflict of interest. There is potential for creating growth and expansion of services in small charities when Board members, who are serving in large charities, share their expertise and experience on how to attract more funding. Van der Walt and Ingley (2003) found strong support in the literature for the idea of diversity, at least in a social and moral sense. However, Boards need to focus foremost on merit criteria for member selection that comprise qualified individuals which include gender diversity and a range of expertise, experience and ethnicity.

### **7.3 Charity Funding and Staffing Issues**

This Section focuses on sources of funding, the impact of recession and charity staffing issues. There are three sub-sections. First, there is a report of results on sources of funding and their riskiness before the recession. This period is associated with steady economic growth in the United Kingdom, which also saw growth in the charity sector. Second, the results look at sources of funding and their riskiness during the recession. This period was accompanied by uncertainties on funding for charities, hence the discussion will include

actions taken to ensure continued meeting of their charity's objectives. Third, the results look at sources of funding and their riskiness in the future. This part will discuss responses on expected future income change, at the time the fieldwork was conducted. It also includes a discussion on the current funding situation which charities are facing.

The Section also looks at the impact of recession on charity governance and operations, specifically on the responses to reduced funding and greater riskiness. Furthermore, it will look into the respective roles of Board and Management Team.

The final discussion considers issues relating to senior management and other employees below management level, specifically looking at whether remuneration is above the market rate, at the market rate or below the market rate for the job. The Section will also look at volunteer-paid employee relationships.

### **7.3.1 Charity responses to reduced funding or greater riskiness of funding**

This sub-section discusses three tables (7.4(a), 7.4(b) and 7.4(c)), each of which arranges Likert scale statements in declining order of percentage agreement. Prior to responding to this part, respondents were asked if their charity had been subject to reduced funding or greater riskiness; 49 responded 'Yes' (92% of the total participants).

Table 7.4(a) concerns respondents' descriptions of past (ie retrospective) reactions to reduced funding or greater riskiness of funding. Statement response rates range from 79% to 92%. A very high proportion of respondents (82%) agree with the statement *Reduction of funding has forced our charity to reduce its expenditure*, with 16% disagreement, a ratio of agree to disagree of 5:1. Reduction in expenditure by charities can be reflected in different actions taken. For example, there have been employment reductions at management level and management restructurings to reduce costs. Expenditure reduction has more effect on the management level than on front-line employees. In contrast, there is 68% disagreement on the statement *Our charity has reduced expenditure but this has involved reducing the services provided to beneficiaries/users*, the ratio of agree to disagree being 0.33:1. This response might be sending a signal that, although charities are reducing their costs, they are committed in providing charitable services and that they are still devoted to serving the public.

The statement *Our charity has reduced expenditure by increasing efficiency without reducing the services provided to beneficiaries/users* was agreed by 79% of respondents, the ratio of agree to disagree being 7.2:1. This response suggests the existence of low efficiencies in charities prior to the 2008 recession. But it can support the suggestion that some charities had

Unrestricted Funds,<sup>5</sup> which could be diverted to any charitable cause by management, including to programmes which are inefficient. Facing uncertainties about future funding, charities might have started to think beyond one operating period. Their strategies might have changed to being more forward-looking, rather than meeting short-term objectives. This situation might have forced charities towards being more efficient and diverting some of the income surplus to reserves for future activities. Moreover, 67% agreed to the statement *Our charity has scope to increase its efficiency without reducing the services provided to beneficiaries/users*, with 22% disagreement, a ratio of agree to disagree of 3:1. This agreement fits with the explanations given above. Charities may have scope to increase efficiency by eliminating programmes which were not important in providing core charitable services and reducing administrative expenditure; other measures include management restructurings, where some charities have merged some of their top management posts and forced redundant managers to resign.

Respondents also agreed (57%) with the statement *Our charity has reduced expenditure by reducing the number of paid management-level staff* with 33% disagreement, a ratio of agree to disagree of 1.73:1. This response follows the explanations given above: charities made management restructurings after the 2008 recession which was reflected in their annual reports. There is equal agreement and disagreement about the statement *Our charity has reduced expenditure by reducing the number of paid operational staff*: 44% of respondents agreed with the statement and the same proportion disagreed. Some charities reduced the number of operational staff as a cost-saving measure to cope with reduced funding. Charities might reduce the number of operational staff if they are redundant or their jobs can be performed effectively using fewer staff.

On volunteers, there is 88% disagreement with the statement *Our charity has reduced expenditure by reducing the number of volunteers (ie those working without payment, but excluding the undertaking of Board duties)* with only 2% agreeing to the statement. This points to two main issues: first, the use of volunteers may be limited (ie there is a small number of volunteers) in these charities so that reducing their number will have little impact on the overall expenditure. Second, jobs performed by volunteers may require close

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<sup>5</sup> Section 67 of SORP (2005) described 'unrestricted' funds (sometimes called a 'general' fund) as funds available to the trustees to apply for the general purposes of the charity as set out in its governing documents. The trustees may earmark part of the charity's unrestricted funds to be used for particular purposes in the future. Such sums are described as 'designated funds' and should be accounted for as part of the charity's unrestricted funds.

supervision from full-time employees. Reducing the number of volunteers who require supervision can lead to the reduction of supervisors, thereby reducing costs. But if volunteer jobs are different from those of the paid employees, it will be difficult for charities to determine the full-time equivalents (FTEs).<sup>6</sup>

The FTEs can be useful in giving an estimate of how many full-time paid jobs have been avoided when charities are using volunteers, especially when there is no distinction between jobs performed by volunteers and those performed by paid employees. The costs avoided by using volunteers can be in the form of salaries and other related employment costs. When respondents disagree (88%) that they have reduced expenditure by reducing the number of volunteers, this may indicate that the benefit of using volunteers is higher than the cost of retaining them (eg transportation, supervision or even providing lunch).

**Table 7.4(a): Response to reduced funding or greater riskiness of funding (Retrospective)**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(i) Reduction of funding has forced our charity to reduce its expenditure	3.98	4	1.18	0.30	49	92%	82%	2%	16%
(ii) Our charity has reduced expenditure by increasing efficiency without reducing the services provided to beneficiaries/users	4.09	4	0.97	0.24	47	89%	79%	11%	11%
(iv) Our charity has scope to increase its efficiency without reducing the services provided to beneficiaries/users	3.53	4	1.23	0.35	49	92%	67%	10%	22%
(v) Our charity has reduced expenditure by reducing the number of paid management-level staff	3.31	4	1.54	0.47	49	92%	57%	10%	33%
(vi) Our charity has reduced expenditure by reducing the number of paid operational staff	2.98	3	1.49	0.50	48	91%	44%	13%	44%
(iii) Our charity has reduced expenditure but this has involved reducing the services provided to beneficiaries/users	2.36	2	1.33	0.56	47	89%	23%	9%	68%
(vii) Our charity has reduced expenditure by reducing the number of volunteers (ie those working without payment, but excluding the undertaking of Board duties)	1.50	1	0.77	0.52	42	79%	2%	10%	88%

Table 7.4(b) deals with responses to reduced funding or greater riskiness of funding in the present. Statement response rates range from 83% to 91%. On the statement *Our charity will*

<sup>6</sup> Full time equivalents can be determined by taking the total number of hours worked by volunteers in a week, then divide by the number of hours worked by a full time employee per week (say 40 hours per week). This will give an equivalent number of full time paid employees from the hours worked by volunteers.

*seek to increase the size of General Funds relative to Restricted Funds*, 66% of respondents agree with 20% disagreement, a ratio of agree to disagree of 3.3:1. Majority agreement indicates there is a growing pattern in charity funding, especially coming from the Government (eg contracts and grants), toward Restricted Funds. Programme-based funding puts charities in a difficult position. This pattern can force charities to reshape their core charitable services and give more power to funders by forcing charities to focus on funders' policies and requirements. When this happens, it can create 'policies antagonism' (ie a charity's policies and funders' policies contradict): one example is when a Catholic-affiliated charity is given funds to fight the spread of HIV, which require the charity to provide free condoms to recipients. This can remove the relevance of both the Board and the management in setting and implementing the charities' own policies, and force the acceptance of the funder's policies or lose the funding. Sometimes charities may be required to enter into a 'forced merger' in an attempt to create collaboration between diverse charities. One of the biggest problems with Restricted Funds is that the charity is always piecing together project/programme funding, and little is left for the administrative core of the charity. Without that core there is no charity and yet very few funders will allow their funds to be directed towards administrative costs. This compares to the General Fund where charities have discretion to use resources to suit their programmes and policies. Agreement with the statement implies charities are now seeking more funding freedom rather than being tied down with Restricted Funds.

The statement *Our charity is seeking other sources of funding which would be less risky* received 60% agreement with 17% disagreement, a ratio of agree to disagree of 3.5:1. Majority agreement on the statement may indicate some charities think they have been subjected to more risky funding portfolios. For example, government contracts and grants can change with changing politics. Another segment of income which has been hit by recession is public donations. Most charities depending on small and big donors are facing the prospects of reduced donations and the need to think about expanding their funding portfolios.

The statement *Our charity will have sufficient funding available to continue to provide the same level of some services but other services will have to contract* received 49% agreement with 28% disagreement, a ratio of agree to disagree of 2:1. Majority agreement indicates that charities may be willing to adopt policies which contradict their own stated aims, and be willing to contract out part of their services to charities which have different objectives. This



may be the best strategy to adopt to meet the requirement of funders while avoiding ‘forced mergers’ and compromising core principles and policies. This statement is also forward-looking and is therefore repeated in Table 7.4(c) for completeness.

The statement that *The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity* received 29% agreement with 44% disagreement, a ratio of agreement to disagreement of 0.66:1. Majority disagreement on the statement may indicate that these large charities have employed people who are experts in managing the two types of Funds and ensuring that they distinguish these during the budgetary process. Another possibility may be that charities receiving more Restricted Funds may have put accounting procedures in place to solve this problem. On the other hand, charities may have more General Funds which allow them have more flexibility in the budgeting process.

The statement *Our charity has established other sources of funding which are less risky* receives 26% agreement with 48% disagreement, a ratio of agree to disagree of 0.54:1. Majority disagreement indicates that charities are still struggling to establish new sources of funding. These sources might be the charging of reasonable charitable fees which can allow charities still to comply with the requirement of providing public benefits. Although some charities are charging, eg membership fees, it is not clear if people who cannot afford paying these fees can be excluded. There is the possibility of changing the nature of how charities provide benefits if charities adopt business-type service provision. But this has consequences for tax liabilities and the requirements of the laws guiding the provision of charitable services.

**Table 7.4(b): Response to reduced funding or greater riskiness of funding (Present)**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(xv) Our charity will seek to increase the size of General Funds relative to Restricted Funds	3.68	4	1.18	0.32	44	83%	66%	14%	20%
(xii) Our charity is seeking other sources of funding which would be less risky	3.54	4	0.97	0.27	48	91%	60%	23%	17%
(xi) Our charity will have sufficient funding available to continue to provide the same level of some services but other services will have to contract	3.28	3	1.14	0.35	47	89%	49%	23%	28%
(xiv) The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity	2.85	3	1.27	0.45	48	91%	29%	27%	44%
(xiii) Our charity has established other sources of funding which are less risky	2.65	3	1.08	0.41	46	87%	26%	26%	48%

Table 7.4(c) deals with responses to the possibility of future reductions in funding or greater riskiness of funding in the future and received strong statement response rates ranging from 89% to 91%. The Table shows more split responses. Statement (xi) *Our charity will have sufficient funding available to continue to provide the same level of some services but other services will have to contract* is a repetition of that contained in Table 7.4(b), where 49% agree with 28% disagreement, a ratio of agree to disagree of 2:1. Only 40% agreed that services could be provided at the same level, whereas 48% disagreed. However, only 29% of respondents agreed that their charity will become smaller in terms of expenditure and activities because of reduced funding, a ratio of agree to disagree of 0.59:1.

The statement *Our charity will have sufficient funding available to continue to provide the same level of all services* received 40% agreement. The split response on the statement may indicate signalling behaviour. For example, 48% disagreement with the statement (a ratio of agree to disagree of 0.83:1) may be because respondents were signalling that charities are in a very difficult funding period. Those who agree that their charities have sufficient funding available may want to send the message that their charities are well managed and beneficiaries should not worry about future services. This may, however, send the wrong signal to donors and prompt them to reduce their donations.

On the statement *Our charity expects to become smaller in terms of expenditure and activities because of reductions in funding*, 29% of respondents agree with 49% disagreement, a ratio of agree to disagree of 0.59:1. Majority disagreement with the statement suggests that

charities want to maintain their current operational size. This view contradicts the suggestion that, when charities continue to face difficulties in funding, they will be forced to downsize so that they can cope with the funding challenges. However, this response may be an attempt to send a powerful signal that charities are optimistic about their future operations. It may be intended to calm the concerns of beneficiaries/users about receiving the same level of services in future. By showing optimism about their future operations, charities may be indicating that they have proper plans to counter all challenges which might otherwise force them to downsize. Many participating charities have extensive government contracts which gives them confidence that they have safe sources of income. On the other hand, the Government austerity measures may scare some charities about the future of their government contracts. As found in Charity Finance Group (2012), charities are facing tough fundraising climate with increasing competition characterised by significant changes in operating models.

The statement *Our charity expects to become smaller in terms of expenditure and activities because future funding now appears riskier* received 25% agreement with 50% disagreement, a ratio of agree to disagree of 0.5:1. Responses to this statement show that participating charities may have less concern that the risk of future funding can force the downsizing of their charitable operations. If charities throughout their period of operation have been able to expand their asset base, that will help them to overcome the shock caused by recession and survive into the next period of economic growth. More detail about charity survivability will be given in Chapter 8. Literature suggests that a charity's asset base is one of the determinants on how it might be able to overcome financial distress and avoid service disruptions. For example, the National Trust for Scotland was forced to sell off some of its properties (bungalows, byres and farm steadings) to resolve the cash crisis it was facing.

**Table 7.4(c): Response to reduced funding or greater riskiness of funding (Future)**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(xi) Our charity will have sufficient funding available to continue to provide the same level of some services but other services will have to contract	3.28	3	1.14	0.35	47	89%	49%	23%	28%
(x) Our charity will have sufficient funding available to continue to provide the same level of all services	2.85	3	1.20	0.42	48	91%	40%	13%	48%
(viii) Our charity expects to become smaller in terms of expenditure and activities because of reductions in funding	2.73	3	1.34	0.49	49	92%	29%	22%	49%
(ix) Our charity expects to become smaller in terms of expenditure and activities because future funding now appears riskier	2.67	2.5	1.14	0.43	48	91%	25%	25%	50%

## 7.4 Charity Governance and Accountability Relationships

This Section is organised in three sub-sections which discuss the impact of recession on charity governance and regulation as well as accountability relationships. The first sub-section is about the impact of recession on charity governance and operations in the responses of Chairs and CEOs. Further, the sub-section describes the roles of Boards and Management Teams. The second sub-section is about charity regulation and good governance. This focuses on the responses from Chairs and CEOs about regulation and the use of good governance guidance. This sub-section also discusses the cost–benefit analysis of regulation by distinguishing the two jurisdictions: the Scotland-only regulatory environment and the England and Wales and Scotland regulatory environments (cross-border charities). The third sub-section is about accountability relationships. This focuses on the responses from Chairs and CEOs regarding their responsibilities towards different stakeholders.

### 7.4.1 Charity regulations and good governance

Results are shown in Table 7.5, with statement response rates spread between 91% and 98%. As a result of the recession, 75% agree on the general statement *Charity Boards and Management Teams are now more focused on their charity’s survival* with 8% disagreement, a ratio of agree to disagree of 9.37:1. This indicates charities may not be immune to economic troubles. Another concern is on how recession has shaped relationships between Chairs and CEOs. The results show general agreement or disagreement for Chairs and CEOs combined; Chapter 8 will use statistical tests to determine the significance of differences between them. Charities are concerned with their survival, especially when donations are decreasing and

Government starts to focus on the spending reductions. The statement *Our charity's Board and Management Team are now more focused on our charity's survival* received 52% agreement with 27% disagreement, a ratio of agree to disagree of 1.92:1 when it comes to responses about their own charities. This indicates respondents were more willing to express their views on general statements than on statements which relate to their specific charities.

The statement *Charity Boards and Management Teams are now more likely to consider mergers with other charities* received 69% agreement with 12% disagreement, a ratio of agree to disagree of 5.75:1. Responses to this statement can be related to issues concerning charity funding. When funding becomes a problem, charities can be forced to merge with other charities so they can extend services to meet the needs of funders while restricting funding to specific programmes. However, when it comes to their own charities, the agreement rate to the statements decreased, respondents either remaining neutral or disagreeing. For example, the statement *Our charity's Board and Management Team are now more likely to consider mergers with other charities*, received 37% agreement with 35% disagreement, a ratio of agree to disagree of 1.1:1. Although charities are worried about their future, only 27% of respondents agreed with the statement *There is concern about the ability of Charity Boards and Management Teams to make the correct decisions in difficult times*, with 53% disagreement, a ratio of agreement to disagreement of 1:2. This may indicate that respondents were trying to avoid the perception that charities may have people on their Board or in management who do not have expertise on management and running charities.

The statement *Recession has increased demand for the services of our charity* received 49% agreement with 14% disagreement, the ratio of agree to disagree being 3.5:1. When respondents agree on the increase of demand for their services, this may imply that charities need to have enough resources to cope with the increased demand. However, at a time when donations are decreasing, charities may need to use their reserves to meet the demand. Large charities have been able to cope with the increased demand because of their economies of scale. Looking at responses on the statement *Our charity has not been able to meet the increased demand for our services*, this received 23% agreement with 46% disagreement, a ratio of agree to disagree of 0.5:1. This may be an indication that some charities are facing a tough funding climate which reduces their ability to meet the increasing demand for charitable services. However, this may also be a way of sending a signal to stakeholders and to appeal for more donations. Chapter 8, which discusses statistical analyses of results, will make clear the differences between FNVCs and FVCs.

**Table 7.5: Impact of recession on charity governance and operations**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(iv) Charity Boards and Management Teams are now more focused on their charity's survival	3.71	4.0	0.82	0.22	52	98%	75%	17%	8%
(vi) Charity Boards and Management Teams are now more likely to consider mergers with other charities	3.59	4.0	1.00	0.28	51	96%	69%	20%	12%
(v) Our charity's Board and Management Team are now more focused on our charity's survival	3.25	4.0	1.30	0.40	52	98%	52%	21%	27%
(i) Recession has increased demand for the services of our charity	3.39	3.0	1.00	0.29	49	92%	49%	37%	14%
(vii) Our charity's Board and Management Team are now more likely to consider mergers with other charities	2.94	3.0	1.26	0.43	51	96%	37%	27%	35%
(iii) There is concern about the ability of Charity Boards and Management Teams to make the correct decisions in difficult times	2.55	2.0	1.21	0.47	51	96%	27%	20%	53%
(ii) Our charity has not been able to meet the increased demand for our services	2.67	3.0	1.14	0.43	48	91%	23%	31%	46%

#### 7.4.2 Impact of recession on charity governance

Results in this sub-section are shown in Table 7.6 and Table 7.7. Statement response rates in Table 7.6 vary between 15% (for the statement focusing on dual-registered charities) and 100%, while those in Table 7.7 vary between 98% and 100%.

Focusing on Table 7.6, 96% of respondents agree with the statement *The needs of our stakeholders are met by forms of communication other than our annual report and accounts* with 2% disagreement, a ratio of agree to disagree of 48:1. There is 89% agreement on the statement *Our annual report and accounts meet the needs of our stakeholders* with 4% disagreement, a ration of agree to disagree of 22.25:1. This reveals that the major means of communications to charity stakeholders is not by formal financial statements and accounts, though this is important. The technicalities of formal annual reports can be one means for charities to satisfy statutory requirements. This can also be reflected in 50% agreement on the statement *Compliance with the reporting requirements associated with legal status is a costly task for our charity*, with 23% disagreement, a ratio of agree to disagree of 2:1. Reporting of charity accounts requires professional management that can follow rules and procedures after

attending formal training, which is contrary to other stakeholders who did not attend formal accountancy and finance training to interpret professionally prepared accounts. Simplified versions targeting other stakeholders can be a reason why respondents think compliance with reporting requirements associated with legal status is a costly task.

On charity regulation, 83% of respondents agree with the statement that *The requirement for registration with the Office of the Scottish Charity Regulator improves public confidence in the operation of charities* with 8% disagreement, a ratio of agree to disagree of 10:1. There is 38% agreement to 30% disagreement with the statement *Preparing our annual report and accounts in accordance with the Charities' Statement of Recommended Practice (SORP) is a costly task for our charity*, a ratio of agree to disagree of 1.26:1. This indicates the cost of losing public trust for charities might be much higher than the compliance cost, which is also reflected by 61% agreement with the statement *The reporting requirements of the Office of the Scottish Charity Regulator are proportional to the risks of charity failure* with 20% disagreement, a ratio of agree to disagree of 3.05:1. Other responses show the importance of regulation, reflected in the statement *Compliance with the reporting requirements of the Office of the Scottish Charity Regulator is a costly task for our charity* receiving 26% agreement with 42% disagreement, a ratio of agree to disagree of 1:2. This response also reflects Crawford et al (2009), where they concluded that the majority of charities in Scotland are complying with OSCR requirements. On compliance, the statement *Regulation makes our charity more accountable to the Office of the Scottish Charity Regulator than to other stakeholders* has 25% agreement with 58% disagreement, a ratio of agree to disagree of 1:2.

The unexpected response from this sub-section is in the means of communication to stakeholders. While the general-purpose annual reports and accounts of for-profits are prepared to serve different users, the reporting in these large charities seems not to be relying mainly on the general-purpose annual report. Unlike in business, where investors might be interested in annual reports and accounts for investment analysis, charity stakeholders might be different, especially when they trust both Boards and managements. Different charity stakeholders have different interests; while some might be using statutory reports, the majority are using other means of understanding charity performance in terms of meeting charitable objectives.

The rest of the responses in Table 7.6 meet the expectations of the research. Prior to the introduction of Scotland's charity laws and regulations, there had been actions taken by some of those who run charities which reduced public trust in the sector (see Chapter 2). The low

response rate on statement (iii), which required responses from only dual-registered charities, reflects the small number of these charities which participated in the research.

**Table 7.6: Regulation, good governance and accountability relationships**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(ix) The needs of our stakeholders are met by forms of communication other than our annual report and accounts	4.31	4.0	0.71	0.16	51	96%	96%	2%	2%
(viii) Our annual report and accounts meet the needs of our stakeholders	3.98	4.0	0.77	0.19	53	100%	89%	8%	4%
(ii) The requirement for registration with the Office of the Scottish Charity Regulator improves public confidence in the operation of charities	4.02	4.0	0.90	0.22	52	98%	83%	10%	8%
(v) The reporting requirements of the Office of the Scottish Charity Regulator are proportional to the risks of charity failure	3.45	4.0	1.00	0.29	49	92%	61%	18%	20%
(i) Compliance with the reporting requirements associated with legal status is a costly task for our charity	3.31	3.5	1.00	0.30	52	98%	50%	27%	23%
(vii) Preparing our annual report and accounts in accordance with the Charities' Statement of Recommended Practice (SORP) is a costly task for our charity	3.08	3.0	1.03	0.33	50	94%	38%	32%	30%
(iv) Compliance with the reporting requirements of the Office of the Scottish Charity Regulator is a costly task for our charity	2.72	3.0	0.99	0.36	50	94%	26%	32%	42%
(vi) Regulation makes our charity more accountable to the Office of the Scottish Charity Regulator than to other stakeholders	2.60	2.0	1.01	0.39	52	98%	25%	17%	58%
(iii) Dual registration, in Scotland as well as in England, significantly increases the regulatory burden on our charity	2.88	3.0	1.13	0.39	8	15%	13%	63%	25%

The use of good governance guidance is explained in Table 7.7. Respondents agree to all five statements varying between 77% and 89%. Looking at the statement *The use of good governance guidance increases the professionalism of charities*, 89% of respondents agree with the statement with 4% disagreement, a ratio of agree to disagree of 22:1. Also, 87% agree with the statement *Charities should use good governance guidance to improve their governance* with 2% disagreement, a ratio of agree to disagree of 44:1. Respondents agree by 81% to the statement *Charities improve their effectiveness at meeting their objectives by using guidance on good governance* with 4% disagreement, a ratio of agree to disagree of



20:1. These responses conform to the research expectations on the importance of using good governance guidance, though most respondents did not mention the guidance by name. Literature suggests the growing importance of the sector in the provision of public services on behalf of national and local government. This brings the sector into the public spotlight; to build public trust and confidence it is vital for charities, in addition to compliance with existing charity laws and regulations, to make use of good governance guidance.

The importance of good governance guidance is also reflected in the 81% of respondents who agreed to the statement *The use of good governance guidance protects the reputation of charities* with 6% disagreement, a ratio of agree to disagree of 13.5:1. This is also reflected in the 77% who agreed with the statement *Good governance guidance has benefited our charity* with 4% disagreement, a ratio of agree to disagree of 19.25:1.

**Table 7.7: Use of ‘good governance’ guidance**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>
(iii) The use of good governance guidance increases the professionalism of charities	4.19	4.0	0.81	0.19	53	100%	89%	8%	4%
(ii) Charities should use good governance guidance to improve their governance	4.25	4.0	0.81	0.19	53	100%	87%	11%	2%
(i) Charities improve their effectiveness at meeting their objectives by using guidance on good governance	4.06	4.0	0.84	0.21	53	100%	81%	15%	4%
(iv) The use of good governance guidance protects the reputation of charities	4.02	4.0	0.87	0.22	53	100%	81%	13%	6%
(v) Good governance guidance has benefited our charity	4.04	4.0	0.88	0.22	52	98%	77%	19%	4%

### 7.4.3 Accountability relationships

Results in this sub-section are shown in Table 7.8 which has statement response rates varying between 19% and 98%. With the exception of *UK Government* and *Charity advisers*, whose proportions of ‘High’ sense of accountability were below 50%, the rest received ‘High’ responses above 50%. The surprising result in this sub-section is that *Charity’s own employees* took a slightly higher proportion than *beneficiaries/users*, at 96% and 92% respectively. A possible explanation for *beneficiaries/users* ranking second could be that not all charity beneficiaries are human (eg wildlife) to whom the Chair and CEO could be accountable. The 19% statement response rate on *Charity Commission for England and*

*Wales* reflects the operating jurisdiction of most participating charities (ie Scotland); they are not affected by this stakeholder, although there might be a close working relationship between regulators in the two jurisdictions.

Looking at the charity's own employees, this received the highest percentage of Chairs and CEOs who feel highly accountable to them as a signal of support and appreciation for their contribution to the charity. Charity employees are dedicated people who sacrifice other economic opportunities to serve, sometimes at low wages. When charity employees accept low wages, they contribute in kind to charities. Chairs and CEOs consider that they are more accountable to employees than any other stakeholders identified in the questionnaire. For example, delivery of charitable services increases charity credibility especially when beneficiaries who are human beings do not present complaints. It is not necessary that employees have more power to make CEOs and Chairs accountable. However, through trade unions employees can choose to push for increased salary and other benefits, which can make FNVCs become FVCs by accumulating more debts on pension obligations and other related employment benefits. Charity employees can tarnish the image of charities if they are not acting responsibly and honestly. For example, if there are complaints about the quality of services, the public can lose trust in charities which can lead to declining donations. Front-line employees are the core of charity delivery of services; sometimes they do so at low wages and are even willing to volunteer whenever necessary. Though it is a surprise for the Chairs and the CEOs to be feeling more accountable to employees, it is important to know that these are the people who actually perform charitable services.

The second in ranking the sense of accountability from Chairs and the CEOs went to beneficiaries/users, who provide the *raison d'être* of their charities. They are the reasons why people donate to charities and why Government awards contracts and grants. Satisfaction from beneficiaries can be seen as an indication of charities meeting their objectives. Chairs and CEOs having more sense of being accountable to beneficiaries/users, after employees, derives from them being pillars of good public perceptions and of trust about charities. Any complaints or dissatisfaction from beneficiaries/users might send signals to the public that charitable donations and contracts are not put to good use. This can remove public trust and the reason for the charity's existence will be placed in jeopardy. Making sure beneficiaries are well served is a priority for both Chairs and CEOs. Some beneficiaries are paying fees for charitable services and therefore they expect value for money: this may be another reason they are ranked high in accountability relationships.

Volunteers also are very important (77%) as sometimes they serve the same role as employees, except that they are not paid. Although the work done by volunteers may be different from that performed by employees, in most cases volunteers have been very important in displaying the image of a charity to outsiders. As a result of being volunteers they can have access to facilities used for service delivery. If they are not taken as very important they might think that they are not appreciated and sometimes they may not take very seriously the issues of safety and quality service delivery which can endanger beneficiaries' well-being. These are people who may later become employees of charities. Volunteers are sometimes useful in door-to-door fundraising which increases the prospects of charity survival.

Local authorities, which received 72% 'High' from Chairs and CEOs, are very important partners for several charities involved in the research. Local authorities can enter into contracts with charities for delivering services to beneficiaries on their behalf. These are also the main sources of contract income. Chairs and CEOs feel more accountable to them by fulfilling contractual agreements and abiding by the rules and regulations regarding charity operations in their respective areas. After the 2008 recession, some local authority facilities were shut and contracts were given to charities to run them at reasonable cost.

Looking at the external auditor, who received 71% 'High', it is clear that charities do not want their image tarnished. If a qualified audit report is issued, that can attract the attention of the public and sometimes affect the whole sector. Charities are accountable in cooperating with external auditors to avoid public misconceptions which might be aroused by a bad audit report. Though charities need to be more accountable to stakeholders who are providing funds, they are also very accountable to stakeholders who can give bad publicity to charities and affect their ability to raise funds.

Large donors are also a source of a high sense of accountability (69%); these are people who may reduce donations when any bad news about the sector emerges. Charities also feel a high sense of accountability to the OSCR (65%), for the same reason that non-compliance may erode public trust which can lead to declining donations and perhaps stop operations. Other stakeholders eg the UK Government (31%) and Charity Commission (50%) received lower rates than those considered above because most participating charities operate only in Scotland.

**Table 7.8: Accountability relationships**

	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% High</i>	<i>% Medium</i>	<i>% Low</i>
(iv) Charity's own employees	4.54	5.0	0.64	0.14	52	98%	96%	2%	2%
(i) Beneficiaries/users	4.75	5.0	0.65	0.14	52	98%	92%	6%	2%
(v) Charity's own volunteers	4.20	4.0	0.90	0.22	44	83%	77%	18%	5%
(viii) Local authority/authorities	3.98	4.0	1.13	0.28	50	94%	72%	16%	12%
(vi) External auditor	3.94	4.0	1.08	0.28	51	96%	71%	20%	10%
(vii) Large donors	3.84	4.0	1.04	0.27	45	85%	69%	22%	9%
(ix) Office of the Scottish Charity Regulator	3.85	4.0	1.13	0.29	52	98%	65%	19%	15%
(x) Scottish Government	3.57	4.0	1.25	0.35	51	96%	61%	20%	20%
(xi) Small donors	3.62	4.0	1.17	0.32	47	89%	60%	23%	17%
(iii) Charity Commission for England and Wales	3.10	3.5	1.52	0.49	10	19%	50%	10%	40%
(xii) UK Government	2.84	3.0	1.32	0.47	32	60%	31%	22%	47%
(ii) Charity advisers	2.73	3.0	1.17	0.43	37	70%	24%	41%	35%

## 7.5 Overview of the Results

In this Chapter, the aggregate findings with respect to **Research Question 1: *How has recession affected the Chairs' and CEOs' responses on charity governance and accountability issues?*** and **Research Question 2: *Are responses from Chairs and CEOs indicating signalling behaviour in charities?*** have been described and explained. Chapter 8 will complement these findings and report the findings on **Research Question 3: *Does the financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?*** In this Chapter, theoretical views chosen for this research, and described in Chapter 4, have been used to explain the charity governance and accountability findings.

The overall findings are that charities have been badly affected by the 2008 recession. Most charities participating in the research have small Board size which varies between 6 and 15 members. The Board member type '*Directors with specialist expertise*' is found to be the most popular type and preferred by charities. Directors who are major donors, beneficiaries/users and charity's employees are found to be the least popular types of Board member. It was also difficult to establish that large Boards are supportive of fundraising; this is because more respondents were neutral on the related statement. The research also found

the effect of Board size on the existence of dominant CEOs not to be clearly revealed; this is because more respondents either disagreed or remained neutral on the statements addressing this problem. Respondents were more willing to respond on general sensitive issues (eg conflict of interests) than on the same issues relating to their own charities. Charity Boards were found to comprise 98% white members, 81% who are above 50 years of age, with 50% being 60 years of age or above. The most common methods of Board members' recruitment have been 'taking personal recommendations' (ie more than 50% of respondents), then followed by 'advertisement in the media'.

On charity funding, 92% of respondents agreed that their charities have been subjected to reduce funding or greater riskiness. Most charities have been forced to reduce their expenditure through different means; some of these included increased efficiency and management restructurings. However, the use of volunteers was found to have little impact on charities' expenditures. Charities have been able to send signals that they have financial difficulties that could affect their ability to provide charitable services. They still agreed that their charities may be able to provide the same level of services but admitted that they cannot afford to meet the increased demand. The types of Funds (ie Restricted Funds or General Funds) have some effects on charities' governance and accountability. More charities are now seeking to increase General Funds in relation to Restricted Funds; they disagree that the distinction between these two types of funds reduces their budgetary flexibility.

On governance and accountability relationships, charities' concern has been on their survival. This has forced Boards and managements to increase their focus on this aspect. Charities are now considering mergers as one of the options to increase their survival probabilities, though they do not see the survival concern to have any effect on their ability to make the correct decisions in difficult times. Charities' own employees are the top stakeholders to which the Boards and the managements feel accountable. Then, the important accountability relationships are beneficiaries/users, volunteers and local authorities. Others, in decreasing importance, are external auditors, large donors, the OSCR and the Scottish Government.

The next Chapter extends the analysis of findings by using statistical tests for comparison between three pairs of groups: all Chairs versus all CEOs; matched Chairs and CEOs; and FNVCs versus FVCs.

## CHAPTER 8: COMPARISON BETWEEN GROUPS OF RESPONDENTS

### 8.1 Introduction

This Chapter presents the analysis between all Chairs and all CEOs and between matched Chairs and CEOs, based on the questionnaire. The Chapter also presents the comparison of FNVCs and FVCs. The analysis is based on the assumption that Chairs and CEOs have responded independently to the questionnaire. Independent responses from the same charity have been sought using two different forms of communication. The first was in the form of instructions printed on the top page of the questionnaire; this stated clearly that ‘both Chair and CEO should give their own views and answers in relation to their charity’. The second was in the form of the message sent via email when sending out questionnaire attachments about ten days before the agreed date for the interviews. The message stated: ‘It is important that the Chief Executive does not discuss the questionnaire with the Chair of Board before the interviews, as that might bias the responses, and similarly for the Chair.’

Some respondents did not address all statements, so it is necessary to look at each statement’s response rate as a considerable number of non-responses might bias reported results. When analysing matched Chairs and CEOs, numerical codes were given to charities to preserve anonymity in the Tables of results, which are presented only for statements which have statistically significant differences. All non-statistical computations have been conducted by using Microsoft Excel whereas statistical tests have been conducted using the Statistical Package for Social Sciences (SPSS). Explanations on how statistical tests have been conducted are provided in the respective Sections. Tests of significance have been conducted to determine differences between Chairs and CEOs as groups and as matched pairs. The main focus of the tests is exploring differences in views on governance and management.

Another concern for the proponents of corporate governance is whether a voluntary Board member can monitor effectively a professional management. Section 67 of *Charities and Trustee Investment (Scotland) Act 2005* restricts Board members from being remunerated unless certain conditions are met. These conditions have been provided in Section 67(3) of the Act. The person providing the services (the ‘service provider’) is entitled to be remunerated from the charity’s funds for doing so only if: first, the maximum reasonable amount of remuneration is set out in a written agreement between the ‘service provider’ and the charity; second, the amount should satisfy the charity Board before any agreement is reached; third, immediately after entering into agreement, no more than half of the total

Board members are party to the agreement and there is no connection between members entitled to be paid under this agreement for remuneration; and lastly, the charity's constitution does not prohibit the 'service provider' from receiving remuneration. Views from Chairs and CEOs on Board composition are giving a clear picture on this practice.

Exploring differences in views between the two senior officers in a charity can help to identify the working relationship between the delegator of power (Board) and the delegatee of power (management). The questionnaire was designed to explore major themes that form the basis for much discussion on governance and accountability in the charity sector. Therefore analysing any differences between Chairs and CEOs which arise from these themes helps the research to draw conclusions on the Research Questions. To further the understanding of charity governance, themes of agreement between Chairs and CEOs are also explored.

Understanding the role of the Board in fundraising, as well as major sources of funding, is another important aspect in predicting the Board-management relationship. To understand this working relationship, it would help to understand how unexpected financially-disruptive events can be handled for charities to continue their operations and reduce their risks of failure.

Literature suggests that the diverse nature of the charity sector makes it difficult to generalise results and findings. Conducting statistical tests can help to identify some of themes which can be generalised to obtain an overview of governance and accountability in large charities. As explained in Chapter 1, charities are increasingly playing important roles in the delivery of charitable services to the public. As a sector whose economic contribution in Scotland is £10.9bn annual income, charities are not immune to economic difficulties. Because these charities are also depending on government contracts and grants, understanding the statistical differences in views between Chairs and CEOs about Government budgetary cuts can help to predict the future of the charity sector.

Therefore looking at Chairs as a group can help to understand the roles of the Board and looking into CEOs as a group can help to understand the roles of management, especially after reductions in charity funding. This helps to provide an overview of how professional management can effectively be controlled and monitored by a voluntary Board. Any disagreements on certain themes can lead into a broader discussion about what should be done to maintain or increase the effectiveness of Board and management. Charity laws give

the governance responsibility to the Board, but to understand its effectiveness and practical application, we need to explore the strengths and weaknesses of both Board and professional management.

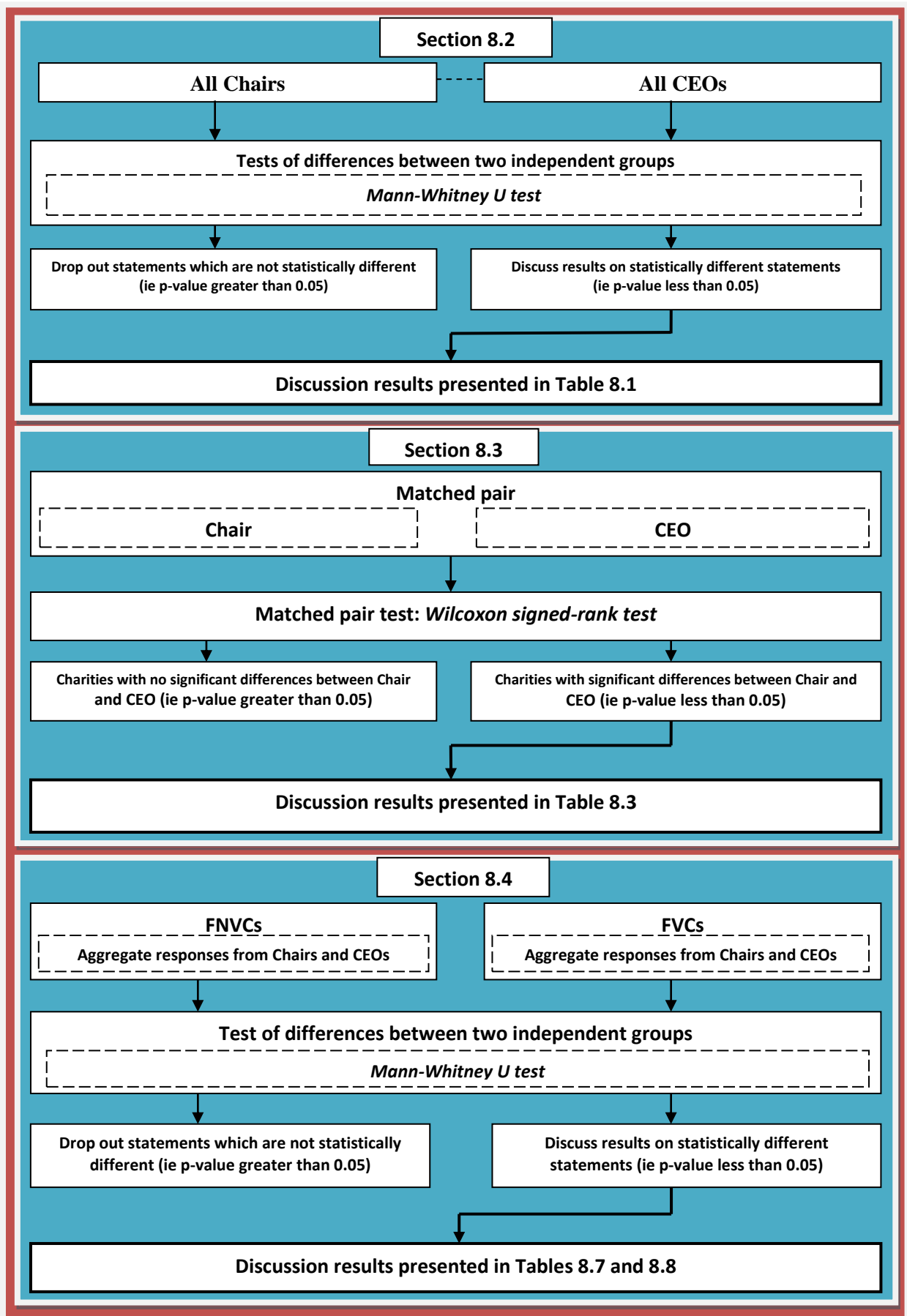
In addition to the Board and management, identifying stakeholders who are most important to charity survival as well to Chairs and CEOs helps to understand the structure of accountability relationships in charities. Extreme differences in views between Board and management can be an indication of the existence of problems in the working relationship. On the other side, obtaining agreement of views can be an indication of a positive working relationship.

This Chapter is divided into four main Sections. Section 8.2 focuses on the comparison between all Chairs and all CEOs. Whereas Chapter 7 looked at all responses, the Tables in Section 8.2 test for response differences between Chairs and CEOs. As in Chapter 7, there are 53 respondents from 28 charities. Section 8.3 compares matched Chairs and CEOs; in other words, there are tests for differences in responses from those from the same charity but holding the different roles. As a result of three non-responses, there are 25 matched pairs. Section 8.4 aggregates Chairs and CEOs in the groups of FNVCs and FVCs, and then tests for differences in responses between the two groups. Where matched pairs generated statistically significant differences in response, those charities were examined to see if they were FNVCs or FVCs. There were no output tests for group differences between Chairs and CEOs from FNVCs and FVCs. This was caused by SPSS not being able to execute the test because of the lack of enough cases for group analysis between Chairs and CEOs from FVCs. Figure 8.1 gives a summary of Sections 8.2 to 8.4. Section 8.5 provides an overview of the results presented in this chapter. The Chapter has two Annexes. Annex 8A explains how charities were classified into FNVCs and FVCs. Annex 8B shows how the possibility of non-response bias was examined and rejected.

Appendix 3 presents *M-W test* output for all Chairs against all CEOs whereas Appendix 4 presents corresponding *K-S test* output. Appendix 5 presents *M-W test* output for FNVCs versus FVCs and Appendix 6 presents its corresponding *K-S test* output. Appendix 7 presents test output for *Wilcoxon ranked sum test* for the matched paired. Finally, Appendix 8 shows selected output results for *Normal Q-Q plots test* for normality of data.



Figure 8.1: Summary of Sections 8.2, 8.3 and 8.4



## 8.2 Analysis of Comparison between all Chairs and all CEOs

This Section compares all Chairs with all CEOs as two independent groups. Analysis is based on statements which have been identified as receiving statistically different responses after conducting a *Mann-Whitney U test (M-W test)* between the two groups. As described in Chapter 5, before deciding whether to use parametric or non-parametric tests, data were checked for normality assumptions. This was conducted by using SPSS descriptive statistics and obtaining output for ‘test of normality’ (*Shapiro-Wilk test*) and ‘plots’ (*Normal Q-Q plots*). Both indicated that data collected were violating the normality assumptions, even after being transformed using logarithms; these results ruled out the use of parametric tests. The only remaining statistical tests option was the use of non-parametric tests.

A 2-tailed *M-W test* at 5% level of significance was then used to test for statistical differences between Chairs and CEOs. Discussion of results focuses on output values from an *exact method* (ie exact significance (2-tailed)). This is a more accurate method than the *asymptotic method* which is the default (ie automatically set by software) method for *M-W test* in SPSS.

Care has been taken in the discussion of the test results because tests on Likert statements have been subjected to the full 1-5 Likert scale. While Chapter 6 distinguishes the combination of scores (1 and 2 = disagree; 3 = neither agree nor disagree (neutral); 4 and 5 = agree), this Chapter uses the full 1-5 Likert scores (ie 1 = Strongly disagree; 2 = Generally disagree; 3 = Neither agree nor disagree; 4 = Generally agree and 5 = Strongly agree). Tests assume scores 5, 4, 3, 2 and 1 are different and therefore statistically significant results can be caused either by: *differences in view* (ie one side (eg Chairs) scores mostly 5 and 4 and the other (eg CEOs) mostly 2 and 1); or *strength of view* when one side has mostly ‘4 scores’ and the other ‘5 scores’, or one side has ‘2 scores’ and the other ‘1 scores’. To establish whether a significant result has been caused by strength of, or difference in, views, Likert scores for each charity which have significant results have been further scrutinised by examining the questionnaire returns.

In order to minimise test output errors which can occur when using small sample size, a *two-sample Kolmogorov-Smirnov Z test (K-S test)* was used together with a *M-W test*. Literature suggests that a better power of test when using small samples can be attained by using a *K-S test* rather than a *M-W test*. The reason is that the *K-S test* rarely rejects the null hypothesis on small samples. Hence, the two tests were used together and all differences in results are taken into account during the discussion.

The null ( $H_0$ ) and alternative ( $H_1$ ) hypotheses for the differences between all Chairs and all CEOs are:

*H<sub>0</sub>: There is no difference of responses between Chairs and CEOs*

*H<sub>1</sub>: There is a difference of responses between Chairs and CEOs*

The *M-W test* and the *K-S test* were both performed at a 5% level of significance on 82 Likert scaled statements. Five statements (6.1%) were found to have statistically significant results when their probability values (p-value) were less than 0.05 (ie p-value < 0.05) on the *M-W test*. Four statements (4.9%) were also found to have statistically significant results on the *K-S test*; all these statements were also picked up by the *M-W test*. When carrying out tests of statistical significance on 82 statements, it is possible that the test can reject a null hypothesis on some statements by chance. Four statements which have been picked up by both tests reduce the probability of being picked up by chance.

Based on the output results, the research can conclude that, overall, there are few differences of responses about the charities between the Chairs and the CEOs. This is a major research finding on the relationship between Chairs and CEOs. Looking on the statistical results which indicate there are similarities in responses for the remaining 77 (93.9%)<sup>7</sup> Likert statements, the following separate arguments can be deduced. First, one can argue that similarities in response can be an indication that there are positive working relationships between Chairs and CEOs. If this is the case, it can give an overview of the working relationship between Boards and managements. These similarities can have different implications; for example, it might be an indication that CEOs are using Chairs as a mechanism to control Boards. If a CEO can influence the views of the Chair, then it can be easy for the Chair to transmit these views to other Board members. This can allow the CEO to set the charity agenda and use the relationship to influence the whole Board to agree with the policies.

The second argument on similarities in responses is that Chairs and CEOs, being part of charities' governance and management, may have institutionalised views about charities which can be the main cause for similarities in responses. The possibility is that large charities may have governance and accountability structures which keep both Boards and managements fully informed about their charities and the sector as a whole. But it is also

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<sup>7</sup> The 93.9% has been obtained after subtraction of 6.1% from 100%. The reason for using 6.1% from *M-W test* and not 4.9% from *K-S test* is to state the lower similarities percentage.

possible that people who are forming large charities' Boards and management have been in the sector for a long time and they have absorbed most issues about the sector. In other words, similarities might not be an indication of a good working relationship between Chairs and CEOs. They may agree about charities, but they may not have a good working relationship for other reasons. If these people stay in the sector for long a time, it might be possible that a major means of recruiting new Board members (as discussed in Chapter 7) is via taking personal recommendations. Most of members who are already in the sector keep on circulating within charities while attracting few people from outside the charity sector.

Some statements were designed to find if charities are engaging in signalling behaviour; similarities suggest that sending signals to outsiders may be practised by both Chairs and CEOs, which implies it might be institutionalised practice. Therefore obtaining enough insight on all the above observations, the main focus for detailed discussion in Chapter 8 will be on the few statements which have received statistically significant different responses from Chairs and CEOs. Tables 8.1 and 8.2 present these statements, though each gives a different analysis. All discussions in this Chapter follow the Tables of results.

Results in Table 8.1 are presented in two parts. The first is about percentages of combined responses on 'agreement', 'neutral' and 'disagreement'. These results are presented only for statements which received statistically significant different responses after being subjected to the non-parametric tests. This part shows separate response results from all Chairs and all CEOs. The second part of the Table presents statistical tests output for significant statements, having used the full Likert scale.

**Table 8.1: Combined responses and statistical tests results for significant statements**

<i>Statements</i>	<i>Percentages of combined responses on Agreement, Neutral and Disagreement</i>									<i>Results from Statistical tests</i>				
	<i>Post</i>	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>	<i>Sum of Ranks</i>	<i>M-W Z-score</i>	<i>K-S Z-score</i>	<i>M-W P-Value</i>	<i>K-S P-Value</i>
<b>(A4_i_d)</b> Directors who work in voluntary capacity, act as a mechanism for monitoring the efficiency of a charity	Chairs	4.33	4.5	0.77	18	67%	83%	17%	0%	469.5	-3.211	1.260	.001*	.029*
	CEOs	3.24	3	1.04	21	81%	43%	33%	24%	310.5				
<b>(A4_v_b)</b> Directors who are beneficiaries/users, may give rise to the conflict of interest in a charity	Chairs	2.23	2	0.93	13	48%	15%	8%	77%	157.5	-2.300	1.260	.021*	.032*
	CEOs	3.11	3	1.05	19	73%	42%	26%	32%	370.5				
<b>(A4_v_c)</b> Paid employees other than executives, may give rise to the conflict of interest in a charity	Chairs	2.4	2	1.07	10	37%	20%	20%	60%	73	-2.480	1.118	.017*	.070
	CEOs	3.8	3	1.03	10	38%	60%	30%	10%	137				
<b>(A4_v_d)</b> Directors who work in voluntary capacity, may give rise to the conflict of interest in a charity	Chairs	1.74	2	0.81	19	70%	5%	5%	90%	276	-2.908	1.298	.003*	.020*
	CEOs	2.68	3	1.06	19	73%	21%	32%	47%	465				
<b>(B3_vii)</b> Our charity has reduced expenditure by reducing the number of volunteers (ie those working without payment, but excluding the undertaking of Board duties)	Chairs	1.85	2	0.88	20	74%	5%	15%	80%	532.5	-3.041	1.501	.002*	.003*
	CEOs	1.18	1	0.5	22	85%	0%	5%	95%	370.5				

\*statistically significant at 5%

**Table 8.2: Number of Chairs and CEOs with respect to their responses on each statistically significant Likert statement**

<i>Statistically significant Statements</i>	<i>Number of Likert scores on the statement by Chairs and CEOs groups</i>									
	<i>Scores of 5</i>		<i>Scores of 4</i>		<i>Scores of 3</i>		<i>Scores of 2</i>		<i>Scores of 1</i>	
	<i>Chairs</i>	<i>CEOs</i>	<i>Chairs</i>	<i>CEOs</i>	<i>Chairs</i>	<i>CEOs</i>	<i>Chairs</i>	<i>CEOs</i>	<i>Chairs</i>	<i>CEOs</i>
<b>(A4_i_d)</b> Directors who work in voluntary capacity, act as a mechanism for monitoring the efficiency of a charity	9	2	6	7	3	7	0	4	0	1
<b>(A4_v_b)</b> Directors who are beneficiaries/users, may give rise to the conflict of interest in a charity	0	1	2	7	1	5	8	5	2	1
<b>(A4_v_c)</b> Paid employees other than executives, may give rise to the conflict of interest in a charity	0	3	2	3	2	3	4	1	2	0
<b>(A4_v_d)</b> Directors who work in voluntary capacity, may give rise to the conflict of interest in a charity	0	1	1	3	1	6	9	7	8	2
<b>(B3_vii)</b> Our charity has reduced expenditure by reducing the number of volunteers (ie those working without payment, but excluding the undertaking of Board duties)	2	5	5	2	4	7	9	5	5	5

### **8.2.1 Discussions of the statistically significant statements**

Notwithstanding the caveat about the null hypothesis being rejected by chance, it is worthwhile examining those statements where rejection of the null hypothesis did occur. These statements were identified after conducting a *M-W test* and a *K-S test* on 82 Likert statements. The statements are presented in Tables 8.1 and 8.2 in accordance to their numbers in the questionnaire.

As stated earlier, five statements were found to be statistically significant on the *M-W test* whereas four of the same statements were also found to be statistically significant on the *K-S test*. Null hypothesis for the statement (*A4\_v\_c*) *Paid employees [on the Board] other than executives may give rise to the conflict of interest in a charity* was rejected by the *M-W test* and accepted by the *K-S test*. This is the only statement out of five whose null hypothesis was rejected by one test and accepted by the other. Although rejection by both tests reduces the possibility of a statement being picked up by chance, all statements picked up by the *M-W test* have been included in the discussion of significant results. It is accepted that doing so can give a possibility of committing a Type I error (ie wrongly rejecting a null hypothesis).

Each statement is discussed independently. The statements have been identified to fit in three different groups of responses. These are: responses on monitoring charity efficiency; responses on issues which may give rise to conflict of interests; and responses on the issue of expenditure reduction. Therefore the discussions of results have been divided into three sub-sections according to these groups. Each statement is discussed separately within the category in which it falls, though there are occasions where the discussion links some statements.

### **8.2.2 Monitoring charity efficiency**

This sub-section focuses on the statement (*A4\_i\_d*) *Directors who work in voluntary capacity act as a mechanism for monitoring the efficiency of a charity*. In Table 8.1, there is significant difference in the percentage of agreement between the Chairs (83%) and the CEOs (43%), while statistical results at 5% show M-W p-value is 0.001 and K-S p-value is 0.029 (ie both p-values are less than 0.05).

Eighty three percent of Chairs agreed with the statement, with none disagreeing. For CEOs the ratio of agreement to disagreement stands at 1.78:1. The results can also be supported by the sum of ranks on Chairs which is 469.50, compared to that of CEOs which is 310.50. The higher sum of ranks on Chairs is an indication that their responses favour higher ranks on a Likert scale (eg 5 = strongly agree, 4 = generally agree, with a mix from lower scores) while

lower sum of ranks indicates lower scores on a Likert scale (eg 1 = strongly disagree, 2 = generally disagree, with a mix of higher scores). This is also explained by Table 8.2 where there are higher scores from Chairs (ie 9 Chairs scored 5, and 6 Chairs scored 4, with none scoring 2 or 1). This disagreement between Chairs and CEOs on this statement brings some interesting discussion on the governance and management of charities.

Following the strong support for the statement from Chairs, the following points can be made. First is the opportunity for Board members to increase their involvement in charities' affairs, other than in their governance roles, by working as volunteers. For example, when being directly involved in the front-line of delivering charitable services, Board members can learn more about activities performed by the charity in the areas where they work as volunteers. This helps them to understand and monitor the extent of implementation and the practicality of different policies set and approved by the Board but executed by the management. This also helps Board members to evaluate the impact and effectiveness of different policies they have been involved in setting, immediately when they are implemented. Another advantage of Board members' involvement in non-governance issues is that it reduces the duration for Board members to wait for the management reports. This sometimes can reach them very late before they can evaluate their charity's efficiency. Different people have different motives to serve on charity Boards. Board members may be motivated to serve because of a family connection; for example, a charity may be providing services to a close relative. Working as a front-line volunteer may give an opportunity for Board members to demonstrate practically to other front-line workers what a Board member perceives as good service to beneficiaries/users.

When the motive for the Board members to serve on a charity is increasing their public profiles, serving as a volunteer is the best opportunity to demonstrate full commitment to a charity in a practical way. This can be an opportunity for Board members to interact with non-management staff and learn about operational issues directly from them. Working as volunteers can help Board members to increase their governance and analytical skills before they endorse any policy in future during Board meetings. This can make them more informed about charity affairs which can also help them to fulfil their governance and monitoring roles effectively.

However, allowing a Board member to be directly involved in the delivery of services to beneficiaries/users as volunteers might pose a threat to the CEO's control of the workforce. The threats can be in two forms. First, it can be difficult for the CEO to issue collective



instructions and orders to a group of workers which includes a person who sits on the decision-making body which has authority to oversee management performance. Second, non-management staffs who are working with a Board member as a volunteer might channel informal complaints about the management which can be raised by a member during a Board meeting without prior notice to the management. These threats may derail the working relationship between management and those Board members who are working as volunteers and between management and staff who work with a Board member. There is also potential for role confusion. In this situation, non-management employees may confuse the roles of management and that of governance, though this depends on the actions and attitude of a Board member towards other employees during the period of working as a volunteer.

### **8.2.3 Conflicts of interest in a charity**

This sub-section looks at how three out of the five types of Board member used in the questionnaire may give rise to conflicts of interest in a charity. These types are: Directors who are beneficiaries/users; Directors who are paid employees other than executives; and Directors who also work in a voluntary capacity.

When focusing on Table 8.1 in relation to statement (*A4\_v\_b*) *Directors who are beneficiaries/users may give rise to the conflict of interest in a charity*, a significant difference is observed in the percentage agreeing to the statement between the Chairs (15%) and the CEOs (42%). Statistical results at 5% significance level show M-W p-value is 0.021 and K-S p-value is 0.032 (ie less than 0.05). The ratio of agreement to disagreement for Chairs stands at 0.2:1 while that for the CEOs stands at 1.31:1. The results are also supported by the sum of ranks on Chairs standing at 157.50 compared to that of CEOs which is 370.50. This indicates CEOs are more supportive of the statement than Chairs. The higher support of CEOs is also indicated by the disaggregated Likert scores in Table 8.2.

The disagreement from Chairs is an indication of their interest in building legitimacy with the charity's stakeholders. Any response casting doubt on the ability of a Board to perform professionally is strongly rejected by Chairs on behalf of the Board. Some Board members may have built their interests to serve on their connections to beneficiaries/users; therefore questioning the legitimacy of the charity is something they cannot accept. For example, during the fieldwork interviews, some Chairs explained clearly that their involvement in the charity was a result of having either a child or another relative whose well-being depends on the charity's services. This can strengthen their effort to increase the charity's legitimacy.

CEOs show more support for the statement. The significant disagreement with Chairs can be an indication of how issues of conflict of interest are difficult and can be perceived differently among officers in charities. For example, when beneficiaries/users serve on a Board, this can raise the issue of subordinating individual preferences to the charity's objectives. This can impair the ability of the Board to serve the charity as a corporate organisation in achieving its aims. When management is focusing on the charity as a whole, beneficiaries on a Board can devote more time on issues relating to their 'constituents' (ie for a national charity, a member can focus on a particular region of preference). This can also reduce the charity's goal congruence, especially when the CEO manages all areas of the charity's services and Board members focus on parts of these services. The small percentage of CEOs who disagree with the statement may also reflect views of CEOs who are also working as Board members in other charities.

Looking at the statement on conflict of interest (*A4\_v\_c*) *Paid employees other than executives on the Board may give rise to a conflict of interest in a charity*, Table 8.1 shows a significant difference in the agreement percentages. On the Chairs side, agreement with the statement is 20% while 60% of CEOs agree. Statistical results at 5% significance level show M-W p-value is 0.017 (ie less than 0.05) and K-S p-value is 0.070 (ie more than 0.05). Thus the null hypothesis on this statement has been rejected by the *M-W test* but accepted by the *K-S test*. The results from the two tests raise the possibility of committing a Type I or a Type II error when deciding whether to include or exclude the statement as statistically significant. The ratio of agreement to disagreement for Chairs is 0.3:1, while for the CEOs it is 6:1. These results can also be supported by the results in Table 8.1, where the sum of ranks on Chairs is 73.00 compared to that of CEOs, at 137.00. The higher sum of ranks for the CEOs indicates higher support for the statement.

The disagreement between the CEOs and the Chairs may indicate differences in understanding on issues of conflict of interest, as perceived in a charity. For example, the strong disagreement for the statement from Chairs may indicate belief in the positive effect for the governance and monitoring role which can be brought by an employee Board member. It can be a way for Board members to monitor the performance of management by having someone who is a full-time employee serving on the Board. This also might bring more understanding of charity operations by Board members who are employees. Another positive effect of this type of Board member comes on remuneration. As charity laws in

Scotland limit Board members from receiving benefits as a result of their services, being employed by a charity on other duties can be a way to justify payment to Board members.

On the side of CEOs, allowing paid employees other than executives to serve on a Board can raise the issue of self-serving rather than organisation-serving. By using the advantage of serving on the Board employees may influence policies to advance their employment interests; for example, by setting higher remuneration. Another issue which may have influenced CEOs to agree with this statement can be made from the executive power perspective: for example, decisions to hire and fire an employee may suffer a detrimental effect when the employee involved is also a Board member. Another reason may be the leaking of management decisions which either positively or negatively affect employees (of which a Board member is one) pending the approval of the Board. An example of these decisions can be a management proposal to make redundant some employees because of budgetary constraints or operational problems. These types of pending decisions being leaked in advance before they are endorsed by the Board can be a demoralising factor for some employees. Decisions which affect employees directly can trigger premature reactions and make it difficult for management to handle day-to-day operations while a final decision is reached. It can also trigger industrial action in those charities which recognise trade unions.

The last significant statement in this sub-section is (*A4\_v\_d*) *Directors who work in voluntary capacity may give rise to a conflict of interest in a charity*. Results in Table 8.1 indicate a significant difference in the percentage of agreement between the Chairs (5%) and the CEOs (21%) and disagreement (90% versus 47%). Statistical results at 5% show the M-W p-value as 0.003 and K-S p-value as 0.020 (ie both p-values less than 0.05). Ratios of agree to disagree for Chairs stand at 0.06:1 while for CEOs it is 0.45:1. These results can also be supported by the sum of ranks on Chairs being 276.00, compared to that of CEOs which is 465.00. Both sides disagree with the statement. Higher sum of ranks for CEOs compared to that of Chairs indicates a higher degree of disagreement for Chairs than CEOs. The significant result on this statement derives from strength of views rather than differences in views.

On the Chairs side there is strong disagreement with statement *A4\_v\_d*. This reflects the same arguments which have been made about statement (*A4\_i\_d*) *Directors who work in voluntary capacity act as a mechanism for monitoring the efficiency of a charity*. Allowing Board members to serve as volunteers in the front-line can not only equip them with more information about the operations of a charity but also to monitor in real time the implications

of policies they have made. Another reason for divergence in the strength of disagreement is that Chairs want to advance the legitimacy of their charity with its stakeholders, so anything which appears to contradict this goal can receive a negative response from Board members.

The higher agreement percentage for CEOs to *(A4\_v\_d) Directors who work in voluntary capacity may give rise to a conflict of interest in a charity* can be explained in the same way as statement *(A4\_i\_d) Directors who work in voluntary capacity act as a mechanism for monitoring the efficiency of a charity*. Allowing Board members to work as volunteers in the charity's affairs can raise confusion about the roles of management and governance. This can also be an opportunity for Board members to advance their preferences on operational matters.

#### **8.2.4 Expenditure reduction**

This sub-section focuses on the statement concerning how a charity can reduce expenditure by using volunteers. There is only one statement with a significant difference in this sub-section which is *(B3\_vii) Our charity has reduced expenditure by reducing the number of volunteers (ie those working without payment, but excluding the undertaking of Board duties)*.

Table 8.1 shows a significant difference between the Chairs and the CEOs. Statistical results at 5% show a M-W p-value of 0.002 and a K-S p-value of 0.003 (ie p-values less than 0.05). The percentages of agree and disagree for CEOs stand at 0% and 95% respectively, these being 5% and 80% for Chairs. These results are also supported by the sum of ranks on Chairs standing at 532.50, compared to that of CEOs of 370.50. This indicates that the significant difference between Chairs and CEOs on this statement is caused by the strength of views, rather than differences in views.

From the perspective of Chairs, the reduction of expenditure by reducing the number of volunteers can only have effect if expenditure incurred to maintain volunteers is a significant amount compared to the total expenditure of a charity. The views of Chairs are also echoed by CEOs.

As discussed in Chapter 7, the rejection of the statement can be caused by the following reasons. First, use of volunteers may be very limited (ie there are fewer volunteers compared to paid employees) in these charities so that their numbers have little impact on charities' overall expenditure. Second, the jobs performed by volunteers may have little impact on the core charitable services and may not require close supervision from the paid employees; thus,

reducing the number of volunteers will not produce a cost reduction. If volunteers' jobs are different from those of the paid employees, it will be difficult for charities to determine the FTEs which can be useful in estimating the number of full-time paid jobs saved by using volunteers. Some charities may have volunteers who are working in shops and other fundraising events. There may be a need to subsidise volunteers on transport costs and lunches; the amount spent on this depends on the number of volunteers involved. The amount used for this purpose may have little impact on expenditure compared to total expenditure on the core charitable activities when there are an insignificant number of volunteers. On this statement the significant difference between Chairs and CEOs is caused by strengths of views, not differences in views. The percentages and ratio of agree to disagree with the statement is an indication that charity volunteers have minimum impact on operating costs, especially when it comes to charities of the size studied in the research.

### **8.3 Analysis of Matched Chairs and CEOs**

This Section compares matched Chairs and CEOs from 25 charities where both participated in the research. The aim is to analyse response differences and similarities between Chair and CEO of each charity based on issues raised in the questionnaire. A further analysis of differences between Chair and CEO is made for statistically significant charities. Statistical tests in this Section have been conducted using the Likert statements only.

Coding was made for all 28 charities participating in the research. Code numbers were given in ascending order of date of the first meeting with interviewee(s). For example, a charity whose Chair or CEO or both were first to be interviewed was identified as 'Charity 1'. The same pattern was made to the second and third, up to the last charity to be interviewed. The purpose of coding is to conceal the identity of participants in order to maintain the anonymous status promised when asking for their participation. Charities which have single participants (ie either a Chair only or a CEO only) were excluded. Three charities were excluded, leaving 25 which have responses from Chairs and CEOs.

The decision on whether parametric tests or non-parametric tests were to be conducted, followed after data for 50 respondents were tested for normality by displaying the descriptive statistics. The results showed the data were violating the normality assumptions, which ruled out the use of the dependent t-test (parametric test). The only option was using non-parametric tests (see Chapter 5). For analysing differences, the *Wilcoxon signed-rank test* has

been used. The test is used to determine differences between two conditions from a related sample.

Fitting the data to satisfy this assumption, the Chair and the CEO from each charity have been treated as two conditions from a related sample (ie related for being in the same charity) for analytical purposes. Each Likert statement has been treated as a variable for matching the Chair and the CEO. The *Wilcoxon signed-rank test* selects statements which have been scored by both Chair and CEO; any statement which has a missing value on either respondent is automatically excluded from computations by SPSS. The number of observations for each charity will differ, depending on how many statements have been scored by both Chair and CEO. Descriptions of the test have been provided in sub-section 8.3.1 below.

The null and alternative hypotheses for matched Chairs and CEOs are defined as:

*H<sub>0</sub>: There are no response differences about the charity's governance and management between the Chair and the CEO*

*H<sub>1</sub>: There are response differences about the charity's governance and management between the Chair and the CEO*

### **8.3.1 Explanation of statistical methodology**

The discussion in this sub-section is based on results which are presented in Tables 8.3, 8.4 and 8.5. It explains results in each Table and how they have been obtained before discussing them in the next sub-section.

Table 8.3 represents results from 11 (44%) charities which have statistically significant differences. The charities have been obtained by subjecting the 25 charities which have paired participants to the *Wilcoxon signed-rank test* at the 5% significance level. These results are the focus of discussion in the next sub-section. The discussion also considers whether the differences are caused by strength of, rather than differences in, views.

Table 8.3 contains columns showing the coded names of charities and results from the *Wilcoxon signed-rank test*. The Table also shows characteristics of these charities obtained from CaritasData and the OSCR Register. The statistical columns contain: test statistic (T); Z-score; exact significance (2-tailed) p-value; number of statements receiving responses from both Chair and CEO in a charity (N); and effect size (r).

The *Wilcoxon signed-rank test* statistic (T) is the basis for conducting the tests of significance. This is obtained after computing differences in scores between a pair of conditions (ie Chair and CEO for the purpose of this research) for each statement.

Differences are then grouped into positive, negative and zeros (for ties). All zero differences are discarded and the absolute values of the remaining differences are then ranked from the smallest upwards. If two or more differences in rank are found to be the same, the mean rank is used. These ranks are named after the sign of the differences (ie ‘positive ranks’ for those obtained from positive differences and ‘negative ranks’ for those obtained from negative differences). Ranks in each group are then added together to obtain the ‘sum of positive ranks’ and the ‘sum of negative ranks’. The smaller sum of the two groups is adopted as the test statistic (T). If the smaller sum is from ranking the negative differences, the test is termed ‘based on negative ranks’, and vice versa.

The Z-score is obtained after converting the test statistic (T) using the formula described below. This can be calculated using a normal approximation when the sample size is more than 20 (Field, 2009). Data used in the research satisfy this criterion and the computations of Z-scores as normal approximation are presented as:

$$Z = \frac{x - \bar{x}}{s} = \frac{T - \bar{T}}{SE_{\bar{T}}}$$

$$\text{Where } \bar{T} = \frac{n(n+1)}{4}, \text{ and standard error}(SE_{\bar{T}}) = \sqrt{\frac{n(n+1)(2n+1)}{24}}, \quad n = N - N_t$$

In the formula, ‘n’ represents the difference between the number of statement responses from both Chair and CEO (N) minus number of ties (Nt) (ie number of statements receiving same scores from both Chair and CEO in the charity). The ties are excluded because the test is designed to work for differences rather than similarities. If there are no ties, then ‘n’ is the same as ‘N’.

The value of the Z-score can be either positive or negative. A positive Z-score indicates a test statistic is located on the right side of a normal curve (ie T is greater than the mean ( $\bar{T}$ )), and a negative Z-score indicates a test statistic is located on the left side of a normal curve (ie T is smaller than the mean ( $\bar{T}$ )). However, on interpreting significant results the sign has no meaning other than indicating location of the Z-score on a normal curve. Ignoring signs of Z-scores, a 2-tailed test at 5% has an acceptance region for the null hypothesis lying between the extreme values of  $\pm 1.96$ . Any absolute value of Z-score greater than 1.96 indicates rejection of the null hypothesis (Field, 2009) and indicates a significant result.

The column for ‘exact significance (2-tailed) p-value’ in Table 8.3 contains p-values of significant results from the test. There is always a possibility that these values have been obtained by chance. Testing for statistical significance helps the research to understand the

probability of random occurrences in differences and if these occurrences represent differences of views or not. The p-value is the probability that these differences were obtained by chance rather than differences of views. These values vary between 0 and 1. The smaller the p-value, the higher the probability that the differences are caused by views, rather than by chance.

In the SPSS analysis, there are two options for conducting tests of significance. For larger samples it is advised to use asymptotic significance. However, when a sample size is small (ie less than 20) the exact significance is advised to be useful in increasing the power of the test. A p-value is always compared to alpha ( $\alpha$ ) level; in this research the alpha level used is 5% (0.05) which is common. Therefore, any p-value less than 0.05 indicates a significant result (ie rejection of a null hypothesis). The smaller the alpha level, the lower probability of obtaining a significant result by chance. The alpha level is also known as the Type I error rate, the rate that the research is willing to accept that the results reflect differences in views.

The column in Table 8.3 of the number of observations ( $N_o$ ), indicates responses on Likert scaled statements from both the Chair and the CEO. Each statement receiving responses from both the Chair and the CEO represents two observations. These are all paired responses regardless of how they have been scored (ie including the ties); Likert statements which have missing responses from the Chair or the CEO, or both, are excluded. Therefore all values in this column represent twice the number of Likert statements scored by both the Chair and the CEO. This number ( $N_o$ ) is used only to determine the effect size of each significant result.

The sixth column is about effect size ( $r$ ). This measures the strength of relationship between the two tested conditions (Chair and CEO). Having a statistically significant result does not mean the difference is big, important or useful in drawing a conclusion about the two tested conditions. It only increases confidence in the existence of a difference. Effect size helps the research to know that an observed difference is not only statistically significant but also is important and useful for drawing conclusions about the two tested conditions. There are different ways of measuring effect size; this research has adopted the formula:

Effect size ( $r$ ) =  $\frac{|\pm Z|}{\sqrt{N_o}}$ , where  $|\pm Z|$  is an absolute of a Z-score and ' $N_o$ ' is the number of observations (Field, 2009).



Interpreting the resulting number for effect size, most social scientists use the general guide developed by Cohen (1988). This is described as:

- Less than 0.1 indicates ‘trivial effect’
- Between 0.1 and 0.3 indicates ‘small effect’
- Between 0.3 and 0.5 indicates ‘moderate effect’
- Above 0.5 indicates ‘large effect’.

Additional characteristics of charities have been included in Table 8.3. These are expenditure classifications which have been derived from the *Top 1,000 Charities in Scotland 2009* (CaritasData, 2009). The next column is about financial vulnerability status which has been identified by the research after analysing the annual report of each charity. The computations and model used to arrive at the results are explained in Annex 8A of this Chapter. Another column concerns registration; this shows whether a charity’s operating jurisdiction is limited to Scotland or if it also has a registration in England and Wales. This information has been obtained from the online OSCR Register. The last column concerns legal form; this was obtained from the charity’s website and later confirmed by using the up-to-date online OSCR Register.

Table 8.4 presents the percentage distribution of Likert score differences between Chairs and CEOs for the 11 statistically significant charities. The differences in Likert scores have been obtained by comparing the scores on each statement for which both have supplied a response. Three categories of differences were applied. These are score differences which are zeroes (ie same score for both); score differences which are one (ie two successive Likert scores with the exception of 4 and 3 or 3 and 2); and score differences which are more than one (ie not two successive Likert scores). Any pair of scores which include 3 and another number are counted as ‘more than one’.

Table 8.5 is an extension of Table 8.4 which shows segments (ie Sections) of the questionnaire which have Likert statements. Table 8.6 provides disaggregated results for the three segments of Likert statements which received the highest proportions of differences that were more than one.

**Table 8.3: Charities with significant differences between Chair and CEO**

Charity	Test statistics (T)	Z-score	Exact Significance (2-tailed) p-value	Number of observations (N <sub>o</sub> = 2N)	Effect size (r)	Ties (N <sub>t</sub> )	Expenditure classification	Financial Vulnerability status	Registration	Legal form
Charity 03	156.00	-3.206 <sup>a</sup>	0.001	118	0.2951	21	Health and medical	FNVC	Scotland-only	Company
Charity 04	132.50	-3.131 <sup>b</sup>	0.001	122	0.2835	26	Health and medical	FNVC	Scotland-only	Statutory Corporation
Charity 06	327.00	-2.364 <sup>a</sup>	0.018	138	0.2012	23	Health and medical	FNVC	Scotland-only	Company
Charity 08	373.50	-2.346 <sup>b</sup>	0.018	136	0.2012	20	Health and medical	FNVC	Scotland-only	Industrial and Provident Society
Charity 09	195.00	-2.652 <sup>b</sup>	0.007	116	0.2462	20	Citizenship, law and order	FVC	Scotland-only	Company
Charity 10	155.00	-2.274 <sup>a</sup>	0.027	122	0.2059	29	Social services and relief	FVC	Scotland-only	Statutory Corporation
Charity 14	265.00	-2.436 <sup>a</sup>	0.014	114	0.2282	15	Health and medical	FNVC	Scotland-only	Company
Charity 18	291.50	-2.107 <sup>a</sup>	0.035	124	0.1892	20	Social services and relief	FNVC	Dual	Company
Charity 22	203.00	-3.218 <sup>b</sup>	0.001	116	0.2988	16	International activities	FVC	Scotland-only	Company
Charity 23	259.50	-2.644 <sup>b</sup>	0.007	130	0.2319	22	Social services and relief	FNVC	Scotland-only	Company
Charity 24	63.00	-4.897 <sup>a</sup>	0.000	88	0.5220	2	Health and medical	FNVC	Dual	Statutory Corporation

**Note:** Effect size (r) =  $\frac{Z\_score}{\sqrt{n}}$ ; a. Based on negative ranks; b. Based on positive ranks; Alpha (α) level = 5%;

N<sub>o</sub> = Twice the number of N; N<sub>t</sub> = Number of ties (differences are zeros)

**Table 8.4: Percentage of Likert scores differences between Chair and CEO**

	Charity 3	Charity 4	Charity 6	Charity 8	Charity 9	Charity 10	Charity 14	Charity 18	Charity 22	Charity 23	Charity 24
Scores which are ties	35.59%	42.62%	33.33%	29.41%	34.48%	47.54%	26.32%	32.26%	27.59%	33.85%	4.55%
Score differences = 1	37.29%	40.98%	26.09%	55.88%	44.83%	49.18%	50.88%	50.00%	46.55%	35.38%	22.73%
Score differences > 1	27.12%	16.39%	40.58%	14.71%	20.69%	3.28%	22.81%	17.74%	25.86%	30.77%	72.73%

**Table 8.5: Percentage of Likert scores differences between Chair and CEO on each Likert segments**

<b>Number and percentage of score differences between Chair and CEO which are <u>more than one</u> on segments of Likert statements</b>														
<b>Segment of statements</b>	<b>Charity 3</b>	<b>Charity 4</b>	<b>Charity 6</b>	<b>Charity 8</b>	<b>Charity 9</b>	<b>Charity 10</b>	<b>Charity 14</b>	<b>Charity 18</b>	<b>Charity 22</b>	<b>Charity 23</b>	<b>Charity 24</b>	<b>Total diff&gt;1</b>	<b>Total responses</b>	<b>% differences &gt;1</b>
A2	1	1	4	1	0	0	1	0	2	0	4	14	42	33.33%
A4	1	5	3	0	2	0	3	1	10	11	4	40	125	32.00%
B3	1	0	8	2	1	0	4	3	0	4	2	25	134	18.66%
B4	1	0	4	4	3	0	1	2	1	0	2	18	72	25.00%
B5	3	4	5	0	2	2	2	1	0	3	5	27	52	51.92%
C1	2	0	0	3	1	0	1	1	2	1	1	12	83	14.46%
C3	1	0	1	0	0	0	0	0	0	1	5	8	55	14.55%
C4	6	0	3	0	3	0	1	3	0	0	9	25	98	25.51%
<b>Number and percentage of score differences between Chair and CEO which are <u>one or more</u> on segments of Likert statements</b>														
<b>Segment of statements</b>	<b>Charity 3</b>	<b>Charity 4</b>	<b>Charity 6</b>	<b>Charity 8</b>	<b>Charity 9</b>	<b>Charity 10</b>	<b>Charity 14</b>	<b>Charity 18</b>	<b>Charity 22</b>	<b>Charity 23</b>	<b>Charity 24</b>	<b>Total diff&gt;=1</b>	<b>Total responses</b>	<b>% differences &gt;=1</b>
A2	2	3	4	3	2	4	4	0	3	2	4	31	42	73.81%
A4	2	10	5	11	5	6	6	4	24	16	6	95	125	76.00%
B3	7	4	13	11	7	3	13	12	0	12	4	86	134	64.18%
B4	5	3	7	7	4	2	4	4	5	1	5	47	72	65.28%
B5	4	4	5	2	5	5	5	5	0	3	5	43	52	82.69%
C1	5	4	3	5	6	4	5	5	3	3	3	46	83	55.42%
C3	4	2	4	5	3	5	2	2	4	5	5	41	55	74.55%
C4	9	5	5	4	6	3	3	10	3	1	10	59	98	60.20%

Note: Descriptions of segment of statements as they appear in questionnaire

A2: Board size

A4: Effects of Board composition

B3: Charity’s response to reduced funding or greater riskiness of funding

B4: Impact of recession on charity governance and operations

B5: Respective roles of Board and Management Team after reduced funding and/or greater riskiness of funding

C1: Regulation

C3: Use of ‘good governance’ guidance

C4: Accountability relationships

**Table 8.6: Number of Likert scores between Chair and CEO on Likert statements Combining 11 statistically significant charities**

Segments	Statements	Number of Likert Scores									
		Agreement				Neutral		Disagree			
		Number of '5' scores		Number of '4' scores		Number of '3' scores		Number of '2' scores		Number of '1' scores	
		Chairs	CEOs	Chairs	CEOs	Chairs	CEOs	Chairs	CEOs	Chairs	CEOs
B5	(B5_i) Changes in the funding climate have resulted in a review of the roles of our Board and Management Team	0	1	4	2	3	2	2	1	1	4
	(B5_ii) Changes in the funding climate have altered the roles of our Board and Management Team	0	1	1	0	2	4	5	2	1	3
	(B5_iii) Changes in the funding climate have resulted in our Board and Management Team working more closely together	2	1	5	1	1	5	0	3	1	0
	(B5_vi) Reductions in funding have resulted in the Board taking a more prominent role in the decision-making of our charity	1	0	4	3	4	2	1	5	1	1
	(B5_v) Greater riskiness of funding has resulted in the Board taking a more prominent role in the decision-making of our charity	1	0	5	1	3	5	1	3	1	2
A4	(A4_iii_e) Directors with specialist expertise are seen to represent the interests of stakeholders in our charity	5	3	2	3	0	3	1	2	1	0
	(A4_iv_e) Directors with specialist expertise increase the legitimacy of our charity with current and potential funders	5	5	4	5	1	1	0	0	1	0
	(A4_v_e) Directors with specialist expertise may give rise to conflicts of interest in our charity	2	1	0	0	1	4	4	1	4	5
A2	(A2_i) A Board with few members leads to a dominant chief executive	0	0	1	2	5	6	3	2	2	1
	(A2_ii) A Board with a large number of members leads to a dominant chief executive	0	0	1	1	6	5	1	3	2	1
	(A2_iii) A Board with a large number of members leads to a dominant inner core prevailing over other Board members	1	2	4	6	2	1	2	1	2	1
	(A2_iv) The existence of a large Board is supportive of fundraising	1	0	2	1	5	6	1	1	1	2

### 8.3.2 Discussion of statistical results

This sub-section discusses statistical results based on the approach described in sub-section 8.3.1. Statistical results show that 11 charities out of 25 (44%) have statistically significant differences between the Chair and the CEO. This contrasts with the limited differences between all Chairs and all CEOs, as shown in Section 8.2. These 11 charities have Z-scores (column 3 of Table 8.3) indicating rejection of the null hypothesis that there are no differences.

When looking into the effect sizes in light of Cohen's (1988) interpretation, ten of these 11 charities have small effect size. This increases the probability of the cause of differences being the strength of views. Charity 24 can be regarded as an outlier that has a large effect size (0.5220). It may also be relevant that this is a dual-registered charity from which the interviewees were the most senior persons in Scotland, not in the UK charity. Although the large effect size for Charity 24 is also supported by a higher proportion of Likert score differences over 1 (72.73% in Table 8.4), having the smallest number of paired responses (88 in Table 8.3) can also be the cause of the large effect size.

It has been observed that most charities have a higher percentage than Charity 24 of paired responses on Likert scores which have differences of one. Analysis of differences treated consecutive scores between '2 and 3' or '3 and 4' as 'more than one' in order to preserve the differences between 'neutral scores' and 'generally disagree' or 'generally agree' scores. When there is a higher percentage of 'more than one', that indicates the increased possibility of having differences in views. The researcher is confident that significant differences between Chair and CEO in Charity 24 are caused by differences in views rather than strength of views.

Table 8.4 is obtained by using scores on Likert statements. The statements used are those which have been scored in the *Wilcoxon test* (ie statements scored by both Chair and CEO in statistically significant charities). Absolute values of differences between scores on each statement have been computed using an Excel spreadsheet. Scores which have differences of zero (ie tied scores) have been treated as 'ties' whose percentage has been computed by dividing them by the total number of paired statements. Due to the absence of any charity which has 100% of tied scores, the research belief that the Chair and the CEO responded independently is strengthened.

The difference between scores which are one (ie score difference is 1) indicates scores between Chair and CEO which are close to each other. This raises a possibility of having significant results caused by strength of views rather than differences in views. For example, if a Chair scores 1 (ie strongly disagree) to the statement and the CEO scores 2 (ie generally disagree) on the same statement, they both disagree with the statement but on different strengths. If the Chair scores 4 (ie generally agree) and the CEO 5 (ie strongly agree), they both agree but on different strengths. Therefore a close score between the two indicates differences in strength on the same view.

Table 8.5 shows detailed score differences for each segment of the Likert statements used in the statistical test. This also shows, in the final column, the percentage of statements in each segment exhibiting differences that are more than one. This gives an indication for each charity of which segments are driving the significant results.

Table 8.6 shows the actual scores for both Chairs and CEOs for statements in segments with high score differences in Table 8.5. These are selected statements within those segments that have the highest differences in scores between Chairs and CEOs for all 11 charities. These statements, together with the preceding tables, form the central focus in this discussion of results.

When differences of scores between Chairs and CEOs are more than one, this indicates differences in views. For example, if a Chair scores 2 (ie generally disagree) on the statement and the CEO scores 4 (ie generally agree) on the same statement, these represent two opposing views on the statement. Therefore the proportions of Likert score differences between Chair and CEO, whether one or more than one, helps to understand the source of statistically significant results for a charity. Tables 8.4, 8.5 and 8.6 are used together with the statistical results in Table 8.3 for results interpretation.

Segment B5 of the questionnaire (*Respective roles of Board and Management Team after reduced funding and/or greater riskiness of funding*) has 51.92% (Table 8.5) for differences which are more than one. It has also received 82.69% of differences which are one or more; this implies 30.77% (ie subtracting 51.92% from 82.69%) differences of one. Having a large percentage of differences that are more than one indicates that the probable cause of statistical significance is differences in views between Chairs and CEOs. Observation on individual charities in this segment indicates that Chairs are leaning towards agreeing while

CEOs are leaning towards disagreeing. This excludes ‘Charity 9’ (FVC) and ‘Charity 24’ (FNVC), both of these charities having Chairs disagreeing and CEOs agreeing.

Continuing the focus on Segment B5 which has five statements (Table 8.6), two of these statements have the highest number of disagreements between CEOs and Chairs. This is not visible in the Table but has been established by reviewing the questionnaires. Statements *(B5\_i) Changes in the funding climate have resulted in a review of the roles of our Board and Management Team* and *(B5\_v) Greater riskiness of funding has resulted in the Board taking a more prominent role in the decision-making of our charity* received the highest proportions of differences which are more than one. These differences result from higher scores on Chairs and lower scores on CEOs. The implication is that more of the Chairs agree on reviewing Board and management roles so that the Board can take a more prominent role in decision making, than do CEOs. This may indicate a concern from Chairs on the ability of the Management Team to take on the challenges caused by funding difficulties. Most CEOs’ careers in charities will have started at a time of economic growth which gave certainty on the funding prospects from donors and a constant flow of resources from government contracts and grants.

The statement *(B5\_ii) Changes in the funding climate have altered the roles of our Board and Management Team* has received more scores in agreement from Chairs and more scores in disagreement from CEOs. This difference is one of the possible indicators that Chairs perceive their role as being changed as their concern on the future of charities is increasing. Responses from Chairs may reflect their concerns, especially when their working relationship is with a dominant CEO. Chairs can also perceive their roles and those of CEOs being changed when CEOs seek more contributions from the Board during economic troubles than during economic prosperity.

The statement *(B5\_iii) Changes in the funding climate have resulted in our Board and Management Team working more closely together* received more scores in agreement from Chairs and more scores in disagreement from CEOs. Discussing this statement, two issues can be raised. These are the working relationship between Chairs and CEOs prior to the change in the funding climate and the working relationship during the period of change in the funding climate.

On the working relationship prior to the change in the funding climate; if both a Chair and a CEO disagree with the statement, this can be an indication that their working relationship is

not affected by the change in the funding climate. In this case, their working relationship can continue to be positive or negative regardless of the current funding climate. The unchanged relationship can be reflected by differences in Likert scores being either one or zero. This statement received fewer differences in Likert scores which are one or zero, therefore reducing the possibility of having agreement from both parties on the statement. The conclusion is that there have been changes in the working relationship during the financial crisis.

On the working relationship during the period of changes in the funding climate; the funding distress may force both Chair and CEO to work together for the good of the charity to combat the crisis or force one of them out of the charity. More scores in agreement for Chairs and more scores in disagreement for CEOs can have different implications. For example, any actions taken by CEOs to have more involvement from Chairs and Boards to reduce financial distress can be perceived by the Chairs as new roles. In contrast, CEOs can perceive their actions to be fulfilling the routine responsibilities of the Board, though these were not in place before the crisis.

The statement (*B5\_vi*) *Reductions in funding have resulted in the Board taking a more prominent role in the decision-making of our charity* received more differences in Likert scores which are more than one. The statement also received fewer ties in Likert scores than any other statement in this segment. Having more responses from Chairs on agreeing and more responses from CEOs on disagreeing suggests an existence of dominant CEOs. For the Chair to agree with the statement indicates there was low funding risk during the period of economic growth and that the flow of financial resources to the charity was almost certain. This may have influenced the Board to leave most of the decision-making responsibilities to the CEO; this implies the Board did not see the need to be involved in financial issues as these were not a major concern. In addition, Board members' primary motives to serve on the charity Board may not be that of decision-making; this can be another reason for the Board to leave all decision-making to the Management Team while exerting little effort to question the CEO's actions.

Financial distress brings more operational challenges to both Board and Management Team than before; the best option is for the CEO to encourage more Board involvement in decision-making. On the side of the Board, this can be done by demanding more information on the CEO's actions than before the crisis. By disagreeing with the statement, CEOs may see their



actions of letting the Boards have more prominent roles in decision-making as taking on one of their routine responsibilities. By disagreeing with this statement, CEOs may be sending signals to outsiders (one of them the researcher) that there is always a good working relationship between the Chair and the CEO. This can increase public trust and increase donations to the charity. For the Chair to see that the Board is now more engaged by the CEO can be interpreted as the Board taking a more prominent role in decision-making than during a period of prosperity.

Segment A4 which is about 'Effects of Board composition' has 32% of differences (Table 8.5) in Likert scores between Chairs and CEOs which are more than one. It also received 76% of differences which are one or more. This segment has five statements which relate to five different types of Director. There are mixed differences in Likert scores between the Chair and the CEO on individual statements; there is no clear picture on who agrees and who disagrees with the statements. Most of the differences in Likert scores on these statements are one. This is an indication that the significant result on these statements is caused by strength of views.

Three statements connected to 'Directors with specialist expertise' have more differences in Likert scores which are more than one. These three statements are discussed in detail in this sub-section.

The first statement is (*A4\_iv\_e*) *Directors with specialist expertise increase the legitimacy of our charity with current and potential funders.* This received more agreements from Chairs than CEOs. The implication may be that Chairs are concerned with the legitimacy of the charities they serve. This is also supported by specialist expertise being the main focus for getting people to serve on a Board, which helps in maintaining or building charities' reputation in the public view.

The second statement is (*A4\_v\_e*) *Directors with specialist expertise may give rise to conflicts of interest in our charity.* This received a mixed response of agreement and disagreement from both respondents. This indicates the intricacy of defining and determining which actions can raise the question of conflicts of interest. These may be a result of the term 'conflicts of interest' being associated with legal issues. Preparing Board members to understand all issues which can be associated with conflicts of interest might not be seen as necessary for most charities during recruitment. This necessity can be diminished by the presence of professional managers running the charities. All charities involved in the study

have professional management which may give clear guidance to members of the Board on actions regarded as conflicts of interest. The presence of Board members with specialist expertise, who are primary targets for charities, can set aside the need for making them aware of conflicts of interest, as charities may presume they must already be aware. As explained earlier in this Chapter, Section 67 of the *Charities and Trustee Investment (Scotland) Act 2005* explains situations which can give rise to conflicts of interests, especially on remuneration for services rendered by Board members.

Another statement in this segment is (A4\_iii\_e) *Directors with specialist expertise are seen to represent the interests of stakeholders in our charity*. The statement has more agree responses from Chairs than from CEOs. This may show that Chairs' concern about their charity's legitimacy is more than that of CEOs. Support for the statement from CEOs can indicate their concern to represent the interest of stakeholders with an aim to give the charity legitimacy.

Another segment in the questionnaire which received more differences in scores between Chairs and CEOs is A2 which relates to *'Board size'*. It received 33.33% of differences which are more than one. It received 73.81% of differences which are one or more. There is mixed support for the statements in this segment from Chairs and CEOs. The first two statements in A2 have more differences on Likert scores of one while the last two have more differences on Likert scores of more than one. This indicates the first two statements have differences in strength of views while the last two have differences in views.

The statement (A2\_i) *A Board with few members leads to a dominant chief executive* received more scores which are neutral and disagree. More Chairs scored neutral on this statement while more CEOs scored disagree. When Chairs remain neutral on this statement, this may send the signal that charities may have problems of dominant CEOs. If Chairs' major concern is the legitimacy of their charities, remaining neutral on the statement can be the best way of expressing their views without either hurting the legitimacy of charities or jeopardising their working relationship with the CEOs. Chairs may also see the presence of a dominant CEO as an issue which undermines the relevance of the Board in the eyes of public; therefore deciding not to give their view can be the best way to defend the Boards' relevance. There is also a possibility that Chairs have not experienced dominant CEOs and, therefore, they are not sure if this actually exists in their charities.

For CEOs, disagreeing with the statement may send a signal that the charity follows all principles of good governance. Results presented in Chapter 7 have found most charities

participating in this research have a Board size between six and 15. CEOs disagreeing with the statement may be upholding the status quo, which is that the existence of small Boards does not necessarily make CEOs dominant.

Another statement in this segment is (A4\_ii) *A Board with a large number of members leads to a dominant chief executive.* This statement also received more scores which are neutral and disagree from both sides. The issue of a dominant Chief Executive seems to receive a cool reception from both Chairs and CEOs. Respondents may have not have experienced dominant CEOs in these charities, so that it can be difficult to respond. Most Chairs deciding to remain neutral on this statement can be an indication that either they have not experienced the issue in their charities, or the statement is too sensitive for them. The CEOs disagreeing with the statement may be an indication that they are not dominant in relation to their Boards, or they have not come across such experience in charities. But if they are dominant to their Boards, CEOs may not be willing to reveal if such practice exists in charities.

The statement (A2\_iii) *A Board with a large number of members leads to a dominant inner core prevailing over other Board members* received more differences in Likert scores which are more than one. The statement received mixed responses from both Chairs and CEOs. A higher proportion of CEOs gave support to the statement than Chairs: CEOs may believe that a large number of Board members cannot serve the charity well. More CEOs supporting the statement can be an indication that the Board has more roles to play in charities other than fulfilling legal requirements. There is a possibility that CEOs view the number of Board members as having little impact on overall charity governance. On the other hand, Chairs' view on having more Board members can be an indication that a Board's monitoring function can be made easier, especially when a Board has members with diverse expertise.

The last statement in this segment is (A2\_iv) *The existence of a large Board is supportive of fundraising.* The statements received more differences in Likert scores which are more than one. The statement receives more agrees from Chairs than from CEOs. On the side of Chairs, supporting the statement may mean that Board members believe they are playing a vital role on fundraising. This cannot only be from their direct involvement in fundraising events and contributions, but from their public image and expertise increasing the legitimacy of their charity, which in turn attracts fund to the charity.

For the remaining segments in the Likert scaled statements, it is clear that there are no substantial differences to discuss as most of differences in scores have differences of one. Therefore the statistical significance on these statements is caused by strengths of views.

#### **8.4 Analysis of Comparison between FNVCs and FVCs**

This Section uses statistical tests to compare differences between FNVCs and FVCs before analysing the statements where responses are statistically significant. The aim is to analyse differences in responses on themes. Statistical tests have been conducted using the full 1-5 Likert scale statements and ranking statements. The FNVCs include responses from both Chairs and CEOs whose charities fall into this group and the FVCs include aggregate responses from Chairs and CEOs whose charities fall into that group. Additionally, the matched response charities listed in Table 8.3 are assigned financial vulnerability status (ie FNVC or FVC) and then analysed.

The conduct of statistical tests in this Section follows the same procedure as described in Section 8.2. The only difference from Section 8.2 is that this Section focuses on financial vulnerability status while the former focuses on all Chairs versus all CEOs. Results in this Section are presented in Tables 8.7 and 8.8, which are followed by discussions. Annex 8A at the end of this Chapter describes how the classifications into FNVC and FVC of the participating charities have been made.

The null and alternative hypotheses for the differences between FNVCs and FVCs are:

*H<sub>0</sub>: There is no difference of responses between FNVCs and FVCs*

*H<sub>1</sub>: There is a difference of responses between FNVCs and FVCs*

**Table 8.7: Combined and statistical tests results for significant statements between FNVCs and FVCs (Sources of income)**

<i>Statements</i>	<i>Percentages of Statements responses on the Ranking of income sources</i>									<i>Results from Statistical tests</i>				
	<i>Post</i>	<i>Mean</i>	<i>Median</i>	<i>Mode</i>	<i>Standard Deviation</i>	<i>Maximum</i>	<i>Minimum</i>	<i>Number of Responses (n)</i>	<i>Statement Response rate %</i>	<i>Sum of Ranks</i>	<i>M-W Z-score</i>	<i>K-S Z-score</i>	<i>M-W P-Value</i>	<i>K-S P-Value</i>
<b>(B1_vii_a )</b> Importance of 'Grants from public sector' in period before the recession.	FNVCs	3.40	7.00	2	2.53	12	3	30	83%	545.00	-2.607	1.427	.008*	.008*
	FVCs	1.82	7.50	1	1.54	12	1	11	65%	316.50				
<b>(B1_i_b)</b> Importance of 'legacies income' in period during the recession.	FNVCs	3.64	4.00	4	2.48	10	1	28	78%	506.50	-2.014	.966	.044*	.156
	FVCs	5.55	5.00	3	3.42	12	1	12	71%	313.50				
<b>( B1_vii_b )</b> Importance of 'Grants from public sector' in period during the recession.	FNVCs	3.21	2.00	2	2.45	10	1	30	83%	707.00	-2.356	1.333	.018*	.012*
	FVCs	2.11	1.00	1	2.67	9	1	11	65%	154.00				
<b>(B1_i_c)</b> Importance of 'legacies income' expectations about the future.	FNVCs	3.60	3.00	1	2.65	12	1	28	78%	527.50	-2.012	.873	.044*	.247
	FVCs	5.42	4.50	7	3.40	12	1	14	82%	375.50				
<b>(B1_vii_c)</b> Importance of 'Grants from public sector' - expectations about the future.	FNVCs	3.39	2.00	2	2.42	10	1	30	83%	716.50	-2.034	1.415	.042*	.008*
	FVCs	2.64	1.00	1	3.29	12	1	12	71%	187.00				

\*statistically significant at 5%

FNVCs = Non Financially Vulnerable Charities; FVCs = Financially Vulnerable Charities

**Table 8.8: Combined and statistical tests results for significant statements between FNVCs and FVCs (Expenditure and budgeting)**

<i>Statements</i>	<i>Percentages of combined responses on Agreement, Neutral and Disagreement</i>									<i>Results from Statistical tests</i>				
	<i>Post</i>	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Number of Responses (n)</i>	<i>Response rate %</i>	<i>% Agreement</i>	<i>% Neutral</i>	<i>% Disagreement</i>	<i>Sum of Ranks</i>	<i>M-W Z-score</i>	<i>K-S Z-score</i>	<i>M-W P-Value</i>	<i>K-S P-Value</i>
<b>(B3_ii)</b> Our charity has reduced expenditure by increasing efficiency without reducing the services provided to beneficiaries/users.	FNVCs	4.25	4.00	5	32	89%	88%	6%	6%	864.00	-2.341	.959	.020*	.080
	FVCs	3.62	4.00	4	15	88%	60%	20%	20%	264.00				
<b>(B3_xiii)</b> Our charity has established other sources of funding which are less risky.	FNVCs	2.33	2.00	2	30	83%	20%	23%	57%	617.50	-2.092	.821	.039*	.179
	FVCs	3.29	3.00	3	16	95%	38%	31%	31%	463.50				
<b>(B3_xiv)</b> The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity.	FNVCs	2.43	2.00	2	32	89%	16%	31%	53%	685.00	-2.226	1.327	.026*	.011*
	FVCs	3.21	3.50	4	16	94%	56%	19%	25%	491.00				
<b>(B3_xv)</b> Our charity will seek to increase the size of General Funds relative to Restricted Funds.	FNVCs	3.32	4.00	4	29	81%	52%	20%	28%	532.50	-3.118	1.308	.001*	.008*
	FVCs	4.31	4.00	5	15	88%	93%	0%	7%	458.00				

\*statistically significant at 5%

FNVCs = Financially Non-Vulnerable Charities; FVCs = Financially Vulnerable Charities

#### 8.4.1 Discussion of statistical results

Notwithstanding the caveat about the null hypothesis being rejected by chance, it is worthwhile examining those statements where rejection of the null hypothesis did occur. These statements were identified after conducting the *M-W test* and *K-S test* on 148 (ie 82 Likert and 66 ranking) statements. These statements are presented in Tables 8.7 and 8.8 in accordance to their numbering in the questionnaire.

Looking at Table 8.7, five ranking statements were found to be statistically significant on the *M-W test* whereas three of these statements were also found to be statistically significant on the *K-S test*. The null hypotheses for statements (*B1\_i\_b*) *Importance of legacies income in period during the recession* and (*B1\_i\_c*) *Importance of legacies income expectations about the future* were rejected by the *M-W test* and accepted by the *K-S test*.

On Table 8.8, four Likert statements were found to be statistically significant on the *M-W test* while two of these statements were also found to be statistically significant on the *K-S test*. The null hypotheses for statements (*B3\_ii*) *Our charity has reduced expenditure by increasing efficiency without reducing the services provided to beneficiaries/users* and (*B3\_xiii*) *Our charity has established other sources of funding which are less risky* were rejected by the *M-W test* and accepted by the *K-S test*. Although the rejection from both tests reduces the possibility of the statement being picked up by chance, all nine statements whose null hypotheses were rejected by the *M-W test* have been included in the discussion. By using all nine statements, the possibility of committing a Type I error (ie wrongly rejecting a null hypothesis) is acknowledged.

Each statement is discussed independently. The statements have been identified to fit two themes. First is responses on sources of funding and their risks and second is responses on charity expenditure and budgetary flexibility. The discussions of results have been divided into two sub-sections, each containing the statistically significant statements shown in Tables 8.7 and 8.8. Each statement is discussed separately within the category in which it falls, though for closely associated statements the discussion associates two or more statements.

For the matched charities (refer to Table 8.3) whose Chairs and CEOs gave statistically different responses, the focus here is differences that can be linked to their FNVC or FVC status. Three of the 11 charities in Table 8.3 were FVCs; the remaining 8 charities were FNVCs. After examining these charities using both their responses and their specific characteristics shown in Table 8.3, there were no specific themes which have been identified

as the main drivers for differences or similarities between Chairs and CEOs in the FNVCs and those in the FVCs. Further examination on the 11 charities indicated that two of the three FVCs have expenditure classification of *citizenship, and law and order* and *international activities*, of which there were few in the study sample. The other has the expenditure classification of *social services and relief*. Generally, there are no specific themes whose differences can be connected to the matched charities as a result of being FNVCs or FVCs.

#### **8.4.2 Sources of funding and their risks**

This sub-section focuses on the statements which contain two types of funding sources, *Grants from public sector* and *legacies income*, and the establishment of new sources of funding. Looking at Table 8.7, the FVCs have ranked *grants from public sector* as more important to them than to FNVCs throughout the three periods (ie ‘before recession’, ‘during recession’ and ‘expectations about the future’). The ranking is 1 to 12, where 1= ‘most important’ and 12 = ‘least important’. The mean and sum of ranks for statements (*BI\_vii\_a*) *Importance of Grants from public sector in period before the recession* are FNVCs (3.64, 506.50) and the FVCs (5.55, 313.50), while statistical results at 5% show the M-W p-value is 0.008 and the K-S p-value is 0.008 (ie p-values less than 0.05).

The mean and sum of ranks for statements (*BI\_vii\_b*) *Importance of Grants from public sector in period during the recession* are FNVCs (3.21, 707.00) and FVCs (2.11, 154.00), while statistical results at 5% show the M-W p-value is 0.018 and the K-S p-value is 0.012 (ie p-values less than 0.05).

The mean and sum of ranks for statements (*BI\_vii\_c*) *Importance of Grants from public sector - expectations about the future* are FNVCs (3.39, 716.50) and FVCs (2.64, 187.00), while statistical results at 5% show the M-W p-value is 0.042 and the K-S p-value is 0.008 (ie p-values less than 0.05).

The three statements indicate that grants from the public sector are more important for FVCs than for FNVCs. Charities which depend mostly on grants from the public sector risk being unable to maintain the level of services when public policies are changed to reduce grants to charities. The dependency on public grants at a time when the public sector is seeking to reduce its expenditure makes those charities whose primary source of funding is public grants and contracts worry about their present and future operations. The research finding that FVCs regard grants and control from the public as important indicates that this source of income



makes charities more vulnerable to curtailment of their operations when policies to eliminate grants are implemented.

Legacies in the period of recession and expectation about the future are more important to FNVCs than FVCs. The statement (*BI\_i\_b*) *Importance of legacies income in period during the recession* received from FNVCs (3.64, 506.50) and from FVCs (5.55, 313.50). The statistical results at 5% show the M-W p-value is 0.044 and the K-S p-value is 0.156 (ie p-value more than 0.05). The statement (*BI\_i\_c*) *Importance of legacies income – expectation about the future* received from FNVCs (3.50, 527.50) and from FVCs (5.42, 375.50). The statistical results at 5% show the M-W p-value is 0.044 and the K-S p-value is 0.247 (ie p-value more than 0.05).

Both statements have the null hypothesis rejected by the *M-W test* and accepted by the *K-S test*. This raises a possibility of committing Type I or Type II errors. FNVCs give a lower mean with higher sum of ranks and FVCs gives a higher mean and lower sum of ranks. The number of responses (28 for FNVCs and 12 for FVCs) for statement (*BI\_i\_b*) and (28 for FNVCs and 14 for FVCs) for statement (*BI\_i\_c*) affect both the mean and sum of ranks. Mean scores on these statements show legacies are more important for FNVCs than for FVCs.

Legacies are a difficult source of income to secure as they involve legal procedures and in most cases the charity has to wait until the death of the donor. Charities which receive properties as legacies are protected from financial distress, especially when it is legally possible to sell properties or receive rental income.

#### **8.4.3 Charities' budgetary flexibility and other sources of income**

The sub-section focuses on the four Likert statements in Table 8.8. The statement (*B3\_ii*) *Our charity has reduced expenditure by increasing efficiency without reducing the services provided to beneficiaries/users* received support from both FNVCs (88%) and the FVCs (60%). Statistical results on the statement at 5% significance level show the M-W p-value is 0.020 (ie less than 0.05) and the K-S p-value is 0.080 (ie more than 0.05). The ratio of agreement to disagreement for FNVCs is 15:1 while that of the FVCs is 3:1. The results are also supported by the sum of ranks on FNVCs standing at 864.00 compared to that of FVCs which is 264.00. This implies FNVCs are more supportive of the statement than FVCs. This statement can be connected to grants from the public sector where grants are associated with specific charitable activities. A charity which depends mostly on grants can find no

alternative to direct expenditure to activities directed by grant providers. FVCs giving less support than FNVCs to the statement can be the result of the covenants attached to the grants from the public sector which form their major source of income.

The statement (*B3\_xiii*) *Our charity has established other sources of funding which are less risky* received less support from both FNVCs (20%) and FVCs (38%). Statistical results on the statement at 5% significance level show the M-W p-value is 0.039 (ie less than 0.05) and the K-S p-value is 0.179 (ie more than 0.05). The ratio of agreement to disagreement for FNVCs is 0.35:1 while that of the FVCs is 1.23:1. The results are also supported by the sum of ranks on FNVCs of 617.50 compared to that of FVCs of 463.50. This indicates FNVCs are more supportive of the statement than FVCs. There is a split response on the statement. FNVCs disagreeing with the statement indicate the nature of their current income is not very much at risk compared to FVCs which have split views, leaning towards agreeing with the statement. At the time of fieldwork, charities whose portfolio includes grants and contracts from the public sector were fearful about Government spending reductions. It is most likely that FVCs were actively engaged in finding alternative sources to grants from the public sector to fill any gap, while FNVCs did not see it as a problem.

The statement (*B3\_xiv*) *The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity* received much less support from FNVCs (16%) than from FVCs (56%). Statistical results on the statement at 5% significance level show the M-W p-value is 0.026 and the K-S p-value is 0.011 (ie less than 0.05). The ratio of agreement to disagreement for FNVCs is 0.30:1 while that of FVCs is 2.24:1. On this statement, FVCs agree while FNVC disagree. These differences may be a result of the two groups having different types of funding. If FVCs have greater Restricted Funds than General Funds, this may be felt directly on their budgetary flexibilities. If FVCs have more funds from grants from the public sector and other sources which tie donations to specific programmes, this leaves them with no choice other than executing programmes which have been funded. For FNVCs this may be the opposite, that they have few Restricted Funds with more General Funds; this makes the impact of Restricted Funds on budgetary flexibility not a major problem. Therefore the FNVCs are more likely to disagree with the statement than the FVCs.

The statement (*B3\_xv*) *Our charity will seek to increase the size of General Funds relative to Restricted Funds* has received support from both FNVCs (52%) and FVCs (93%). Statistical results on the statement at 5% significance level show M-W p-value is 0.001 and K-S p-value

is 0.008 (ie less than 0.05). The ratio of agreement to disagreement for FNVCs is 1.86:1 while that of the FVCs is 13.2:1. This statement follows the same pattern as statement (*B3\_xiv*); a much stronger majority of FVCs (93%) agree with the statement compared to FNVCs (52%). Those FVCs which have more Restricted Funds will seek to reduce the restriction by increasing General Funds. On the other hand, FNVCs may see less need to increase the General Fund as they have no problem with Restricted Funds. One of the problems which can be a major cause of charity vulnerability is heavy dependency on Restricted Funds for their operations.

### **8.5 Overview of the results**

Analysis between all Chairs and CEOs shows that there are not many differences in views between the two groups. Statements which were sensitive for both groups received neutral responses; this does not indicate that there are no views on these matters. The questionnaire segment on 'Effects of Board composition' has been found to be mostly affected by disagreement between the two groups. Four out of the five statements which are statistically significant come from this segment, showing more debate on Board composition. At a time of economic prosperity, Board composition may have little effect and their involvement in charity operations may not be so high compared with a time of financial distress. As shown in Chapter 7, charities are now focusing more on having Board members with specialist expertise; having other types of Board member may not be so significant for charity operations at a time when they need the contribution of those with specialist expertise. More disagreements came on Directors who are also working in a voluntary capacity, those who are beneficiaries, and those who are paid employees. There is no disagreement on Board members who have specialist expertise.

Another area of disagreement is from the questionnaire segment concerned with 'Charity's response to reduced funding or greater riskiness of funding'. There is one statement in dispute between the groups which is concerned with reductions of expenditure. This also shows the internal struggle in charities to contain costs at a time of budgetary cuts. There has been management restructuring in some charities which resulted in removing some posts to contain costs. These actions can be seen as positive on the side of Chairs and negative on the side of CEOs, some of whom (in other charities) lost their posts.

Looking at matched Chairs and CEOs, the same pattern has been shown as for the groups. The areas which were the causes of differences there are also the causes of differences in this

Section. There is no clear evidence which can associate the legal status or expenditure classification with these differences.

In this Chapter, the statistical tests findings were addressed to **Research Question 1:** *How has recession affected the Chairs' and CEOs' responses on the charity governance and accountability issues?* **Research Question 2:** *Are responses from Chairs and CEOs indicating a signalling behaviour in charities?* and **Research Question 3:** *Does financial vulnerability status of a charity affect Chairs' and CEOs' responses on governance and accountability?* Chapter 9 will present overall conclusions and recommendations.

Looking at the overall findings, there are more similarities than significant differences between groups. The aggregate comparison between all Chairs and all CEOs shows more similarities (93.9%) on the tested statements than differences (6.1%). Differences are first, monitoring charity efficiency, where more Chairs agree that Board members' involvement in voluntary work, other than their role as Directors, increases charity efficiency. Fewer CEOs agree with this. Another area of disagreement is on conflicts of interests. More CEOs agree that when beneficiaries/users or paid employees are included on a Board this can give rise to conflicts of interests, with fewer Chairs agreeing. Thirdly, there is disagreement on expenditure reduction. Disagreement on this theme is caused by strength of views rather than differences in views.

On the matched Chairs and CEOs, 11 charities have Chairs and CEOs who disagree (44%). Examining questionnaire responses, these differences are driven by statements describing Board size, respective roles of Board and Management Team, and effect of Board composition.

On the FNVCs and FVCs there are more similarities than differences. Differences can be seen on sources of funding and their risk, where FVCs indicate grants from the public sector are more important to them than to FNVCs. In contrast, FNVCs indicates legacies are more important to them than to FVCs. More FNVCs agree with a statement that they reduced expenditure by increasing efficiency without affecting their charitable purposes. More FVCs (38%) agree with this, a lower number of FNVCs (20%) agrees to establish other resources. On the other hand, more FVCs (56%) agree that the distinction between General Funds and Restricted Funds limits budget flexibility, while fewer FNVCs (16%) agree.

The next Chapter extends the discussion to conclusions and recommendations. The research background is reviewed and the research findings and implications for public policies are

presented. Other considerations include research limitations and opportunities for further research.

## ANNEX 8A: MEASURING CHARITIES FINANCIAL VULNERABILITY STATUS

A charity's financial vulnerability status has been measured using the financial vulnerability index model proposed by Trussel, Greenlee and Brady (2002). The model uses five financial distress indicators which are: debt ratio; revenue concentration; surplus margin; administrative cost ratio; and charity size.

These distress indicators have been calculated using 2009 or 2010 charity accounts. Debt ratio (*Equity*) measures the relative amount of charity equity and is determined by taking the ratio of total liabilities to total assets. Revenue concentration (*Rconc*) measures the amount and variety of a charity's sources of revenue; it is determined by taking the sum of squares for the proportions of each type of income. Surplus margin (*Smarg*) measures the excess of revenues over expenses relative to revenues; it is determined by subtracting total expenses from total revenues divided by total expenses. Administrative cost ratio (*Admin*) measures the percentage of revenues spent on administration as opposed to direct charitable costs; it is determined by dividing administrative costs by total revenues. Charity size (*Size*) is determined by taking the natural logarithm of total assets.

The regression equation used to determine the Financial Vulnerability Index (FVI) of each charity is:

$$FVI = \frac{1}{e^{-Z}}$$

Where:

$$Z = 0.7754 + 0.9272(Equity) + 0.1496(Rconc) - 2.8419(Smarg) - 0.1206(Admin) - 0.1665(Size); \text{ and } e = 2.178.$$

On interpreting the resulting financial status of individual charities, the following explanations have been used as suggested by the model:

- FVI score less than or equal to 0.20: indicates a charity is in a good financial position to overcome any financial shock. This indicated charity operations have less chance of disruption due to the abrupt loss of a major source of funding (ie FNVC)
- FVI score greater than 0.20: indicates a charity is not in a healthy financial position and major changes in its revenue stream may force a charity into liquidation (ie FVC)

Table 8A1 presents a summary of formula used in the computation of financial distress indicators. Table 8A2 presents data which have been used for computation extracted from annual reports and accounts of the participating charities. The data were extracted from 2009

or 2010 reports. Table 8A3 shows Ms Excel computations and the assigning of financial vulnerability status to the participating charities as FNVC or FVC based on the output and the interpretation explained above.

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**Table 8A1: Summary of financial distresses in charities**

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<b>Financial distress indicators</b>	<b>Measure</b>
1. Debt ratio(Equity)	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$
2. Revenue concentration (Rconc)	$\sum_{n=1}^i \left( \frac{\text{Revenue}_i}{\text{Total Revenues}} \right)^2$
3. Surplus margin (Smarg)	$\frac{\text{Total Revenues} - \text{Total Expenses}}{\text{Total Revenues}}$
4. Administrative cost ratio (Admin)	$\frac{\text{Administrative Expenses}}{\text{Total Revenues}}$
5. Charity size(Size)	Natural logarithm of total Assets

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Revenue is from  $i^{\text{th}}$  source (eg 1=legacies, 2=investment income, 3=public donations...)

*Source: Trussel et al (2002)*

**Table 8A2: Total assets, total liabilities, income and expenditure (£) from the participated charities**

Participating Charity	Total Assets (£)	Total Liabilities	Voluntary Income	Charitable income	Legacy Income	Investment Income	Other generated income	Charitable expenditure	Administrative expenditure	Total expenditure	Total revenue
Charity 1	1,430,676	1,629,032	5,208,199	1,847,765		478	337,083	6,764,344	19,585	7,341,855	7,393,525
Charity 2	46,609,000	11,955,000	903,000	37,850,000				20,949,000	6,557,000	38,281,000	38,753,000
Charity 3	77,899,000	9,189,000	10,620,000	12,004,000		1,463,000		20,860,000	46,000	22,600,000	24,087,000
Charity 4	41,329,362	4,281,499	1,158,210	12,533,108		1,221,710		13,604,983	16,198	14,195,792	14,913,028
Charity 5	10,786,161	1,181,896	5,130,400	1,251,866		114,291	774,787	5,696,099	26,368	5,970,423	7,271,344
Charity 6	9,632,151	1,231,394	2,298,884	8,928,290		288,523	868,645	10,745,350	24,815	11,251,456	12,384,342
Charity 7	6,666,794	420,839	581,227	2,372,179	601,106	139,623	1,207,368	3,581,188	108,403	4,479,846	4,901,503
Charity 8	26,677,000	4,112,000	15,000	48,178,000		632,000	122,000	47,501,000	54,000	47,568,000	48,947,000
Charity 9	4,397,944	4,776,726	405,758	8,117,373		25,731	24,000	8,787,527	17,694	8,805,221	8,524,862
Charity 10	5,663,540	1,567,784	2,224,549	6,180,299	843,737	49,080	956,729	9,696,576	25,813	10,814,485	10,254,394
Charity 11	10,415,597	1,593,984	474,612	25,949,680		40,119		26,033,777	28,161	26,102,100	26,464,411
Charity 12	8,361,070	918,559	3,271,122	1,992,966	822,904	274,441	23,997	5,112,043	40,294	5,821,309	6,385,430
Charity 13	44,645,520	1,558,818	3,524,523	2,430,495		801,248	1,085,603	5,114,313	76,376	6,251,844	7,841,869
Charity 14	4,386,471	1,115,651	197,392	8,526,814		26,985	10,822	8,578,429	27,715	8,631,121	8,762,013
Charity 15	17,878,000	5,711,000	1,253,000	41,089,000		361,000	224,000	41,889,000	172,000	43,562,000	42,927,000
Charity 16	18,917,617	23,467,767	15,155,468		1,605,085	525,711	82,666	10,995,912	31,933	16,564,069	17,368,930
Charity 17	37,391,000	18,195,000	83,916,000	1,726,000		1,523,000	575,000	75,242,000	949,000	94,229,000	87,740,000
Charity 18	145,804,000	117,317,000	44,475,000	147,122,000		3,528,000	39,198,000	186,868,000	1,652,000	193,120,000	234,323,000
Charity 19	43,229,000	1,495,000	3,802,000	1,019,000	2,162,000	900,000	485,000	6,965,000	191,000	8,679,000	8,368,000
Charity 20	8,640,650	5,813,047	565,496	27,217,782		13,916	159,657	27,769,634	28,161	27,966,149	27,956,851
Charity 21	14,016,000	16,192,000	1,242,000	16,105,000	28,000	172,000	413,000	19,008,000	50,000	19,569,000	17,960,000
Charity 22	10,089,062	7,492,705	375,432	21,019,046		73,922		21,045,349	49,969	21,441,352	21,468,400
Charity 23	25,011,000	1,505,000	1,748,000	12,942,000		393,000	539,000	14,917,000	292,000	15,529,000	15,622,000
Charity 24	133,570,000	23,405,000	30,233,000	45,683,000	38,069,000	1,690,000	19,470,000	111,136,000	1,821,000	130,150,000	135,145,000
Charity 25	162,807,000	10,589,000	22,270,000	5,233,000	5,904,000	6,281,000	11,110,000	23,793,000	474,000	36,169,000	50,798,000
Charity 26	4,596,190	2,332,597	62,054	10,540,856		32,892		10,413,486	13,275	10,509,797	10,635,802
Charity 27	120,540,000	83,454,000	10,394,000	172,776,000	6,118,000	2,655,000	8,465,000	192,914,000	886,000	205,783,000	200,408,000
Charity 28	8,733,703	3,579,844	719,883	27,235,117			1,707,650	29,017,606	44,511	29,518,398	29,662,650
<b>Total</b>	<b>1,050,123,508</b>	<b>366,081,142</b>	<b>252,224,209</b>	<b>707,870,636</b>	<b>56,153,832</b>	<b>23,226,670</b>	<b>87,840,007</b>	<b>964,998,616</b>	<b>13,723,271</b>	<b>1,070,904,217</b>	<b>1,127,267,354</b>

Colour meaning

	Extracted from 2009 Annual Reports and accounts
	Extracted from 2010 Annual Reports and accounts



**Table 8A3: Computation of financially vulnerable status of charities based on Table 8A2**

Participating Charity	Debt ratio(Equity)	$\left(\frac{\text{Voluntary Income}}{\text{Total revenue}}\right)^2$	$\left(\frac{\text{Charitable income}}{\text{Total revenues}}\right)^2$	$\left(\frac{\text{Legacy Income}}{\text{Total revenues}}\right)^2$	$\left(\frac{\text{Investment Income}}{\text{Total revenues}}\right)^2$	$\left(\frac{\text{Other generated income}}{\text{Total revenues}}\right)^2$	Rconc	Smarg	Admin	Size	Z	FVI	Financial vulnerability status
Charity 1	1.13864	0.49622	0.06246	0.00000	0.00000	0.00208	0.56076	0.00699	0.00265	14.17366	-0.46505	0.38579	FVC
Charity 2	0.25650	0.00054	0.95394	0.00000	0.00000	0.00000	0.95448	0.01218	0.16920	17.65730	-1.83895	0.13718	FNVC
Charity 3	0.11796	0.19439	0.24836	0.00000	0.00369	0.00000	0.44644	0.06173	0.00191	18.17092	-2.24957	0.09539	FNVC
Charity 4	0.10359	0.00603	0.70629	0.00000	0.00671	0.00000	0.71903	0.04809	0.00109	17.53708	-2.07771	0.11128	FNVC
Charity 5	0.10958	0.49782	0.02964	0.00000	0.00025	0.01135	0.53906	0.17891	0.00363	16.19377	-2.24751	0.09556	FNVC
Charity 6	0.12784	0.03446	0.51975	0.00000	0.00054	0.00492	0.55967	0.09148	0.00200	16.08062	-1.95997	0.12347	FNVC
Charity 7	0.06312	0.01406	0.23423	0.01504	0.00081	0.06068	0.32482	0.08603	0.02212	15.71265	-1.98078	0.12124	FNVC
Charity 8	0.15414	0.00000	0.96883	0.00000	0.00017	0.00001	0.96901	0.02817	0.00110	17.09931	-1.86395	0.13424	FNVC
Charity 9	1.08613	0.00227	0.90668	0.00000	0.00001	0.00001	0.90897	-0.03289	0.00208	15.29665	-0.53524	0.36930	FVC
Charity 10	0.27682	0.04706	0.36324	0.00677	0.00002	0.00870	0.42580	-0.05462	0.00252	15.54956	-1.33831	0.20779	FVC
Charity 11	0.15304	0.00032	0.96148	0.00000	0.00000	0.00000	0.96180	0.01369	0.00106	16.15881	-1.66830	0.15865	FNVC
Charity 12	0.10986	0.26243	0.09741	0.01661	0.00185	0.00001	0.37831	0.08835	0.00631	15.93910	-1.97183	0.12219	FNVC
Charity 13	0.03492	0.20200	0.09606	0.00000	0.01044	0.01916	0.32767	0.20276	0.00974	17.61426	-2.65338	0.06578	FNVC
Charity 14	0.25434	0.00051	0.94703	0.00000	0.00001	0.00000	0.94755	0.01494	0.00316	15.29404	-1.43632	0.19212	FNVC
Charity 15	0.31944	0.00085	0.91620	0.00000	0.00007	0.00003	0.91715	-0.01479	0.00401	16.69908	-1.53005	0.17799	FNVC
Charity 16	1.24052	0.76136	0.00000	0.00854	0.00092	0.00002	0.77084	0.04634	0.00184	16.75560	-0.88079	0.29301	FVC
Charity 17	0.48661	0.91473	0.00039	0.00000	0.00030	0.00004	0.91546	-0.07396	0.01082	17.43694	-1.33083	0.20902	FVC
Charity 18	0.80462	0.03602	0.39421	0.00000	0.00023	0.02798	0.45844	0.17584	0.00705	18.79777	-2.04037	0.11503	FNVC
Charity 19	0.03458	0.20643	0.01483	0.06675	0.01157	0.00336	0.30294	-0.03717	0.02283	17.58202	-1.97175	0.12220	FNVC
Charity 20	0.67276	0.00041	0.94783	0.00000	0.00000	0.00003	0.94827	-0.00033	0.99330	15.97199	-1.23714	0.22493	FVC
Charity 21	1.15525	0.00478	0.80410	0.00000	0.00009	0.00053	0.80950	-0.08959	0.00278	16.45571	-0.51796	0.37333	FVC
Charity 22	0.74266	0.00031	0.95858	0.00000	0.00001	0.00000	0.95889	0.00126	0.00233	16.12696	-1.08156	0.25321	FVC
Charity 23	0.06017	0.01252	0.68632	0.00000	0.00063	0.00119	0.70067	0.00595	0.01869	17.03483	-1.91946	0.12792	FNVC
Charity 24	0.17523	0.05005	0.11426	0.07935	0.00016	0.02076	0.26457	0.03696	0.01347	18.71014	-2.24445	0.09583	FNVC
Charity 25	0.06504	0.19220	0.01061	0.01351	0.01529	0.04783	0.27944	0.28798	0.00933	18.90808	-3.09023	0.04351	FNVC
Charity 26	0.50751	0.00003	0.98223	0.00000	0.00001	0.00000	0.98227	0.01185	0.00125	15.34074	-1.19514	0.23234	FVC
Charity 27	0.69233	0.00269	0.74325	0.00093	0.00018	0.00178	0.74883	-0.02682	0.00442	18.60749	-1.49310	0.18346	FNVC
Charity 28	0.40989	0.00059	0.84302	0.00000	0.00000	0.00331	0.84692	0.00486	0.00150	15.98270	-1.39297	0.19893	FNVC

Colour meaning

	FVC: Financially Vulnerable Charity (ie FVI > 0.2)
	FNVC: Financially Non-Vulnerable Charity (ie FVI ≤ 0.2)

## **ANNEX 8B: TEST FOR NON-RESPONSE BIAS**

When conducting research by using questionnaires, one of the major concerns is the problem of non-response bias. Non-response bias occurs when there is a difference between the preferences of non-respondents and those of respondents on whom estimates are based (Pearl and Fairley, 1985). Bias is the difference between a survey estimate and the actual value of a population. The product of the magnitude of the difference and the proportion of non-respondents gives the expected size of the bias. To minimise the problem of non-response bias, the researcher needs to reduce the magnitude of the difference between the respondents and the non-respondents, most notably through reducing the proportion of non-respondents via efforts to stimulate higher participation (Linsky, 1975; Lapsley et al, 2004).

After knowing the level of the survey participation, research may attempt to adjust the estimates through the application of sample weights. Two methods can be applied for this purpose. The first is to give greater weight to respondents who took more time and extra effort to bring them into the sample under the assumption that they resemble the non-respondents (Pace, 1939; Politz and Simmons, 1949; Oppenheim, 1992). The common method for stimulating responses is by sending multiple mails/emails as reminders. Focusing specifically on this research, this method was used for participants who either neglected the first request to participate or replied once and then kept quiet. This effort was used until either a formal refusal to participate was received or another date was set for the meetings. The second method is taking advantage of other surveyed variables whose population distribution is closely known (eg race, sex, age, income) (Pearl and Fairley, 1985). This method was not practical in this research because of the absence of those variables.

In conjunction with the above explanations, the research can test for the existence of non-response bias using statistical tests of significance between two independent groups. Testing for normal distribution of the sample, two types of statistical test can be used. The first type is *Levene's test*, which tests for the hypothesis that *'the variances between the groups are equal'*. This type of test works under the assumption that the data are normally distributed; this assumption was not met in this research. The second type is using the *M-W test*, which tests the hypothesis that *the population from which the two samples are drawn have the same location*. This test does not require the normality assumption, as it is in a group of non-parametric tests discussed in Chapter 5. This type of test was then adopted in this research.

Before performing this test, it was necessary to establish two independent groups to run the test. There are two approaches on how to establish these independent groups. The first approach is by comparing the estimates from the respondents to that of the population values. This is difficult because it is necessary to establish a source of data on the population which can be used to establish values for the population estimates. Unavailability of population values makes this approach impractical.

The second approach is to link the two groups of 'respondents' and 'non-respondents'. Because they have agreed to participate in the research, there is already the group of respondents. The problem to be faced is how to establish the 'non-respondents group'. Literature suggests three different methods of establishing the non-respondents group.

The first is to use a 'follow-back survey' to contact the non-respondents (including refusals) and re-ask for their responses. This method is not practically viable in this case as great efforts were made to persuade the 'refusers' to participate in the first place. Looking at the time frame and limited resources available for the research, to re-engage those who refused was not an option; therefore this method was not adopted.

The second method is to use the same surveyed variables (statements) in the past from the same population distribution to establish the parameters of the non-respondents group. This is also not practical because of the lack of known parameters established in the past by other researchers. This would work well if the current research were an extension of a past project which used the same variables. For this reason this method was also rejected.

The third method is to use the respondents group and divide it into two groups of 'early respondents' (ERs) and 'late respondents' (LRs). It has been established that people who feel strongly about the issues in a survey are more likely to respond earlier (Pearl and Fairley, 1985). Thus it has been suggested that LR's more closely resemble non-respondents (Oppenheim, 1992). This method has been adopted for the purposes of testing for non-response bias.

Therefore a *M-W test* was carried out for the differences between ERs (ie those who completed questionnaire between September and December, 2010) and LR's (ie those who completed the questionnaire between January and May, 2011). Early respondents were obtained after agreement to participate and interview were performed after the first request (ie first request replied and all arrangements and interviews were made) while the late

respondents have been obtained after interview were conducted following the sending of reminders (ie second or multiple reminders until agreement and interviews were made).

In this research there were 53 people who completed questionnaires and were then interviewed. Thirty nine people completed the questionnaire and were interviewed between September and December 2010 and 14 completed the questionnaire and were interviewed between January and May 2011.

The research found four statements have statistically significant differences between the two groups (Table 8B1) out of the 148 five-point Likert and 1 to 12 ranking statements that were tested (2.7%). These were statements *A4\_v\_b*, *A4\_v\_c*, *B3\_v*, and *B3\_xiv*, as shown in Table 8B1.

<b>Table 8B1: Statistically significant differences between early responses (ERs) and late responses (LRs)</b>											
<b>VARIABLES</b>	<b>Response</b>	<b>Mann-Whitney P-Value</b>	<b>Mean</b>	<b>Median</b>	<b>St. Deviation</b>	<b>Coefficient of Variation</b>	<b>No. of Responses (n)</b>	<b>Response rate %</b>	<b>% Agreement</b>	<b>% Neutral</b>	<b>% Disagreement</b>
<b>(A4_v_b)</b> Beneficiaries/users may give rise to the conflict of interest in our charity	<b>ERs</b>	<b>.006</b>	3.16	3	1.01	0.32	19	49%	47%	16%	37%
	<b>LRs</b>		2.15	2	0.90	0.42	13	93%	8%	23%	69%
<b>(A4_v_c)</b> Paid employees other than executive Directors may give rise to conflict of interest in our charity	<b>ERs</b>	<b>.035</b>	3.57	4	1.09	0.50	14	36%	57%	21%	21%
	<b>LRs</b>		2.00	2	0.89	0.45	6	43%	0%	33%	67%
<b>(B3_v)</b> Our charity has reduced expenditure by reducing the number of paid management-level staff	<b>ERs</b>	<b>.007</b>	3.00	3	1.50	0.50	35	90%	49%	11%	40%
	<b>LRs</b>		4.07	5	1.44	0.35	14	100%	79%	7%	14%
<b>(B3_xiv)</b> The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity	<b>ERs</b>	<b>.035</b>	2.66	2	1.28	0.48	29	74%	31%	7%	62%
	<b>LRs</b>		3.38	3	1.12	0.33	10	71%	20%	50%	30%

The differences between the two groups are found in two areas. The first is in the responses of the conflicts of interest which can arise as a result of beneficiaries/users and paid employees serving on Boards. The second is in the area of expenditure reduction and budgetary flexibility.

Looking at the Table 8B1, there are clear differences in views on the area of the conflicts of interest (ie statements *A4\_v\_b* and *A4\_v\_c*). The statement (*A4\_v\_b*): *When included on the Board, beneficiaries/users, may give rise to the conflict of interest in our charity* received 47% of agreement from early respondents but only 8% of agreement from the late respondents. The ratios of agreement to disagreement 1.27:1 and 0.12:1, respectively. Thus more late respondents disagree with the statement while more early respondents agree with it. The same pattern can be observed in the statement *A4\_v\_c* *Paid employees other than Executive Directors may give rise to conflict of interest in our charity* where the ratio of agree to disagree on ERs stands at 2.71:1 and that of the LRs cannot be defined because no respondents agree. These two statements show clear differences in views between early and late respondents.

For the remaining statements, the differences between ERs and LRs are caused by strength of views. The statement (*B3\_v*): *Our charity has reduced expenditure by reducing the number of paid management-level staff* received 49% of agreement from ERs and 79% of agreement from LRs, the ratio of agreement to disagreement standing at 1.22:1 and 5.64:1, respectively. The same pattern is observed on the statement (*B3\_xiv*) *The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity*, with the ratio of agreement to disagreement of ERs standing at 0.5:1 while that of LRs is 0.67:1. In these two statements there are split responses between ERs and LRs.

Assuming that the LRs are a representative sample of the non-responses, the research recalculated the parameters on Table 8B1 above for the four statements. Requests were sent for participation to 78 people in 39 charities registered in Scotland Participation was 53 people (68%) from 28 charities (72%). Those who responded and were interviewed on the first request were 39 people (50%) of the 78 people expected when initially sending the requests. The research assumed that 14 people who responded late are more representative of the remaining 50% who failed to respond to the first request. When the early responses are weighted by 50% and the last responses are weighted by 50% the results shown in Table B2 are obtained. The formula used to compute the weighted value is:

$$\text{Value from early responses} * 50\% + \text{Value from late responses} * 50\% = \text{Weighted value}$$

Where: ‘*Value from early responses*’ and ‘*Value from late responses*’ in the formula stands for parameter value (eg mean, median, standard deviation etc).

The weighted values were then checked against aggregate values obtained in Chapter 7 on the same statements to conclude if there is any serious non-response bias. Based on the results in Table 8B2 below, the conclusion is that non-response bias was not a problem with the reported results. This is because the weighted values have no significant impact on the aggregated observed results on the statements which are statistically different between the early responses and the late responses.

<b>Table 8B2: Weighted values and aggregated observed values</b>									
<b>Weighted values</b>									
<b>Statements</b>	<b>Mean</b>	<b>Median</b>	<b>Standard deviation</b>	<b>Coefficient of variation</b>	<b>Number of responses</b>	<b>Response rate</b>	<b>% agreement</b>	<b>% neutral</b>	<b>% Disagreement</b>
(A4_v_b) Beneficiaries/users, may give rise to the conflict of interest in our charity	2.66	3	0.96	0.37	32	60%	28%	20%	52%
(A4_v_c) Paid employees other than executive Directors, may give rise to conflict of interest in our charity	2.79	3	0.99	0.48	20	38%	29%	27%	44%
(B3_v) Our charity has reduced expenditure by reducing the number of paid management-level staff	3.54	4	1.47	0.43	48	91%	64%	9%	27%
(B3_xiv) The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity	3.02	3	1.20	0.41	48	91%	26%	28%	46%
<b>Aggregated observed values</b>									
<b>Statements</b>	<b>Mean</b>	<b>Median</b>	<b>Standard deviation</b>	<b>Coefficient of variation</b>	<b>Number of responses</b>	<b>Response rate</b>	<b>% agreement</b>	<b>% neutral</b>	<b>% Disagreement</b>
(A4_v_b) Beneficiaries/users, may give rise to the conflict of interest in our charity	2.75	3	1.08	0.39	32	60%	31%	19%	50%
(A4_v_c) Paid employees other than executive Directors, may give rise to conflict of interest in our charity	3.10	3	1.25	0.40	20	38%	40%	25%	35%
(B3_v) Our charity has reduced expenditure by reducing the number of paid management-level staff	3.31	4	1.49	0.50	48	91%	44%	13%	44%
(B3_xiv) The distinction between General Funds and Restricted Funds limits the budgetary flexibility of our charity <sup>3</sup>	2.85	3	1.27	0.45	48	91%	29%	27%	44%

Looking at the analysis above, participation refusals did not cause a problem. Out of 148 variables (ie 82 five-points Likert statements and 66 (1 to 12) ranking statements) which were subjected to the tests, four were statistically significant (2.7%). It is possible that these statements have been picked up by chance. It can be concluded that the reported results have not been affected by bias in the reported results.

## **CHAPTER 9: CONCLUSION AND RECOMMENDATIONS**

### **9.1 The Research Background**

This Chapter focuses on the background to the research and on a general conclusion about the research findings by mapping these findings to previous literature. It also gives the researcher's views on the new skills and knowledge acquired as a result of conducting the research. After looking into problems and achievements, the Chapter discusses possible areas for extending the research in the future in relation to issues which were not the focus of this research but which did emerge during the fieldwork and discussions of results.

The charity sector is one of the three important parts of the economy (Figure 9.1), along with the business and public sectors. The inter-dependency of the three sectors (especially between the business and charity sectors, and the public and charity sectors) has increased in recent years. Because of the rapid growth of the charity sector, its importance has been evidenced in both developing and developed countries.

While in developed countries the sector is now playing an important role in the delivery of public services, in developing countries like Tanzania (where the researcher is from), there are mixed roles for charities. For example, after Tanzania introduced a multi-party system in 1992, charities played an important role in the transition to the new political culture. As time passed, the roles of charities expanded to social services like care for orphans, street children and legal and human rights awareness, because of the initial trust which the public gave to the sector. It was evident that some people were using this trust for personal and private gain. After the sector attracted the interest of both local and international donors, there was a mushrooming of charities in the context of weak regulations, including fraudulent 'briefcase' charities. It was this rapid growth without proper regulation which captured the attention of the researcher.

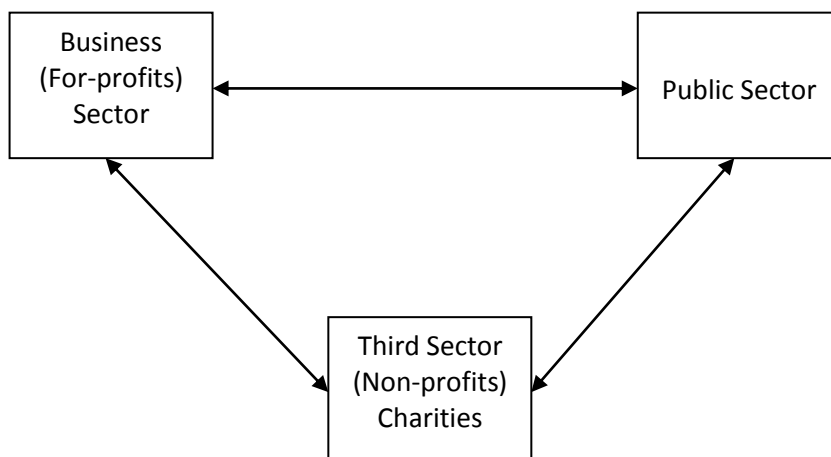
More research has been done on for-profit organisations. Using the background and experience of the researcher, it was important to focus on how charities in a developed economy are performing (Anheier, 2005). Looking at Figure 9.1, both business and public sectors are now focusing on the charity sector for different reasons. While corporate organisations may feel an obligation to donate some of their profits to charitable causes as part of their corporate responsibilities to society, the real motive may not be clear, especially when tax laws (which are out of the scope of this research) provide tax incentives for corporate charitable donations. On the other hand, the public sector is now using charities to fulfil their different obligations which are embedded in the charitable activities (eg care for

the sick and environmental protection). This can be fulfilled by providing contracts and grants to charities.

Individuals who are donating to charities may also have different motives. These motives are difficult to know for sure. Whether they donate for altruism, prestige or even to experience a ‘warm-glow’, as suggested by Andreoni (1990), is difficult to know from one society to another. One thing which is known to be common among all charity stakeholders is that it is public trust which makes people donate.

Past studies show public trust in charities has been the main cause for increasing or decreasing donations; it was important to investigate how that trust can be built. Public trust in charities has been affected at some points by the disturbing news of mismanagement and misappropriation of assets by some officers. The 2010 UK Coalition Government’s Comprehensive Spending Review, which proposed a cut in £81 billion in public spending by 2014-2015 Charity Finance Group (2012), increased pressure on the current and future operating climate for charities. This brings the need to understand how charities are governed and made accountable to their stakeholders. Looking at the economic recession of 2008, it was perfect timing for the research to focus also on how charities are affected directly and indirectly in terms of their governance and funding. Therefore it was necessary to use a developed economy and to focus the study on a jurisdiction which has proper laws to guide charities.

**Figure 9.1: The three sectors**



*Source: Author*

### **9.1.1 Achieving the research objectives**

As described in Section 1.6 of this thesis, the aim of the research was to investigate the relationship between Chairs and CEOs, and how this might be reflected in the financial



vulnerability of large charities at a time of economic downturn, using face-to-face interviews, questionnaire and secondary data analysis. Although the use of interview analysis is excluded from the thesis, the research objectives have been met. The research plan has been executed without any alteration, as most people asked to participate agreed to do so. All annual reports and accounts for the participating charities were obtained which removed the threat of some parts of the research information being missed. Statistical tests conducted proved successful in explaining the research findings. Comparing the research finding with previous literature has also proved profitable.

Charity governance is a subject which requires using concepts from business organisations. It was not easy to come to a conclusion about the current state of charity governance. For example, the interaction between the researcher and 53 top charity officers gave an insight that charity governance requires care: many charities are run by CEOs whom most participants have hesitated to describe as ‘dominant’. The issue of ‘dominant coalition’ has been described by Cyert and March (1963) as those who possess both power and legitimacy. Since most of these CEOs are professional people, they possess legitimacy in the eyes of the public. CEOs have power to run charities which gives them a dominant position. Having more people who are either retired or approaching retirement age on Boards is an indication that commitments to charity Boards require people have time for this purpose. As people with specialist expertise are the target for charity Boards, obtaining these types of people often requires using those who are either retired or those who are approaching retirement for them to have time for effective fulfilment of Board responsibilities.

### **9.1.2 What was actually done in the research?**

Prior to the final decision on how to go forward with the research, there were more research options to be faced. The researcher weighed focusing on charity accounting and reporting practices against charity governance and accountability. For example, an idea of researching the applicability of International Financial Reporting Standards (IFRS) for small and medium size entities to the charity sector was one of the earliest ideas considered. The researcher found that meeting the objectives of such a study would be difficult. Another option was to use charity annual reports and accounts for content analysis, if there were high participation refusals on questionnaires and interviews.

The final decision was made to go ahead with the questionnaire and interview approach following the 2008 recession, which was an opportunity to attract the interest of Chairs and CEOs at a time of uncertainty. The success of this option went beyond expectations leading to success in collecting data for the project. Obtaining 12 pages of filled questionnaire (see

Annex 6A to Chapter 6), and approximately 55 hours of interviews from 53 top charity officers, was a level of success beyond initial expectations.

Questionnaires and annual reports and accounts were then used to analyse the working relationships between Chairs and CEOs. Questionnaires were used to construct an overview of charity governance and accountability, using the aggregate responses. Annual reports and accounts were used for pre-interview analysis of participating charities, developing interview questions and classifying participating charities into FNVCs and FVCs. What was actually done was questionnaires, face to face interviews and the study of annual reports and accounts as a means of answering the Research Questions

## **9.2 Research Findings**

Overviews of research results are provided in Sections 7.5 and 8.5. The evidence base for overall findings can be divided into four parts: the analysis of all participants on governance and accountability which produced interesting findings (Chapter 7); comparison of all Chairs and all CEOs, showing limited differences of which some were interesting (Section 8.2); comparison of all FNVCs and all FVCs, showing limited differences of which some were interesting (Section 8.4); and matched pairs which have shown more differences, which have been discussed in detail in Section 8.3. These Sections also describe how the Research Questions have been addressed. There are interconnections between the Research Questions and the four sections. Further discussion reveals how the research addresses these questions specifically.

Looking at the aggregate results there was shared understanding from participants on different governance and accountability issues. For example, the study found that the optimal Board size for charities is between 6 and 15 members, as reflected by the actual number of Board members. The responses from both Chairs and CEOs gave little evidence on the use of Board members in fundraising which is contrary to most research on non-profit Boards (eg Anheier, 2005). There is agreement that a large Board leads to a dominant inner core: the responses support the findings by Jensen (1993) and Yermack (1996) that, as group size increases, increased problems of communication and coordination occur. Decreased ability of the Board to control management leads to agency problems. This implies that if Boards lack ability to control management, this can lead to dominant CEOs. Mitchell (1997) suggested that when power and legitimacy is concentrated in one or few individuals, this can lead to the creation of a 'dominant coalition'. The existence of clear governance structures in charities may be the reason for dominant CEOs. Iecovich and Bar-Mor (2007) found that CEO

dominance is affected by Board composition and attendance at Board meetings: the clearer the division of labour between Chairs and CEOs the more dominant the CEO can become.

The issue of a dominant CEO as the result of a large Board received neutral or disagree responses. This is contrary to the findings of Jensen (1993) and Yermack (1996) on large Board size, as well as Cornforth and Simpson (2002) who suggested larger organisations tend to have larger Boards. This may indicate that CEOs in charities prefer a large Board for them to be dominant. Looking on Chair responses on the subject, it is clear that the problem of dominant CEOs is a topic which Chairs do not wish to discuss. This could be one of their ways to send signals that charities are governed effectively, which could address Research Question 2 that charities might engage in signalling behaviour.

There is no clearly explained role of the involvement of Boards in fundraising, as more respondents disagree-with a large Board being supportive of fundraising. This might indicate the nature of funding for most charities is not public fundraising, but instead be other forms such as service fees and Government contracts. Directors with specialist expertise form more than half the total of Board members: 90% of respondents agree that these Directors act as a mechanism for monitoring the efficiency and effectiveness of a charity. This agreement aligns with findings by Hillman and Dalziel (2003) that Board characteristics are important because they allow the flow of the right resources, which in turn helps improve organisational performance. They are also seen by most respondents as representing the interests of stakeholders. Mitchell (1997) identified different types of stakeholders using legitimacy, power and urgency. He identified stakeholders with power and legitimacy as 'dominant': it is most likely that these qualities are present in Directors with specialist expertise, making them more responsible for representing other stakeholders' interests due to their dominant nature. The presence of people with 'power and legitimacy' in charities can be regarded as another way for charities to send signals to outsiders. Vinten (2002) suggested that charity CEOs tend to rely on inspiration and charisma to dominate their Board members: this perception is reflected in the responses given.

The second type of Board member is members who undertake other roles in a voluntary capacity. They can be grouped, according Mitchell (1997), as having 'urgency' attributes and are categorised as 'demanding'. By taking a more prominent role in volunteering they show some urgency and demand charities to do more for beneficiaries. This can also be a cheaper way of obtaining consultancy from Board members, as well as sending a signal to outsiders and funders on the efficient use of funds. Employees and major donors contribute less than 5% of total Board numbers. Callen et al (2003) highlighted that major donors tend to be more

highly represented on fundraising committees than on Boards. This implies that for most charities in this study the absence of major donors indicates that funding is not highly dependent on public fundraising. Most charitable income comes from institutional donors like corporations and public sector bodies, who have different motives. Therefore, the types of Board member in charities represent the interests of stakeholders, acting as a mechanism for monitoring the efficiency and effectiveness of charities, rather than being major donors.

Looking at all Chairs and all CEOs, the study focused on investigating an unknown relationship between Chairs and CEOs, addressing Research Question 1. The results indicate that a common understanding exists between Chairs and CEOs which is not affected by the financial vulnerability status of charities. There is little difference in general responses about charities between Chairs and CEOs.

The Chairs and CEOs are agreed by 75% (Table 7.5) to be focusing more on their charities' survival after the onset of recession. This agreement is also reflected by Tuckman and Chang (1991) who posited that when a charity is financially vulnerable it is likely to cut back its service offerings immediately when it experiences a financial shock, such as the loss of a significant source of funds or a general economic downturn. Because of recession, charity Boards and Management Teams are now more likely to consider mergers with other charities, though some CEOs see mergers as a threat to their current position as CEOs. This has also been reflected in the Charity Financial Group (2012) survey that more charities are considering merging. The needs of charity stakeholders are met by forms of communication other than the annual report and accounts; though there is 86% agreement that annual reports and accounts meet the needs of stakeholders, 96% consider that other forms of communication are effective. Half of respondents view compliance with the reporting requirements associated with their legal status as a costly task.

The most popular method for recruiting new Board members is taking personal recommendations from existing Board members. Others include advertising in the media. Gibelman et al (1997) proposed length of tenure on a Board also has some effects. It is logical that organisations benefit from fresh ideas and new perspectives with the recruitment of new leadership. The method used to recruit new members depends on the needs of the organisation as well as characteristics of existing members. It is probable that members prefer successors they know rather than strangers, and that personal recommendation is highly practised in charities. Reducing the average tenure of Board members can better serve organisational success (Katz, 1982) as monotony or familiarity could undermine smooth operations.

Most charities have reduced services to their beneficiaries as a result of reductions in funding. This is in line with CFG (2012) that charities are ‘now operating under a perfect storm’ which is characterised by reduced funding and increased demand. Some charities were also forced to restructure by reducing the number of paid staff and management. This has been described by Cecilia et al (2011) as the effect of recession on employment. Most organisations were required to cut costs to cope with the effects of recession. The distinction between General Funds and Restricted Funds has some effect on the budgetary flexibility of charities, though only 29% of respondents agreed with this. The majority of charities state they will have sufficient funding in the future to continue providing some services at the same level but other services will have to contract.

The use of good governance guidance as a means to increase professionalism in charities receives broad support (89% (Table 7.7) of respondents). Although very few respondents have been able to identify these types of guidance, failing to mention them by specific names, their use is supported by 87%, while 77% agree that they protect their charities (Table 7.7). This may be another way of sending signals of good governance in charities to outsiders.

Participants have indicated that charities are engaged in signalling. Statements which have been designed to test this practice received high support from Chairs and CEOs. They were eager to emphasise that their charities are not sending negative signals to outsiders who can perceive them as being inefficient, incompetent or even fraudsters when it comes to the use of charitable resources. Participants lean toward a more professional way of running charities, which is expected to increase public trust in the sector.

Overall, the study signifies that Chairs and CEOs understand their role in charities. But certain roles are not welcomed by CEOs for Chairs to undertake; for example, Board members working as volunteers with other employees receive approval from Chairs while CEOs disagree.

Looking at FNVCs and FVCs, one measure of organisational success is financial vulnerability status, defined by a likely cut in services due to a financial shock (Tuckman and Chang, 1991) or a decrease in revenue over three consecutive years (Greenlee and Trussel, 2002). Using financial vulnerability status, the research has found limited differences between FNVCs and FVCs. Charities which are financially vulnerable show more agreement among respondents on establishing new sources of funding which are less risky. More charities which are not vulnerable to financial shock have agreed to reduce their expenditure by increasing their efficiency without affecting levels of services. More financially vulnerable

charities are seeking to increase the size of General Funds than charities which are not. When looking at specific types of funding, charities which are vulnerable to financial shock saw grants from the public sector as more important than those which are not. Charities which are not financially vulnerable view legacies as more important during the recession than those which are financially vulnerable.

Financial vulnerability status was found to have little effect on the working relationships between Chairs and CEOs. This conclusion has been reached after the research found no clear evidence of differences from responses between matched Chairs and CEOs by cross checking any specific pattern on the 11 charities presented in Table 8.3 (of which 8 are FNVCs and 3 are FVCs).

Looking at matched pairs, 11 charities (44%) have shown statistical differences between Chairs and CEOs. With the exception of Charity 24 which can be described as an outlier, for the other charities the differences are caused by strength of views rather than differences in views. Comparing Chair and CEO at each charity received more significant results than any other parts of the analysis.

### **9.2.1 Charity funding and its impacts on governance and accountability**

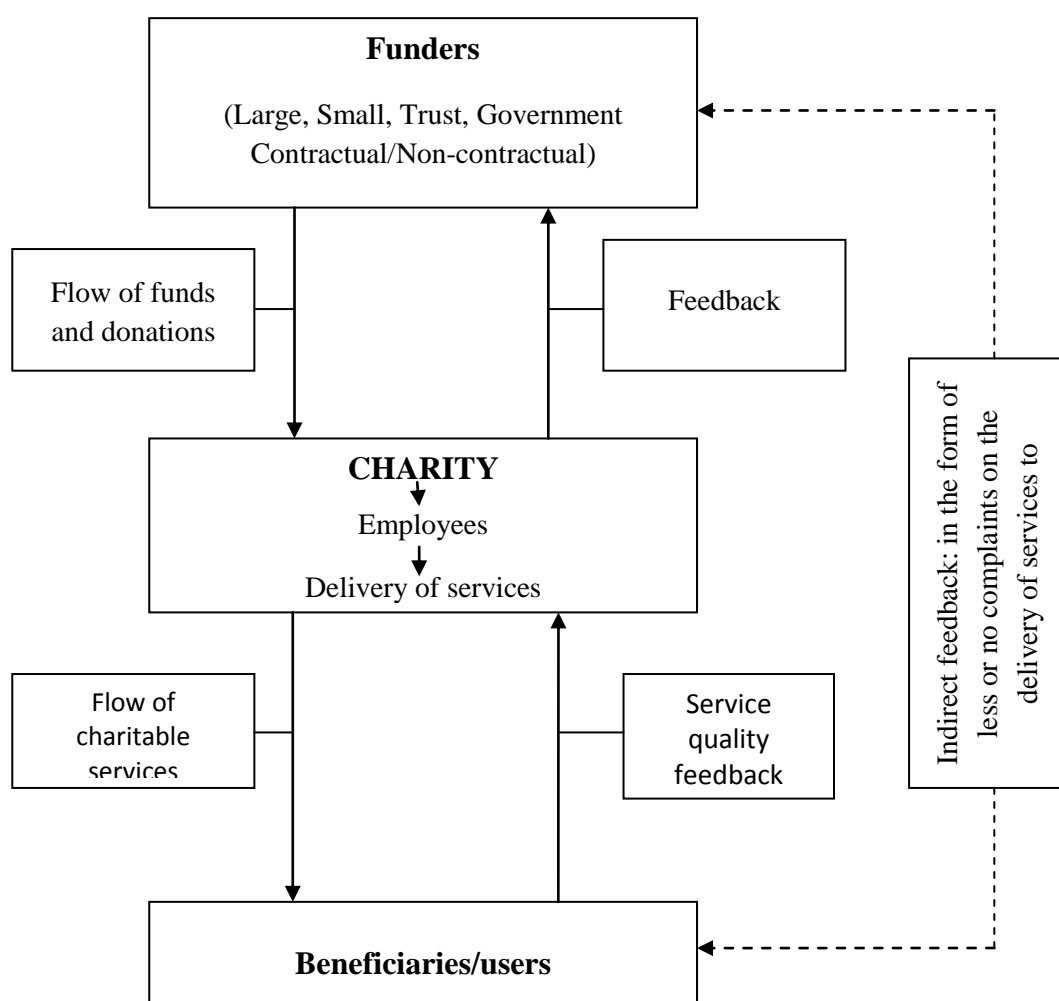
Charity funding is the centrepiece for the continuance of the delivery of services. The nature of funding has been found to impact on how governance and accountability can be exercised. Charities which depend more on government contracts and grants have been found to be prone to Government actions such that any threat to reduce funding increases their concerns. Charities now exposed to financial vulnerability may have most of their assets tied to specific programmes which leaves them with few options for advancing other programmes which are not part of the contracts. More charities which are financially vulnerable list government grants and contracts as important to their charities. Boards in these charities are more likely to be involved in closely monitoring the managements. They are less likely to have CEOs who are dominant because of the funding risks associated with not meeting contractual obligations.

Charities which have wide sources of income have been found not to be financially vulnerable, which gives them options to increase their efficiency without reducing services. This is possible when charities have flexibilities in re-allocating their income to different programmes at their own discretion. This type of charity is less likely to find Boards which closely monitor management and are the ones where dominant CEOs are more likely to exist. The split response on the existence of dominant CEOs can be a factor of the funding types.

When management feels their hands are free from contractual obligations to deliver services they are more likely to take actions in advance of the Board’s approval than when their hands are tied.

Charities’ own employees and beneficiaries/users being the top stakeholders indicate that delivery and receiving of services are the focal points in charities. There is mutual connection between attracting resources to the charity on the one hand and the delivery of charitable services to recipients on the other. If the delivery is poor and beneficiaries complain, it is most likely that funders will reduce or remove their funding. This relationship can be seen in Figure 9.2.

**Figure 9.2: Interconnection between funders, employees and beneficiaries**



*Source: Researcher’s extension of Figure 1.3, developing Hyndman and McDonnell (2009).*

### **9.3 Research Contribution and Implications for Public Policies**

This research sheds light on the governance and accountability of large charities in Scotland, and has made a contribution to both theory and practice. The main research contributions are

on the literature on public policy and implications, and on methodology. On literature, the research has been able to link findings in the past to those in this research. For example, it has been found that charities' top preferences are for people serving on their Boards to bring specialist expertise, a finding that is in line with past research on charities. The surprise finding is that charities' own employees followed by beneficiaries/users are the most important stakeholders. One could argue that providers of funds (ie donors) should have been at the top. Figure 9.2 has shown the link between these stakeholders. Charity Boards have fewer members than has been shown in past research; this could have different implications for charity governance. For example, in smaller Board, it is likely that effectiveness and efficiency will be increased, especially in the monitoring role. Funds from the public sector have been found to be risky types of funding, as charities which are heavily reliant on public funding are vulnerable to government actions and politics. This may divert their attention from delivery of services to focus on the actions and policies of politicians.

The implication for public policy is that policy makers should create incentives for people to serve on charity Boards rather than undertake voluntary work for a charity. Attracting people with specialist expertise on to Boards will be difficult as different people have different preferences for serving charities. While some are serving because they have a connection to beneficiaries/users who are receiving charitable services, others may focus on prestige and even monetary incentives. Although this topic needs parliamentary action on the existing laws which limit remuneration to charity Boards, increasing governance efficiency in charities cannot be based on voluntary Board members only. On issues relating to a charity's means of communicating charitable operations to stakeholders, means like posters and meetings for membership charities have been a useful practice. This raises another challenge and the need for public policy makers to devise ways of communication which can increase charity accountability in addition to the existing statutory requirements. Legal forms of charities have been seen to increase charity governance costs of compliance, especially when a charity is required by law to comply with more than one statute (eg charities which are companies).

On its methodological contribution, the research has developed with an innovative way of increasing response rates by incorporating interviews which use the questionnaire as protocol. The high response rate has been very much influenced by the fact that, while filling in the questionnaire, respondents were aware that they would be asked in the interviews about their responses. This procedure confirmed that the questionnaire had actually been completed by the defined respondent. This also increased the chance of interviewees being careful during



the completion of questionnaires. The overall response rate was 72% and that for Scotland-only registered charities was 86%.

#### **9.4 Limitations and Problems**

It is unusual to conduct research without facing some limitations; this research is not free from limitation problems.

Financially, the research had insufficient resources to expand interviews to Board members beyond Chairs and CEOs. If the research had been able to secure all Board members to participate, it would have been able to obtain views from their perspectives, and perhaps would make clearer the relationship between management and Boards. However, the response rate might have fallen dramatically and a much smaller sample size would have been included in the research.

Lack of resources to transcribe interviews is regretted financial limitation. The cost of transcribing approximately 53 hours from 50 recorded interviews was prohibitive and therefore precluded the use of interview evidence in the thesis. However, the fact of there being interviews increased the response rate and confidence in the questionnaire responses.

The research also met challenge from one respondent who refused to be interviewed and sent a refusal email which discouraged research on charities. The respondent explained the reason for refusal, as a charity expert, is that no-one can research charities because each charity is unique and different from others. Accordingly, the project – of which a synopsis had been sent – was flawed in conception. The evidence presented in the results Chapters 7 and 8 show that this viewpoint is invalid.

#### **9.5 Opportunities and Implications for Further Research**

Opportunities for further research can be seen on different issues. These include conducting research which can more directly investigate the governance of dual-registered charities. There is opportunity to study the existing conflicts between the Scottish arms of dual-registered charities and their headquarters in England and Wales. The research might be supplemented by interviewing all Board members rather than just Chairs, in the form of a case study.

Further research could focus on the Chairs and CEOs of the 11 charities found to have statistical differences between Chair and CEO (Section 8.4). If the funding for transcription were to become available, it would be worth analysing the interview transcripts of these charities as an extension of the research findings.

Other issues which are not part of this research but have been raised during interviews include the increasing pension liabilities among charitable organisations; a study to find the best way of reducing these liabilities could be an interesting area for future research.

### **9.6 Researcher's Views on the New Skills and Knowledge acquired**

As a result of conducting this research, the researcher's views and skills have advanced. For example, most knowledge relating to research was theoretical rather than practical. Having been able to apply theories learned at different levels, the researcher can now apply these theories to practical situations. For example, most statistical methods for research were taught to him at different levels of his education, without being able to actually apply them. This research has been able to fill that gap. The researcher has been able to learn different skills, varying from dealing with people of different backgrounds and being able to improve confidence, especially when it comes to meeting people of different status in society.

Meeting with 53 top officers for discussions of at least 45 minutes was a great experience, especially when the people involved are coming from a different culture and background. The researcher was able to improve his interview skills which, before this research, were lacking. During interviews, the researcher met with people of different calibre and professional background. Some of these were top-level people from finance and accounting, engineering, medicine, religion, academia and other fields. It was a great experience to travel across Scotland as well. The researcher learned a lot, apart from the academic benefits in the world of research.

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## APPENDICES

### APPENDIX 1: THE CHARITY TEST

The charity test and charitable purposes are described in section 7 of the *Charity Trusts and Investment (Scotland) Act 2005*: The section stipulates the necessary conditions to be met by an organisation seeking to be registered as a charity.

#### **(1) A body meets the charity test if**

- (a) Its purposes consist only of one or more of the charitable purposes, and
- (b) It provides (or, in the case of an applicant, provides or intends to provide) public benefit in Scotland or elsewhere

#### **(2) The charitable purposes are—**

- (a) The prevention or relief of poverty,
- (b) The advancement of education,
- (c) The advancement of religion,
- (d) The advancement of health,
- (e) The saving of lives,
- (f) The advancement of citizenship or community development,
- (g) The advancement of the arts, heritage, culture or science,
- (h) The advancement of public participation in sport,
  - (i) The provision of recreational facilities, or the organisation of recreational activities, with the object of improving the conditions of life for the persons for whom the facilities or activities are primarily intended,
  - (j) The advancement of human rights, conflict resolution or reconciliation,
  - (k) The promotion of religious or racial harmony,
  - (l) The promotion of equality and diversity,
  - (m) The advancement of environmental protection or improvement,
  - (n) The relief of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage,
  - (o) The advancement of animal welfare,
  - (p) Any other purpose that may reasonably be regarded as analogous to any of the preceding purposes.

**(3) In subsection (2)**

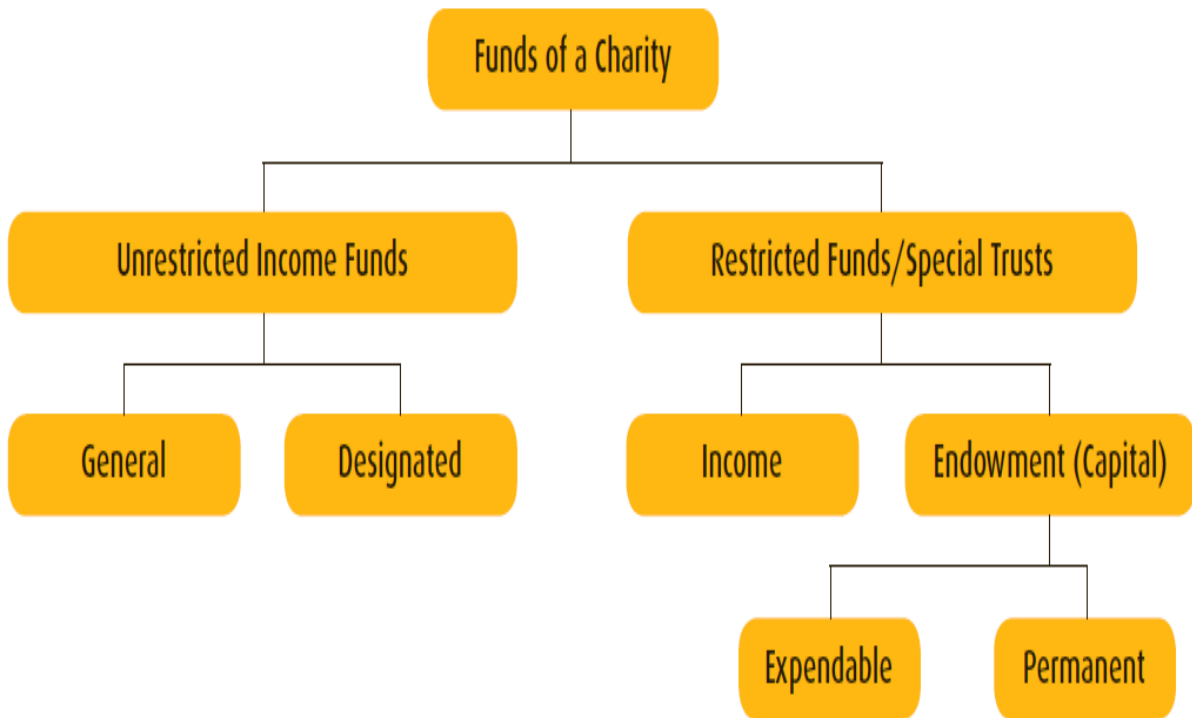
- (a) In paragraph (d), ‘the advancement of health’ includes the prevention or relief of sickness, disease or human suffering,
- (b) Paragraph (f) includes—
  - i. rural or urban regeneration, and
  - ii. the promotion of civic responsibility, volunteering, the voluntary sector or the effectiveness or efficiency of charities,
- (c) In paragraph (h), ‘sport’ means sport which involves physical skill and exertion,
- (d) Paragraph (i) applies only in relation to recreational facilities or activities which are —
  - i. primarily intended for persons who have need of them by reason of their age, ill-health, disability, financial hardship or other disadvantage, or
  - ii. available to members of the public at large or to male or female members of the public at large,
- (e) Paragraph (n) includes relief given by the provision of accommodation or care, and
- (f) For the purposes of paragraph (p), the advancement of any philosophical belief (whether or not involving belief in a god) is analogous to the purpose set out in paragraph (c).

**(4) A body which falls within paragraphs (a) and (b) of subsection (1) does not, despite that subsection, meet the charity test if—**

- (a) its constitution allows it to distribute or otherwise apply any of its property (on being wound up or at any other time) for a purpose which is not a charitable purpose,
- (b) its constitution expressly permits the Scottish Ministers or a Minister of the Crown to direct or otherwise control its activities, or
- (c) it is, or one of its purposes is to advance, a political party.

**(5) The Scottish Ministers may by order disapply** either or both of paragraphs (a) and (b) of subsection (4) in relation to anybody or type of body specified in the order.

## APPENDIX 2: THE TYPES OF FUND FOR CHARITY



*Source: SORP 2005*

**APPENDIX 3: MANN-WHITNEY U TEST OUTPUT ON ALL CHAIRs VERSUS ALL CEOs**

	A1_i	A1_ii	A1_iii	A1_iv	A1_v	A1_vi	A2_i	A2_ii	A2_iii	A2_iv	A2_v_b	A2_v_c	A3_i	A3_ii	A3_iii
Mann-Whitney U	31.000	15.500	25.000	25.500	21.000	17.500	32.500	27.500	30.500	24.500	6.000	10.500	.000	1.000	2.000
Wilcoxon W	59.000	30.500	70.000	46.500	42.000	45.500	68.500	63.500	66.500	60.500	16.000	38.500	6.000	2.000	5.000
Z	-.054	-.941	-.742	-.179	-.717	-.522	-.363	-.909	-.563	-.877	.000	.000	-1.936	.000	-.609
Asymp. Sig. (2-tailed)	.957	.347	.458	.858	.473	.602	.717	.363	.573	.381	1.000	1.000	.053	1.000	.543
Exact Sig. [2*(1-tailed Sig.)]	1.000	.364	.536	.864	.529	.628	.743	.423	.606	.442	1.000	1.000	.200	1.000	.800
Exact Sig. [2*(1-tailed Sig.)]	.991	.381	.503	.876	.502	.643	.687	.390	.640	.450	1.000	1.000	.100	1.000	.800
Exact Sig. (1-tailed)	.502	.195	.265	.436	.252	.376	.399	.224	.290	.225	1.000	1.000	.100	1.000	.500
Point Probability	.043	.029	.010	.017	.018	.121	.138	.104	.052	.039	1.000	1.000	.100	1.000	.400

	A3_iv	A3_v	A3_vi	A4_i_a	A4_i_b	A4_i_c	A4_i_d	A4_i_e	A4_ii_a	A4_ii_b	A4_ii_c	A4_ii_d	A4_ii_e	A4_iii_a	A4_iii_b
Mann-Whitney U	1.000	26.000	9.500	9.500	8.000	10.000	11.500	34.500	10.000	12.500	6.000	25.500	26.000	9.500	14.000
Wilcoxon W	16.000	62.000	24.500	24.500	36.000	20.000	47.500	70.500	20.000	27.500	21.000	53.500	71.000	24.500	29.000
Z	-1.640	-.234	-.636	-.126	-1.664	-.443	-2.284	-.159	.000	.000	-.461	-.321	-.653	-.129	-.205
Asymp. Sig. (2-tailed)	.101	.815	.525	.900	.096	.658	.022	.874	1.000	1.000	.645	.748	.514	.897	.838
Exact Sig. [2*(1-tailed Sig.)]	.190	.867	.548	.905	.149	.762	.028	.888	1.000	1.000	.786	.779	.606	.905	.931
Exact Sig. [2*(1-tailed Sig.)]	.190	.837	.571	1.000	.104	.676	.040	.899	1.000	1.000	.732	.956	.700	.952	1.000
Exact Sig. (1-tailed)	.143	.415	.286	.508	.034	.329	.020	.460	.595	.643	.339	.486	.372	.516	.543
Point Probability	.143	.018	.032	.095	.015	.029	.017	.048	.190	.286	.054	.218	.214	.127	.195

	A4_iii_c	A4_iii_d	A4_iii_e	A4_iv_a	A4_iv_b	A4_iv_c	A4_iv_d	A4_iv_e	A4_v_a	A4_v_b	A4_v_c	A4_v_d	A4_v_e	A5_i	A5_iv
Mann-Whitney U	10.000	21.000	20.000	10.000	14.000	8.500	27.500	21.500	3.500	7.000	6.500	10.000	13.500	7.500	27.000
Wilcoxon W	20.000	49.000	56.000	20.000	35.000	23.500	63.500	49.500	13.500	22.000	16.500	46.000	58.500	13.500	72.000
Z	.000	-.523	-.977	.000	-.218	-.382	-.526	-1.166	-1.423	-1.563	-.458	-2.377	-1.667	-.535	.000
Asymp. Sig. (2-tailed)	1.000	.601	.329	1.000	.827	.702	.599	.243	.155	.118	.647	.017	.095	.593	1.000
Exact Sig. [2*(1-tailed Sig.)]	1.000	.710	.397	1.000	.931	.730	.645	.299	.200	.177	.686	.040	.113	.714	1.000
Exact Sig. [2*(1-tailed Sig.)]	1.000	.755	.354	1.000	1.000	.810	.707	.277	.371	.113	.914	.033	.104	1.000	1.000
Exact Sig. (1-tailed)	.563	.378	.190	.643	.652	.452	.354	.179	.186	.067	.457	.020	.052	.583	1.000
Point Probability	.111	.182	.062	.238	.455	.143	.117	.073	.171	.032	.257	.020	.008	.500	1.000

	A5_v	A5_vi	A6_i	A6_ii	A6_v	A6_vi	A6_vii	A6_viii	A6_ix	A6_x	A6_xv	A6_xvi	A6_xvii	A6_xviii	A6_xx
Mann-Whitney U	2.000	5.000	24.500	26.000	.000	6.500	9.500	9.500	7.500	12.000	16.500	4.000	4.000	10.500	17.500
Wilcoxon W	5.000	20.000	45.500	47.000	1.000	16.500	24.500	24.500	17.500	33.000	44.500	19.000	10.000	20.500	32.500
Z	.000	.000	-.306	-.119	-1.000	-.447	-.125	-1.167	-.643	-1.588	-.166	-1.643	-.258	-.329	-1.097
Asymp. Sig. (2-tailed)	1.000	1.000	.760	.905	.317	.655	.901	.243	.521	.112	.868	.100	.796	.742	.273
Exact Sig. [2*(1-tailed Sig.)]	1.000	1.000	.776	.955	1.000	.686	.905	.329	.556	.142	.876	.190	1.000	.762	.518
Exact Sig. [2*(1-tailed Sig.)]	1.000	1.000	.798	.951	1.000	.771	.905	.288	.627	.132	.917	.167	1.000	.824	.505
Exact Sig. (1-tailed)	1.000	1.000	.414	.477	.500	.386	.476	.212	.302	.066	.460	.127	.500	.433	.396
Point Probability	1.000	1.000	.044	.041	.500	.086	.079	.152	.095	.017	.051	.119	.300	.114	.396

	A6_xxi	A6_xxii	B1_a_i	B1_a_ii	B1_a_iii	B1_a_iv	B1_a_v	B1_a_vi	B1_a_vii	B1_a_viii	B1_a_ix	B1_a_x	B1_a_xi	B1_a_xii	B1_b_i
Mann-Whitney U	9.000	3.000	17.000	13.500	8.000	3.500	3.500	4.500	10.500	11.000	3.000	17.000	6.000	.000	16.000
Wilcoxon W	30.000	9.000	38.000	28.500	36.000	9.500	6.500	10.500	38.500	26.000	6.000	45.000	21.000	1.000	37.000
Z	.000	.000	-.162	-.282	-1.576	-.449	-.586	-.592	-.768	-.386	.000	-.979	-1.383	-1.342	-.324
Asymp. Sig. (2-tailed)	1.000	1.000	.871	.778	.115	.653	.558	.554	.442	.700	1.000	.328	.167	.180	.746
Exact Sig. [2*(1-tailed Sig.)]	1.000	1.000	.937	.792	.149	.700	.571	.629	.527	.841	1.000	.383	.222	.500	.818
Exact Sig. [2*(1-tailed Sig.)]	1.000	1.000	.931	.797	.122	.900	.667	.829	.597	1.000	1.000	.387	.183	.500	.773
Exact Sig. (1-tailed)	1.000	1.000	.465	.396	.058	.450	.333	.457	.318	.500	.500	.193	.091	.250	.386
Point Probability	1.000	1.000	.053	.026	.008	.200	.095	.343	.212	.139	.100	.048	.012	.250	.023

	B1_b_ii	B1_b_iii	B1_b_iv	B1_b_v	B1_b_vi	B1_b_vii	B1_b_viii	B1_b_ix	B1_b_x	B1_b_xi	B1_b_xii	B1_c_i	B1_c_ii	B1_c_iii	B1_c_iv
Mann-Whitney U	15.000	8.000	4.000	2.500	4.000	10.500	11.000	2.500	20.500	6.500	.000	23.000	14.500	18.500	4.500
Wilcoxon W	36.000	23.000	10.000	17.500	14.000	20.500	26.000	8.500	48.500	21.500	6.000	51.000	35.500	39.500	14.500
Z	.000	-1.576	-.221	-.977	-.789	-.768	-.386	-.296	-.521	-1.297	-1.342	-.193	-.096	-.365	-.540
Asymp. Sig. (2-tailed)	1.000	.115	.825	.329	.430	.442	.700	.767	.602	.195	.180	.847	.923	.715	.589
Exact Sig. [2*(1-tailed Sig.)]	1.000	.149	1.000	.381	.629	.527	.841	.800	.620	.222	.500	.902	.931	.731	.629
Exact Sig. [2*(1-tailed Sig.)]	1.000	.122	1.000	.476	.657	.597	1.000	1.000	.639	.230	.500	.882	.998	.767	.686
Exact Sig. (1-tailed)	.537	.058	.500	.238	.286	.318	.500	.500	.319	.115	.250	.441	.509	.368	.371
Point Probability	.035	.008	.100	.095	.171	.212	.139	.200	.014	.016	.250	.030	.087	.031	.114



	B1_c_v	B1_c_vi	B1_c_vii	B1_c_viii	B1_c_ix	B1_c_x	B1_c_x i	B1_c _xii	B2_a_i	B2_a_ii	B2_a_ii i	B2_a_i v	B2_a_v	B2_a_vi	B2_a_v ii
Mann-Whitney U	9.000	2.000	10.500	10.000	3.500	20.000	8.500	.000	9.500	6.500	3.500	1.000	3.000	.000	17.500
Wilcoxon W	24.000	12.000	25.500	25.000	9.500	56.000	23.500	6.000	24.500	16.500	9.500	7.000	6.000	1.000	32.500
Z	-.247	-1.427	-1.270	-1.057	-.443	-.945	-1.203	-1.342	-1.018	-.865	-1.620	-1.550	-.775	-1.414	.000
Asymp. Sig. (2-tailed)	.805	.154	.204	.290	.658	.345	.229	.180	.309	.387	.105	.121	.439	.157	1.000
Exact Sig. [2*(1-tailed Sig.)]	.905	.229	.268	.429	.700	.397	.247	.500	.329	.413	.117	.200	.571	.400	1.000
Exact Sig. [2*(1-tailed Sig.)]	.881	.200	.258	.394	.800	.385	.258	.500	.353	.452	.150	.200	.571	.400	1.000
Exact Sig. (1-tailed)	.437	.086	.159	.197	.400	.189	.134	.250	.180	.214	.083	.100	.286	.200	.566
Point Probability	.048	.029	.088	.076	.100	.026	.030	.250	.022	.016	.050	.050	.095	.200	.131

	B2_a_viii	B2_a_ix	B2_a_x	B2_a_xi	B2_b_j	B2_b_ii	B2_b_iii	B2_b_iv	B2_b_v	B2_b_vi	B2_b_vii	B2_b_vii i	B2_b_ix	B2_b_x	B2_b_xi
Mann-Whitney U	11.000	2.500	11.000	6.000	11.000	5.500	4.500	4.000	2.500	.000	16.000	9.000	3.000	7.000	4.000
Wilcoxon W	26.000	5.500	39.000	21.000	21.000	15.500	10.500	10.000	5.500	1.000	44.000	24.000	9.000	28.000	19.000
Z	-.324	-.304	-1.061	-.997	-.215	-1.112	-1.376	-.232	-.977	-1.414	-.247	-.757	-.696	-1.471	-1.488
Asymp. Sig. (2-tailed)	.746	.761	.289	.319	.830	.266	.169	.817	.329	.157	.805	.449	.487	.141	.137
Exact Sig. [2*(1-tailed Sig.)]	.841	.800	.343	.413	.914	.286	.183	1.000	.381	.400	.876	.548	.700	.177	.190
Exact Sig. [2*(1-tailed Sig.)]	.778	1.000	.321	.397	.886	.333	.233	1.000	.476	.400	.876	.524	.700	.165	.167
Exact Sig. (1-tailed)	.389	.500	.165	.198	.457	.167	.117	.500	.238	.200	.438	.262	.350	.084	.095
Point Probability	.048	.200	.029	.056	.076	.048	.050	.150	.095	.200	.062	.056	.150	.019	.048

	B2_c_i	B2_c_ii	B2_c_iii	B2_c_iv	B2_c_v	B2_c_vi	B2_c_vii	B2_c_viii	B2_c_ix	B2_c_x	B2_c_xi	B3_j	B3_ii	B3_iii	B3_iv
Mann-Whitney U	13.000	6.500	5.000	4.000	4.000	2.000	18.000	7.500	3.000	13.500	3.000	23.000	25.000	21.500	26.500
Wilcoxon W	41.000	16.500	11.000	10.000	7.000	5.000	39.000	22.500	6.000	41.500	18.000	68.000	61.000	49.500	54.500
Z	-.192	-.865	-1.261	-.232	-.391	-.926	-.438	-1.122	.000	-1.076	-1.736	-.978	-.363	-.770	-.611
Asymp. Sig. (2-tailed)	.848	.387	.207	.817	.696	.355	.662	.262	1.000	.282	.082	.328	.717	.441	.542
Exact Sig. [2*(1-tailed Sig.)]	.927	.413	.267	1.000	.857	.533	.731	.310	1.000	.295	.111	.408	.779	.463	.606
Exact Sig. [2*(1-tailed Sig.)]	.912	.437	.250	1.000	.810	.533	.691	.365	1.000	.312	.095	.371	.801	.488	.559
Exact Sig. (1-tailed)	.458	.222	.133	.500	.381	.267	.350	.183	.500	.156	.063	.204	.431	.254	.292
Point Probability	.070	.048	.042	.150	.048	.133	.025	.079	.100	.017	.040	.061	.127	.045	.031

	B3_v	B3_vi	B3_vii	B3_viii	B3_ix	B3_x	B3_xi	B3_xii	B3_xiii	B3_xiv	B3_xv	B4_i	B4_ii	B4_iii	B4_vi
Mann-Whitney U	30.500	25.500	9.000	29.500	29.500	23.000	26.500	28.000	22.000	31.000	24.500	30.000	25.500	35.000	23.000
Wilcoxon W	75.500	70.500	37.000	74.500	74.500	51.000	62.500	73.000	67.000	76.000	60.500	66.000	61.500	71.000	59.000
Z	-.111	-.653	-2.208	-.216	-.217	-.951	-.179	-.399	-1.053	-.054	-.456	-.226	-.703	-.101	-1.470
Asymp. Sig. (2-tailed)	.912	.514	.027	.829	.828	.342	.858	.690	.292	.957	.648	.821	.482	.920	.142
Exact Sig. [2*(1-tailed Sig.)]	.918	.536	.053	.837	.837	.408	.867	.758	.351	1.000	.694	.878	.505	.963	.236
Exact Sig. [2*(1-tailed Sig.)]	.959	.543	.054	.853	.902	.411	.966	.747	.326	.992	.837	.980	.519	1.000	.172
Exact Sig. (1-tailed)	.486	.287	.027	.439	.454	.208	.486	.431	.200	.523	.432	.490	.260	.506	.084
Point Probability	.052	.039	.024	.038	.073	.073	.075	.138	.088	.087	.218	.150	.042	.095	.041

	B2_c_i	B2_c_ii	B2_c_iii	B2_c_iv	B2_c_v	B2_c_vi	B2_c_vii	B2_c_viii	B2_c_ix	B2_c_x	B2_c_xi	B3_j	B3_ii	B3_iii	B3_iv
Mann-Whitney U	13.000	6.500	5.000	4.000	4.000	2.000	18.000	7.500	3.000	13.500	3.000	23.000	25.000	21.500	26.500
Wilcoxon W	41.000	16.500	11.000	10.000	7.000	5.000	39.000	22.500	6.000	41.500	18.000	68.000	61.000	49.500	54.500
Z	-.192	-.865	-1.261	-.232	-.391	-.926	-.438	-1.122	.000	-1.076	-1.736	-.978	-.363	-.770	-.611
Asymp. Sig. (2-tailed)	.848	.387	.207	.817	.696	.355	.662	.262	1.000	.282	.082	.328	.717	.441	.542
Exact Sig. [2*(1-tailed Sig.)]	.927	.413	.267	1.000	.857	.533	.731	.310	1.000	.295	.111	.408	.779	.463	.606
Exact Sig. [2*(1-tailed Sig.)]	.912	.437	.250	1.000	.810	.533	.691	.365	1.000	.312	.095	.371	.801	.488	.559
Exact Sig. (1-tailed)	.458	.222	.133	.500	.381	.267	.350	.183	.500	.156	.063	.204	.431	.254	.292
Point Probability	.070	.048	.042	.150	.048	.133	.025	.079	.100	.017	.040	.061	.127	.045	.031

	B3_v	B3_vi	B3_vii	B3_viii	B3_ix	B3_x	B3_xi	B3_xii	B3_xiii	B3_xiv	B3_xv	B4_i	B4_ii	B4_iii	B4_vi
Mann-Whitney U	30.500	25.500	9.000	29.500	29.500	23.000	26.500	28.000	22.000	31.000	24.500	30.000	25.500	35.000	23.000
Wilcoxon W	75.500	70.500	37.000	74.500	74.500	51.000	62.500	73.000	67.000	76.000	60.500	66.000	61.500	71.000	59.000
Z	-.111	-.653	-2.208	-.216	-.217	-.951	-.179	-.399	-1.053	-.054	-.456	-.226	-.703	-.101	-1.470
Asymp. Sig. (2-tailed)	.912	.514	.027	.829	.828	.342	.858	.690	.292	.957	.648	.821	.482	.920	.142
Exact Sig. [2*(1-tailed Sig.)]	.918	.536	.053	.837	.837	.408	.867	.758	.351	1.000	.694	.878	.505	.963	.236
Exact Sig. [2*(1-tailed Sig.)]	.959	.543	.054	.853	.902	.411	.966	.747	.326	.992	.837	.980	.519	1.000	.172
Exact Sig. (1-tailed)	.486	.287	.027	.439	.454	.208	.486	.431	.200	.523	.432	.490	.260	.506	.084
Point Probability	.052	.039	.024	.038	.073	.073	.075	.138	.088	.087	.218	.150	.042	.095	.041

	B4_v	B4_vi1	B4_vii	B5_j	B5_ii	B5_iii	B5_vi	B5_v	B6_i	B6_ii	B6_iii	B6_iv	B6_v	B6_vi	B6_vii
Mann-Whitney U	30.000	28.000	33.000	29.500	29.000	30.500	28.000	33.500	24.000	26.000	28.000	24.000	18.000	31.500	26.500
Wilcoxon W	66.000	64.000	78.000	57.500	74.000	58.500	73.000	78.500	52.000	54.000	64.000	60.000	54.000	76.500	54.500
Z	-.592	-.846	-.300	-.220	-.276	-.114	-.824	-.271	-1.069	-.859	-.522	.000	-1.275	-1.061	-.204
Asymp. Sig. (2-tailed)	.554	.397	.764	.826	.783	.909	.410	.786	.285	.390	.602	1.000	.202	.289	.838
Exact Sig. [2*(1-tailed Sig.)]	.606	.481	.815	.837	.837	.918	.481	.815	.694	.606	.721	1.000	.491	.673	.867
Exact Sig. [2*(1-tailed Sig.)]	.579	.387	.794	.871	.873	.991	.467	.891	.467	.550	1.000	1.000	.473	.471	1.000
Exact Sig. (1-tailed)	.301	.226	.406	.455	.436	.518	.254	.492	.467	.400	.500	1.000	.308	.471	.622
Point Probability	.052	.043	.052	.047	.086	.092	.060	.123	.467	.338	.359	1.000	.308	.471	.392

	B6_viii	B6_ix	B6_x	C1_i	C1_ii	C1_iii	C1_iv	C1_v	C1_vi	C1_vii	C1_viii	C1_ix	C3_i	C3_ii	C3_iii
Mann-Whitney U	28.000	24.500	23.500	26.000	35.500	.000	20.500	32.500	33.500	33.000	35.500	28.000	26.500	31.000	31.500
Wilcoxon W	64.000	52.500	51.500	62.000	80.500	1.000	56.500	68.500	78.500	69.000	80.500	64.000	62.500	67.000	67.500
Z	-.488	-.935	-.750	-1.005	-.057	-1.000	-1.249	-.359	-.258	-.311	-.086	-.488	-.986	-.522	-.493
Asymp. Sig. (2-tailed)	.626	.350	.453	.315	.955	.317	.212	.720	.796	.756	.931	.626	.324	.602	.622
Exact Sig. [2*(1-tailed Sig.)]	.721	.694	.613	.370	.963	1.000	.234	.743	.815	.815	.963	.721	.370	.673	.673
Exact Sig. [2*(1-tailed Sig.)]	1.000	1.000	.569	.374	1.000	1.000	.193	.762	.790	.873	1.000	1.000	.412	.563	.657
Exact Sig. (1-tailed)	.500	.533	.446	.199	.583	.500	.096	.378	.405	.402	.735	.500	.170	.275	.270
Point Probability	.343	.533	.369	.070	.228	.500	.001	.037	.012	.092	.529	.343	.069	.002	.025

	C3_iv	C3_v	C4_i	C4_ii	C4_iii	C4_iv	C4_v	C4_vi	C4_vii	C4_viii	C4_ix	C4_x	C4_xi	C4_xii
Mann-Whitney U	31.500	34.000	35.500	6.500	.500	29.000	17.500	26.500	31.500	27.500	28.000	27.000	27.000	12.000
Wilcoxon W	67.500	79.000	71.500	27.500	6.500	74.000	53.500	71.500	76.500	55.500	73.000	63.000	72.000	22.000
Z	-.492	-.209	-.086	-1.885	-.943	-.812	-.912	-.972	.000	-.064	-.811	-.545	-.928	.000
Asymp. Sig. (2-tailed)	.622	.835	.931	.059	.346	.417	.362	.331	1.000	.949	.417	.586	.354	1.000
Exact Sig. [2*(1-tailed Sig.)]	.673	.888	.963	.065	.500	.541	.414	.370	1.000	.955	.481	.645	.423	1.000
Exact Sig. [2*(1-tailed Sig.)]	.571	.995	1.000	.089	.750	.620	.466	.388	1.000	1.000	.445	.636	.424	1.000
Exact Sig. (1-tailed)	.270	.478	.735	.044	.500	.373	.261	.222	.500	.538	.233	.318	.219	.510
Point Probability	.025	.017	.529	.019	.500	.285	.140	.102	.073	.131	.043	.040	.040	.029

**APPENDIX 4: KOLMOGOROV-SMIRNOV TEST OUTPUT ON ALL CHAIRs VERSUS ALL CEOs**

		A1_i	A1_ii	A1_iii	A1_iv	A1_v	A1_vi	A2_i	A2_ii	A2_iii	A2_iv	A2_v_b	A2_v_c	A3_j
Most Extreme Differences	Absolute	.095	.267	.413	.167	.222	.214	.153	.278	.181	.250	.000	.000	1.000
	Positive	.095	.000	.413	.056	.000	.214	.028	.014	.125	.250	.000	.000	1.000
	Negative	-.095	-.267	-.111	-.167	-.222	-.048	-.153	-.278	-.181	-.125	.000	.000	.000
Kolmogorov-Smirnov Z		.189	.478	.819	.316	.422	.385	.314	.572	.372	.500	.000	.000	1.095
Asymp. Sig. (2-tailed)		1.000	.976	.514	1.000	.994	.998	1.000	.899	.999	.964	1.000	1.000	.181
Exact Sig. (2-tailed)		1.000	.825	.192	.978	.928	.790	.827	.335	.698	.608	1.000	1.000	.100
Point Probability		.025	.105	.066	.043	.090	.140	.138	.204	.242	.326	1.000	1.000	.100

		A3_iii	A3_iv	A3_v	A3_vi	A4_i_a	A4_i_b	A4_i_c	A4_i_d	A4_i_e	A4_ii_a	A4_ii_b	A4_ii_c	A4_ii_d
Most Extreme Differences	Absolute	.333	.800	.232	.400	.300	.600	.500	.500	.222	.250	.000	.467	.089
	Positive	.000	.800	.232	.400	.300	.600	.167	.500	.222	.250	.000	.467	.000
	Negative	-.333	.000	-.214	.000	-.250	.000	-.500	.000	-.181	-.250	.000	-.333	-.089
Kolmogorov-Smirnov Z		.365	.956	.449	.632	.447	1.025	.775	1.000	.457	.373	.000	.639	.173
Asymp. Sig. (2-tailed)		.999	.320	.988	.819	.988	.244	.586	.270	.985	.999	1.000	.809	1.000
Exact Sig. (2-tailed)		1.000	.190	.849	.810	.714	.091	.400	.097	.637	.929	1.000	.679	1.000
Point Probability		.400	.143	.071	.619	.143	.091	.190	.071	.149	.214	.286	.321	.218

		A4_ii_e	A4_iii_a	A4_iii_b	A4_iii_c	A4_iii_d	A4_iii_e	A4_iv_a	A4_iv_b	A4_iv_c	A4_iv_d	A4_iv_e	A4_v_a	A4_v_b
Most Extreme Differences	Absolute	.127	.250	.200	.250	.143	.250	.200	.067	.300	.125	.286	.500	.633
	Positive	.127	.250	.067	.250	.143	.250	.200	.067	.300	.125	.000	.000	.000
	Negative	.000	-.100	-.200	-.250	.000	.000	-.150	.000	-.050	.000	-.286	-.500	-.633
Kolmogorov-Smirnov Z		.252	.373	.330	.373	.267	.483	.298	.110	.447	.250	.567	.707	1.046
Asymp. Sig. (2-tailed)		1.000	.999	1.000	.999	1.000	.974	1.000	1.000	.988	1.000	.905	.699	.224
Exact Sig. (2-tailed)		1.000	.810	.740	.905	1.000	.782	1.000	1.000	.857	1.000	.425	.486	.080
Point Probability		.385	.127	.195	.222	.441	.233	.238	.455	.143	.392	.122	.457	.065

		A4_v_c	A4_v_d	A4_v_e	A5_i	A5_iv	A5_v	A5_vi	A6_i	A6_ii	A6_vi	A6_vii	A6_viii	A6_ix
Most Extreme Differences	Absolute	.250	.500	.556	.167	.000	.000	.000	.111	.111	.250	.250	.233	.250
	Positive	.000	.500	.556	.000	.000	.000	.000	.056	.111	.250	.150	.000	.000
	Negative	-.250	.000	-.111	-.167	.000	.000	.000	-.111	-.111	-.250	-.250	-.233	-.250
Kolmogorov-Smirnov Z		.354	.966	1.054	.236	.000	.000	.000	.211	.211	.354	.373	.385	.373
Asymp. Sig. (2-tailed)		1.000	.308	.216	1.000	1.000	1.000	1.000	1.000	1.000	1.000	.999	.998	.999
Exact Sig. (2-tailed)		1.000	.077	.156	1.000	1.000	1.000	1.000	1.000	1.000	1.000	.873	.545	.905
Point Probability		.514	.051	.152	.500	1.000	1.000	1.000	.040	.029	.514	.063	.364	.222

		A6_x	A6_xv	A6_xvi	A6_xvii	A6_xviii	A6_xx	A6_xxi	A6_xxii	B1_a_i	B1_a_ii	B1_a_iii	B1_a_iv	B1_a_v
Most Extreme Differences	Absolute	.333	.257	.550	.333	.333	.222	.000	.000	.167	.267	.429	.333	.500
	Positive	.000	.257	.550	.000	.167	.000	.000	.000	.167	.167	.429	.333	.100
	Negative	-.333	-.143	.000	-.333	-.333	-.222	.000	.000	-.167	-.267	.000	-.333	-.500
Kolmogorov-Smirnov Z		.617	.439	.820	.408	.516	.398	.000	.000	.289	.440	.732	.408	.598
Asymp. Sig. (2-tailed)		.841	.990	.512	.996	.952	.997	1.000	1.000	1.000	.990	.658	.996	.867
Exact Sig. (2-tailed)		.569	.773	.206	1.000	.829	.505	1.000	1.000	1.000	.766	.356	1.000	.810
Point Probability		.282	.111	.159	.600	.357	.396	1.000	1.000	.104	.117	.101	.900	.238

		B1_a_vi	B1_a_vii	B1_a_viii	B1_a_ix	B1_a_x	B1_a_xi	B1_b_i	B1_b_ii	B1_b_iii	B1_b_iv	B1_b_v	B1_b_vi	B1_b_vii
Most Extreme Differences	Absolute	.250	.286	.200	.500	.286	.600	.167	.267	.429	.333	.500	.500	.286
	Positive	.000	.286	.200	.500	.286	.200	.000	.267	.000	.333	.500	.500	.000
	Negative	-.250	.000	-.200	-.500	-.143	-.600	-.167	-.233	-.429	-.333	.000	.000	-.286
Kolmogorov-Smirnov Z		.327	.456	.316	.548	.535	.949	.289	.440	.732	.408	.598	.655	.456
Asymp. Sig. (2-tailed)		1.000	.985	1.000	.925	.938	.329	1.000	.990	.658	.996	.867	.785	.985
Exact Sig. (2-tailed)		1.000	.533	1.000	.800	.874	.286	1.000	.766	.356	1.000	.714	.429	.533
Point Probability		.343	.276	.556	.400	.573	.278	.104	.156	.101	.600	.286	.171	.276

		B1_b_v iii	B1_b_ix	B1_b_x	B1_b_xi	B1_c_j	B1_c_ii	B1_c_iii	B1_c_j v	B1_c_v	B1_c_v i	B1_c_v ii	B1_c_viii	B1_c_j x
Most Extreme Differences	Absolute	.200	.500	.286	.600	.286	.233	.190	.417	.300	.667	.371	.333	.333
	Positive	.200	.500	.143	.600	.286	.233	.167	.417	.300	.667	.000	.000	.333
	Negative	-.200	-.167	-.286	-.200	-.143	-.167	-.190	-.083	-.100	.000	-.371	-.333	-.333
Kolmogorov-Smirnov Z		.316	.548	.535	.949	.535	.385	.342	.546	.447	.873	.634	.550	.408
Asymp. Sig. (2-tailed)		1.000	.925	.938	.329	.938	.998	1.000	.927	.988	.431	.816	.922	.996
Exact Sig. (2-tailed)		1.000	.800	.874	.286	.916	.870	.937	.771	.937	.400	.470	.545	1.000
Point Probability		.556	.200	.591	.278	.451	.130	.147	.114	.063	.171	.177	.152	.600

		B1_c_x	B1_c_xi	B2_a_j	B2_a_ii	B2_a_iii	B2_a_j v	B2_a_v	B2_a_v ii	B2_a_v iii	B2_a_j x	B2_a_x	B2_a_xi	B2_b_j
Most Extreme Differences	Absolute	.304	.467	.333	.550	.571	.667	.500	.229	.400	.500	.429	.550	.333
	Positive	.304	.200	.000	.050	.000	.000	.100	.229	.400	.167	.429	.550	.167
	Negative	.000	-.467	-.333	-.550	-.571	-.667	-.500	-.229	-.200	-.500	-.029	-.200	-.333
Kolmogorov-Smirnov Z		.587	.771	.550	.820	.828	.816	.598	.390	.632	.548	.732	.820	.516
Asymp. Sig. (2-tailed)		.882	.593	.922	.512	.499	.518	.867	.998	.819	.925	.658	.512	.952
Exact Sig. (2-tailed)		.618	.338	.662	.381	.367	.600	.810	.909	.810	.600	.500	.381	.886
Point Probability		.093	.091	.104	.190	.250	.500	.238	.162	.603	.200	.139	.190	.229

		B2_b_ii	B2_b_iii	B2_b_j v	B2_b_v	B2_b_vii	B2_b_v iii	B2_b_j x	B2_b_x	B2_b_x i	B2_c_j	B2_c_ii	B2_c_iii	B2_c_j v
Most Extreme Differences	Absolute	.550	.571	.333	.500	.229	.400	.333	.500	.600	.214	.550	.429	.333
	Positive	.000	.000	.333	.000	.229	.400	.333	.500	.600	.214	.050	.000	.333
	Negative	-.550	-.571	-.333	-.500	-.086	.000	.000	.000	.000	-.214	-.550	-.429	-.333
Kolmogorov-Smirnov Z		.820	.828	.408	.598	.390	.632	.408	.826	.894	.342	.820	.621	.408
Asymp. Sig. (2-tailed)		.512	.499	.996	.867	.998	.819	.996	.503	.400	1.000	.512	.835	.996
Exact Sig. (2-tailed)		.429	.400	1.000	.714	.977	.810	1.000	.247	.286	.982	.357	.575	1.000
Point Probability		.143	.150	.600	.286	.068	.524	.600	.074	.167	.091	.071	.183	.600



		B2_c_v	B2_c_vi	B2_c_vii	B2_c_viii	B2_c_ix	B2_c_x	B2_c_xi	B3_i	B3_ii	B3_iii	B3_iv	B3_v	B3_vi
Most Extreme Differences	Absolute	.500	.500	.262	.400	.500	.524	.600	.333	.161	.232	.286	.175	.270
	Positive	.300	.000	.095	.400	.500	.524	.600	.333	.161	.000	.143	.095	.270
	Negative	-.500	-.500	-.262	.000	-.500	-.167	.000	.000	-.054	-.232	-.286	-.175	.000
Kolmogorov-Smirnov Z		.598	.577	.471	.632	.548	.942	.894	.661	.311	.449	.567	.346	.535
Asymp. Sig. (2-tailed)		.867	.893	.980	.819	.925	.338	.400	.774	1.000	.988	.905	1.000	.937
Exact Sig. (2-tailed)		.714	.933	.811	.683	.800	.277	.286	.431	.916	.849	.435	.908	.599
Point Probability		.286	.533	.157	.476	.400	.065	.167	.086	.210	.214	.127	.092	.063

		B3_vii	B3_viii	B3_ix	B3_x	B3_xi	B3_xii	B3_xiii	B3_xiv	B3_xv	B4_i	B4_ii	B4_iii	B4_vi
Most Extreme Differences	Absolute	.571	.175	.127	.190	.286	.175	.349	.063	.125	.250	.250	.194	.375
	Positive	.571	.175	.127	.000	.286	.175	.349	.063	.125	.250	.250	.125	.000
	Negative	.000	-.063	-.063	-.190	-.143	.000	.000	-.063	.000	-.125	-.125	-.194	-.375
Kolmogorov-Smirnov Z		1.069	.346	.252	.378	.552	.346	.693	.126	.242	.500	.500	.400	.772
Asymp. Sig. (2-tailed)		.203	1.000	1.000	.999	.921	1.000	.723	1.000	1.000	.964	.964	.997	.591
Exact Sig. (2-tailed)		.103	.906	1.000	.714	.576	.816	.355	1.000	1.000	.782	.720	.712	.191
Point Probability		.098	.047	.101	.206	.077	.138	.144	.063	.218	.651	.280	.216	.060

		B4_v	B4_vi1	B4_vii	B5_i	B5_ii	B5_iii	B5_vi	B5_v	B6_i	B6_ii	B6_iii	B6_iv	B6_v
Most Extreme Differences	Absolute	.194	.375	.125	.127	.143	.143	.208	.111	.143	.175	.125	.000	.250
	Positive	.014	.000	.125	.111	.143	.032	.208	.097	.000	.000	.125	.000	.250
	Negative	-.194	-.375	-.014	-.127	-.048	-.143	-.111	-.111	-.143	-.175	.000	.000	.000
Kolmogorov-Smirnov Z		.400	.772	.257	.252	.283	.283	.429	.229	.276	.346	.250	.000	.463
Asymp. Sig. (2-tailed)		.997	.591	1.000	1.000	1.000	1.000	.993	1.000	1.000	1.000	1.000	1.000	.983
Exact Sig. (2-tailed)		.911	.219	.951	1.000	.937	.878	.689	1.000	.467	.550	1.000	1.000	.473
Point Probability		.138	.066	.049	.089	.112	.092	.207	.093	.467	.338	.718	1.000	.308

		B6_vi	B6_vii	B6_viii	B6_ix	B6_x	C1_i	C1_ii	C1_iv	C1_v	C1_vi	C1_vii	C1_viii	C1_ix	C3_i	C3_ii	C3_iii
Most Extreme Differences	Absolute	.125	.054	.125	.125	.161	.403	.028	.625	.125	.194	.181	.014	.125	.319	.431	.319
	Positive	.125	.000	.125	.000	.000	.111	.028	.625	.083	.181	.083	.014	.000	.000	.333	.222
	Negative	.000	-.054	.000	-.125	-.161	-.403	-.014	-.125	-.125	-.194	-.181	.000	-.125	-.319	-.431	-.319
Kolmogorov-Smirnov Z		.257	.104	.250	.242	.311	.829	.057	1.250	.257	.400	.372	.029	.250	.657	.886	.657
Asymp. Sig. (2-tailed)		1.000	1.000	1.000	1.000	1.000	.498	1.000	.088	1.000	.997	.999	1.000	1.000	.780	.412	.780
Exact Sig. (2-tailed)		.471	1.000	1.000	1.000	.569	.198	1.000	.059	.948	.689	.712	1.000	1.000	.343	.131	.294
Point Probability		.471	.392	.685	.533	.369	.089	.228	.058	.104	.164	.230	.529	.685	.150	.081	.163

		C3_iv	C3_v	C4_i	C4_ii	C4_iv	C4_v	C4_vi	C4_vii	C4_viii	C4_ix	C4_x	C4_xi	C4_xii			
Most Extreme Differences	Absolute	.319	.333	.014	.500	.194	.292	.208	.222	.161	.222	.250	.208	.333			
	Positive	.222	.333	.000	.000	.194	.292	.208	.222	.071	.222	.000	.208	.167			
	Negative	-.319	-.194	-.014	-.500	.000	.000	.000	-.159	-.161	.000	-.250	-.014	-.333			
Kolmogorov-Smirnov Z		.657	.686	.029	.866	.400	.540	.429	.441	.311	.457	.500	.429	.516			
Asymp. Sig. (2-tailed)		.780	.734	1.000	.441	.997	.932	.993	.990	1.000	.985	.964	.993	.952			
Exact Sig. (2-tailed)		.294	.300	1.000	.338	.620	.650	.698	.621	.804	.698	.925	.793	.571			
Point Probability		.163	.107	.529	.268	.285	.385	.202	.196	.131	.108	.699	.104	.257			

**APPENDIX 5: MANN-WHITNEY U TEST OUTPUT ON FNVC VERSUS FVC**

	A1_j	A1_ii	A1_iii	A1_iv	A1_v	A1_vi	A2_i	A2_ii	A2_iii	A2_iv	A2_v_b	A2_v_c	A3_i	A3_ii
Mann-Whitney U	31.000	15.500	25.000	25.500	21.000	17.500	32.500	27.500	30.500	24.500	6.000	10.500	.000	1.000
Wilcoxon W	59.000	30.500	70.000	46.500	42.000	45.500	68.500	63.500	66.500	60.500	16.000	38.500	6.000	2.000
Z	-.054	-.941	-.742	-.179	-.717	-.522	-.363	-.909	-.563	-.877	.000	.000	-1.936	.000
Asymp. Sig. (2-tailed)	.957	.347	.458	.858	.473	.602	.717	.363	.573	.381	1.000	1.000	.053	1.000
Exact Sig. [2*(1-tailed Sig.)]	1.000	.364	.536	.864	.529	.628	.743	.423	.606	.442	1.000	1.000	.200	1.000
Exact Sig. (2-tailed)	.991	.381	.503	.876	.502	.643	.687	.390	.640	.450	1.000	1.000	.100	1.000
Exact Sig. (1-tailed)	.502	.195	.265	.436	.252	.376	.399	.224	.290	.225	1.000	1.000	.100	1.000
Point Probability	.043	.029	.010	.017	.018	.121	.138	.104	.052	.039	1.000	1.000	.100	1.000

	A3_iii	A3_iv	A3_v	A3_vi	A4_i_a	A4_i_b	A4_i_c	A4_i_d	A4_i_e	A4_ii_a	A4_ii_b	A4_ii_c	A4_ii_d	A4_ii_e
Mann-Whitney U	2.000	1.000	26.000	9.500	9.500	8.000	10.000	11.500	34.500	10.000	12.500	6.000	25.500	26.000
Wilcoxon W	5.000	16.000	62.000	24.500	24.500	36.000	20.000	47.500	70.500	20.000	27.500	21.000	53.500	71.000
Z	-.609	-1.640	-.234	-.636	-.126	-1.664	-.443	-2.284	-.159	.000	.000	-.461	-.321	-.653
Asymp. Sig. (2-tailed)	.543	.101	.815	.525	.900	.096	.658	.022	.874	1.000	1.000	.645	.748	.514
Exact Sig. [2*(1-tailed Sig.)]	.800	.190	.867	.548	.905	.149	.762	.028	.888	1.000	1.000	.786	.779	.606
Exact Sig. (2-tailed)	.800	.190	.837	.571	1.000	.104	.676	.040	.899	1.000	1.000	.732	.956	.700
Exact Sig. (1-tailed)	.500	.143	.415	.286	.508	.034	.329	.020	.460	.595	.643	.339	.486	.372
Point Probability	.400	.143	.018	.032	.095	.015	.029	.017	.048	.190	.286	.054	.218	.214

	A4_iii_a	A4_iii_b	A4_iii_c	A4_iii_d	A4_iii_e	A4_iv_a	A4_iv_b	A4_iv_c	A4_iv_d	A4_iv_e	A4_v_a	A4_v_b	A4_v_c	A4_v_d
Mann-Whitney U	9.500	14.000	10.000	21.000	20.000	10.000	14.000	8.500	27.500	21.500	3.500	7.000	6.500	10.000
Wilcoxon W	24.500	29.000	20.000	49.000	56.000	20.000	35.000	23.500	63.500	49.500	13.500	22.000	16.500	46.000
Z	-.129	-.205	.000	-.523	-.977	.000	-.218	-.382	-.526	-1.166	-1.423	-1.563	-.458	-2.377
Asymp. Sig. (2-tailed)	.897	.838	1.000	.601	.329	1.000	.827	.702	.599	.243	.155	.118	.647	.017
Exact Sig. [2*(1-tailed Sig.)]	.905	.931	1.000	.710	.397	1.000	.931	.730	.645	.299	.200	.177	.686	.040
Exact Sig. (2-tailed)	.952	1.000	1.000	.755	.354	1.000	1.000	.810	.707	.277	.371	.113	.914	.033
Exact Sig. (1-tailed)	.516	.543	.563	.378	.190	.643	.652	.452	.354	.179	.186	.067	.457	.020
Point Probability	.127	.195	.111	.182	.062	.238	.455	.143	.117	.073	.171	.032	.257	.020

	A4_v_e	A5_i	A5_iv	A5_v	A5_vi	A6_i	A6_ii	A6_v	A6_vi	A6_vii	A6_viii	A6_ix	A6_x	A6_xv
Mann-Whitney U	13.500	7.500	27.000	2.000	5.000	24.500	26.000	.000	6.500	9.500	9.500	7.500	12.000	16.500
Wilcoxon W	58.500	13.500	72.000	5.000	20.000	45.500	47.000	1.000	16.500	24.500	24.500	17.500	33.000	44.500
Z	-1.667	-.535	.000	.000	.000	-.306	-.119	-1.000	-.447	-.125	-1.167	-.643	-1.588	-.166
Asymp. Sig. (2-tailed)	.095	.593	1.000	1.000	1.000	.760	.905	.317	.655	.901	.243	.521	.112	.868
Exact Sig. [2*(1-tailed Sig.)]	.113	.714	1.000	1.000	1.000	.776	.955	1.000	.686	.905	.329	.556	.142	.876
Exact Sig. (2-tailed)	.104	1.000	1.000	1.000	1.000	.798	.951	1.000	.771	.905	.288	.627	.132	.917
Exact Sig. (1-tailed)	.052	.583	1.000	1.000	1.000	.414	.477	.500	.386	.476	.212	.302	.066	.460
Point Probability	.008	.500	1.000	1.000	1.000	.044	.041	.500	.086	.079	.152	.095	.017	.051

	A6_xvi	A6_xvii	A6_xviii	A6_xx	A6_xxi	A6_xxii	B1_a_i	B1_a_ii	B1_a_iii	B1_a_iv	B1_a_v	B1_a_vi	B1_a_vii	B1_a_viii
Mann-Whitney U	4.000	4.000	10.500	17.500	9.000	3.000	17.000	13.500	8.000	3.500	3.500	4.500	10.500	11.000
Wilcoxon W	19.000	10.000	20.500	32.500	30.000	9.000	38.000	28.500	36.000	9.500	6.500	10.500	38.500	26.000
Z	-1.643	-.258	-.329	-1.097	.000	.000	-.162	-.282	-1.576	-.449	-.586	-.592	-.768	-.386
Asymp. Sig. (2-tailed)	.100	.796	.742	.273	1.000	1.000	.871	.778	.115	.653	.558	.554	.442	.700
Exact Sig. [2*(1-tailed Sig.)]	.190	1.000	.762	.518	1.000	1.000	.937	.792	.149	.700	.571	.629	.527	.841
Exact Sig. (2-tailed)	.167	1.000	.824	.505	1.000	1.000	.931	.797	.122	.900	.667	.829	.597	1.000
Exact Sig. (1-tailed)	.127	.500	.433	.396	1.000	1.000	.465	.396	.058	.450	.333	.457	.318	.500
Point Probability	.119	.300	.114	.396	1.000	1.000	.053	.026	.008	.200	.095	.343	.212	.139

	B1_a_ix	B1_a_x	B1_a_xi	B1_a_xii	B1_b_i	B1_b_ii	B1_b_iii	B1_b_iv	B1_b_v	B1_b_vi	B1_b_vii	B1_b_viii	B1_b_ix	B1_b_x
Mann-Whitney U	3.000	17.000	6.000	.000	16.000	15.000	8.000	4.000	2.500	4.000	10.500	11.000	2.500	20.500
Wilcoxon W	6.000	45.000	21.000	1.000	37.000	36.000	23.000	10.000	17.500	14.000	20.500	26.000	8.500	48.500
Z	.000	-.979	-1.383	-1.342	-.324	.000	-1.576	-.221	-.977	-.789	-.768	-.386	-.296	-.521
Asymp. Sig. (2-tailed)	1.000	.328	.167	.180	.746	1.000	.115	.825	.329	.430	.442	.700	.767	.602
Exact Sig. [2*(1-tailed Sig.)]	1.000	.383	.222	.500	.818	1.000	.149	1.000	.381	.629	.527	.841	.800	.620
Exact Sig. (2-tailed)	1.000	.387	.183	.500	.773	1.000	.122	1.000	.476	.657	.597	1.000	1.000	.639
Exact Sig. (1-tailed)	.500	.193	.091	.250	.386	.537	.058	.500	.238	.286	.318	.500	.500	.319
Point Probability	.100	.048	.012	.250	.023	.035	.008	.100	.095	.171	.212	.139	.200	.014

	B1_b_xi	B1_b_xii	B1_c_i	B1_c_ii	B1_c_iii	B1_c_iv	B1_c_v	B1_c_vi	B1_c_vii	B1_c_viii	B1_c_ix	B1_c_x	B1_c_xi	B1_c_xii
Mann-Whitney U	6.500	.000	23.000	14.500	18.500	4.500	9.000	2.000	10.500	10.000	3.500	20.000	8.500	.000
Wilcoxon W	21.500	6.000	51.000	35.500	39.500	14.500	24.000	12.000	25.500	25.000	9.500	56.000	23.500	6.000
Z	-1.297	-1.342	-.193	-.096	-.365	-.540	-.247	-1.427	-1.270	-1.057	-.443	-.945	-1.203	-1.342
Asymp. Sig. (2-tailed)	.195	.180	.847	.923	.715	.589	.805	.154	.204	.290	.658	.345	.229	.180
Exact Sig. [2*(1-tailed Sig.)]	.222	.500	.902	.931	.731	.629	.905	.229	.268	.429	.700	.397	.247	.500
Exact Sig. (2-tailed)	.230	.500	.882	.998	.767	.686	.881	.200	.258	.394	.800	.385	.258	.500
Exact Sig. (1-tailed)	.115	.250	.441	.509	.368	.371	.437	.086	.159	.197	.400	.189	.134	.250
Point Probability	.016	.250	.030	.087	.031	.114	.048	.029	.088	.076	.100	.026	.030	.250

	B2_a_i	B2_a_ii	B2_a_iii	B2_a_iv	B2_a_v	B2_a_vi	B2_a_vii	B2_a_viii	B2_a_ix	B2_a_x	B2_a_xi	B2_b_i	B2_b_ii	B2_b_iii
Mann-Whitney U	9.500	6.500	3.500	1.000	3.000	.000	17.500	11.000	2.500	11.000	6.000	11.000	5.500	4.500
Wilcoxon W	24.500	16.500	9.500	7.000	6.000	1.000	32.500	26.000	5.500	39.000	21.000	21.000	15.500	10.500
Z	-1.018	-.865	-1.620	-1.550	-.775	-1.414	.000	-.324	-.304	-1.061	-.997	-.215	-1.112	-1.376
Asymp. Sig. (2-tailed)	.309	.387	.105	.121	.439	.157	1.000	.746	.761	.289	.319	.830	.266	.169
Exact Sig. [2*(1-tailed Sig.)]	.329	.413	.117	.200	.571	.400	1.000	.841	.800	.343	.413	.914	.286	.183
Exact Sig. (2-tailed)	.353	.452	.150	.200	.571	.400	1.000	.778	1.000	.321	.397	.886	.333	.233
Exact Sig. (1-tailed)	.180	.214	.083	.100	.286	.200	.566	.389	.500	.165	.198	.457	.167	.117
Point Probability	.022	.016	.050	.050	.095	.200	.131	.048	.200	.029	.056	.076	.048	.050

	B2_b_iv	B2_b_v	B2_b_vi	B2_b_vii	B2_b_viii	B2_b_ix	B2_b_x	B2_b_xi	B2_c_i	B2_c_ii	B2_c_iii	B2_c_iv	B2_c_v	B2_c_vi
Mann-Whitney U	4.000	2.500	.000	16.000	9.000	3.000	7.000	4.000	13.000	6.500	5.000	4.000	4.000	2.000
Wilcoxon W	10.000	5.500	1.000	44.000	24.000	9.000	28.000	19.000	41.000	16.500	11.000	10.000	7.000	5.000
Z	-.232	-.977	-1.414	-.247	-.757	-.696	-1.471	-1.488	-.192	-.865	-1.261	-.232	-.391	-.926
Asymp. Sig. (2-tailed)	.817	.329	.157	.805	.449	.487	.141	.137	.848	.387	.207	.817	.696	.355
Exact Sig. [2*(1-tailed Sig.)]	1.000	.381	.400	.876	.548	.700	.177	.190	.927	.413	.267	1.000	.857	.533
Exact Sig. (2-tailed)	1.000	.476	.400	.876	.524	.700	.165	.167	.912	.437	.250	1.000	.810	.533
Exact Sig. (1-tailed)	.500	.238	.200	.438	.262	.350	.084	.095	.458	.222	.133	.500	.381	.267
Point Probability	.150	.095	.200	.062	.056	.150	.019	.048	.070	.048	.042	.150	.048	.133

	B2_c_vii	B2_c_viii	B2_c_ix	B2_c_x	B2_c_xi	B3_i	B3_ii	B3_iii	B3_iv	B3_v	B3_vi	B3_vii	B3_viii	B3_ix
Mann-Whitney U	18.000	7.500	3.000	13.500	3.000	23.000	25.000	21.500	26.500	30.500	25.500	9.000	29.500	29.500
Wilcoxon W	39.000	22.500	6.000	41.500	18.000	68.000	61.000	49.500	54.500	75.500	70.500	37.000	74.500	74.500
Z	-.438	-1.122	.000	-1.076	-1.736	-.978	-.363	-.770	-.611	-.111	-.653	-2.208	-.216	-.217
Asymp. Sig. (2-tailed)	.662	.262	1.000	.282	.082	.328	.717	.441	.542	.912	.514	.027	.829	.828
Exact Sig. [2*(1-tailed Sig.)]	.731	.310	1.000	.295	.111	.408	.779	.463	.606	.918	.536	.053	.837	.837
Exact Sig. (2-tailed)	.691	.365	1.000	.312	.095	.371	.801	.488	.559	.959	.543	.054	.853	.902
Exact Sig. (1-tailed)	.350	.183	.500	.156	.063	.204	.431	.254	.292	.486	.287	.027	.439	.454
Point Probability	.025	.079	.100	.017	.040	.061	.127	.045	.031	.052	.039	.024	.038	.073

	B3_x	B3_xi	B3_xii	B3_xiii	B3_xiv	B3_xv	B4_i	B4_ii	B4_iii	B4_vi	B4_v	B4_vi1	B4_vii	B5_j
Mann-Whitney U	23.000	26.500	28.000	22.000	31.000	24.500	30.000	25.500	35.000	23.000	30.000	28.000	33.000	29.500
Wilcoxon W	51.000	62.500	73.000	67.000	76.000	60.500	66.000	61.500	71.000	59.000	66.000	64.000	78.000	57.500
Z	-.951	-.179	-.399	-1.053	-.054	-.456	-.226	-.703	-.101	-1.470	-.592	-.846	-.300	-.220
Asymp. Sig. (2-tailed)	.342	.858	.690	.292	.957	.648	.821	.482	.920	.142	.554	.397	.764	.826
Exact Sig. [2*(1-tailed Sig.)]	.408	.867	.758	.351	1.000	.694	.878	.505	.963	.236	.606	.481	.815	.837
Exact Sig. (2-tailed)	.411	.966	.747	.326	.992	.837	.980	.519	1.000	.172	.579	.387	.794	.871
Exact Sig. (1-tailed)	.208	.486	.431	.200	.523	.432	.490	.260	.506	.084	.301	.226	.406	.455
Point Probability	.073	.075	.138	.088	.087	.218	.150	.042	.095	.041	.052	.043	.052	.047

	B5_ii	B5_iii	B5_vi	B5_v	B6_i	B6_ii	B6_iii	B6_iv	B6_v	B6_vi	B6_vii	B6_viii	B6_ix	B6_x
Mann-Whitney U	29.000	30.500	28.000	33.500	24.000	26.000	28.000	24.000	18.000	31.500	26.500	28.000	24.500	23.500
Wilcoxon W	74.000	58.500	73.000	78.500	52.000	54.000	64.000	60.000	54.000	76.500	54.500	64.000	52.500	51.500
Z	-.276	-.114	-.824	-.271	-1.069	-.859	-.522	.000	-1.275	-1.061	-.204	-.488	-.935	-.750
Asymp. Sig. (2-tailed)	.783	.909	.410	.786	.285	.390	.602	1.000	.202	.289	.838	.626	.350	.453
Exact Sig. [2*(1-tailed Sig.)]	.837	.918	.481	.815	.694	.606	.721	1.000	.491	.673	.867	.721	.694	.613
Exact Sig. (2-tailed)	.873	.991	.467	.891	.467	.550	1.000	1.000	.473	.471	1.000	1.000	1.000	.569
Exact Sig. (1-tailed)	.436	.518	.254	.492	.467	.400	.500	1.000	.308	.471	.622	.500	.533	.446
Point Probability	.086	.092	.060	.123	.467	.338	.359	1.000	.308	.471	.392	.343	.533	.369



	C1_i	C1_ii	C1_iii	C1_iv	C1_v	C1_vi	C1_vii	C1_viii	C1_ix	C3_i	C3_ii	C3_iii	C3_iv	C3_v
Mann-Whitney U	26.000	35.500	.000	20.500	32.500	33.500	33.000	35.500	28.000	26.500	31.000	31.500	31.500	34.000
Wilcoxon W	62.000	80.500	1.000	56.500	68.500	78.500	69.000	80.500	64.000	62.500	67.000	67.500	67.500	79.000
Z	-1.005	-.057	-1.000	-1.249	-.359	-.258	-.311	-.086	-.488	-.986	-.522	-.493	-.492	-.209
Asymp. Sig. (2-tailed)	.315	.955	.317	.212	.720	.796	.756	.931	.626	.324	.602	.622	.622	.835
Exact Sig. [2*(1-tailed Sig.)]	.370	.963	1.000	.234	.743	.815	.815	.963	.721	.370	.673	.673	.673	.888
Exact Sig. (2-tailed)	.374	1.000	1.000	.193	.762	.790	.873	1.000	1.000	.412	.563	.657	.571	.995
Exact Sig. (1-tailed)	.199	.583	.500	.096	.378	.405	.402	.735	.500	.170	.275	.270	.270	.478
Point Probability	.070	.228	.500	.001	.037	.012	.092	.529	.343	.069	.002	.025	.025	.017

	C4_i	C4_ii	C4_iii	C4_iv	C4_v	C4_vi	C4_vii	C4_viii	C4_ix	C4_x	C4_xi	C4_xii		
Mann-Whitney U	35.500	6.500	.500	29.000	17.500	26.500	31.500	27.500	28.000	27.000	27.000	12.000		
Wilcoxon W	71.500	27.500	6.500	74.000	53.500	71.500	76.500	55.500	73.000	63.000	72.000	22.000		
Z	-.086	-1.885	-.943	-.812	-.912	-.972	.000	-.064	-.811	-.545	-.928	.000		
Asymp. Sig. (2-tailed)	.931	.059	.346	.417	.362	.331	1.000	.949	.417	.586	.354	1.000		
Exact Sig. [2*(1-tailed Sig.)]	.963	.065	.500	.541	.414	.370	1.000	.955	.481	.645	.423	1.000		
Exact Sig. (2-tailed)	1.000	.089	.750	.620	.466	.388	1.000	1.000	.445	.636	.424	1.000		
Exact Sig. (1-tailed)	.735	.044	.500	.373	.261	.222	.500	.538	.233	.318	.219	.510		
Point Probability	.529	.019	.500	.285	.140	.102	.073	.131	.043	.040	.040	.029		

**APPENDIX 6: KOLMOGOROV-SMIRNOV TEST OUTPUT ON FNVC VERSUS FVC**

		A1_i	A1_ii	A1_iii	A1_iv	A1_v	A1_vi	A2_i	A2_ii	A2_iii	A2_iv	A2_v_b	A2_v_c	A3_j
Most Extreme Differences	Absolute	.095	.267	.413	.167	.222	.214	.153	.278	.181	.250	.000	.000	1.000
	Positive	.095	.000	.413	.056	.000	.214	.028	.014	.125	.250	.000	.000	1.000
	Negative	-.095	-.267	-.111	-.167	-.222	-.048	-.153	-.278	-.181	-.125	.000	.000	.000
Kolmogorov-Smirnov Z		.189	.478	.819	.316	.422	.385	.314	.572	.372	.500	.000	.000	1.095
Asymp. Sig. (2-tailed)		1.000	.976	.514	1.000	.994	.998	1.000	.899	.999	.964	1.000	1.000	.181
Exact Sig. (2-tailed)		1.000	.825	.192	.978	.928	.790	.827	.335	.698	.608	1.000	1.000	.100
Point Probability		.025	.105	.066	.043	.090	.140	.138	.204	.242	.326	1.000	1.000	.100

		A3_iii	A3_iv	A3_v	A3_vi	A4_i_a	A4_i_b	A4_i_c	A4_i_d	A4_i_e	A4_ii_a	A4_ii_b	A4_ii_c	A4_ii_d
Most Extreme Differences	Absolute	.333	.800	.232	.400	.300	.600	.500	.500	.222	.250	.000	.467	.089
	Positive	.000	.800	.232	.400	.300	.600	.167	.500	.222	.250	.000	.467	.000
	Negative	-.333	.000	-.214	.000	-.250	.000	-.500	.000	-.181	-.250	.000	-.333	-.089
Kolmogorov-Smirnov Z		.365	.956	.449	.632	.447	1.025	.775	1.000	.457	.373	.000	.639	.173
Asymp. Sig. (2-tailed)		.999	.320	.988	.819	.988	.244	.586	.270	.985	.999	1.000	.809	1.000
Exact Sig. (2-tailed)		1.000	.190	.849	.810	.714	.091	.400	.097	.637	.929	1.000	.679	1.000
Point Probability		.400	.143	.071	.619	.143	.091	.190	.071	.149	.214	.286	.321	.218

		A4_ii_e	A4_iii_a	A4_iii_b	A4_iii_c	A4_iii_d	A4_iii_e	A4_iv_a	A4_iv_b	A4_iv_c	A4_iv_d	A4_iv_e	A4_v_a	A4_v_b
Most Extreme Differences	Absolute	.127	.250	.200	.250	.143	.250	.200	.067	.300	.125	.286	.500	.633
	Positive	.127	.250	.067	.250	.143	.250	.200	.067	.300	.125	.000	.000	.000
	Negative	.000	-.100	-.200	-.250	.000	.000	-.150	.000	-.050	.000	-.286	-.500	-.633
Kolmogorov-Smirnov Z		.252	.373	.330	.373	.267	.483	.298	.110	.447	.250	.567	.707	1.046
Asymp. Sig. (2-tailed)		1.000	.999	1.000	.999	1.000	.974	1.000	1.000	.988	1.000	.905	.699	.224
Exact Sig. (2-tailed)		1.000	.810	.740	.905	1.000	.782	1.000	1.000	.857	1.000	.425	.486	.080
Point Probability		.385	.127	.195	.222	.441	.233	.238	.455	.143	.392	.122	.457	.065

		A4_v_c	A4_v_d	A4_v_e	A5_i	A5_iv	A5_v	A5_vi	A6_i	A6_ii	A6_vi	A6_vii	A6_viii	A6_ix
Most Extreme Differences	Absolute	.250	.500	.556	.167	.000	.000	.000	.111	.111	.250	.250	.233	.250
	Positive	.000	.500	.556	.000	.000	.000	.000	.056	.111	.250	.150	.000	.000
	Negative	-.250	.000	-.111	-.167	.000	.000	.000	-.111	-.111	-.250	-.250	-.233	-.250
Kolmogorov-Smirnov Z		.354	.966	1.054	.236	.000	.000	.000	.211	.211	.354	.373	.385	.373
Asymp. Sig. (2-tailed)		1.000	.308	.216	1.000	1.000	1.000	1.000	1.000	1.000	1.000	.999	.998	.999
Exact Sig. (2-tailed)		1.000	.077	.156	1.000	1.000	1.000	1.000	1.000	1.000	1.000	.873	.545	.905
Point Probability		.514	.051	.152	.500	1.000	1.000	1.000	.040	.029	.514	.063	.364	.222

		A6_x	A6_xv	A6_xvi	A6_xvii	A6_xviii	A6_xx	A6_xxi	A6_xxii	B1_a_i	B1_a_ii	B1_a_iii	B1_a_iv	B1_a_v
Most Extreme Differences	Absolute	.333	.257	.550	.333	.333	.222	.000	.000	.167	.267	.429	.333	.500
	Positive	.000	.257	.550	.000	.167	.000	.000	.000	.167	.167	.429	.333	.100
	Negative	-.333	-.143	.000	-.333	-.333	-.222	.000	.000	-.167	-.267	.000	-.333	-.500
Kolmogorov-Smirnov Z		.617	.439	.820	.408	.516	.398	.000	.000	.289	.440	.732	.408	.598
Asymp. Sig. (2-tailed)		.841	.990	.512	.996	.952	.997	1.000	1.000	1.000	.990	.658	.996	.867
Exact Sig. (2-tailed)		.569	.773	.206	1.000	.829	.505	1.000	1.000	1.000	.766	.356	1.000	.810
Point Probability		.282	.111	.159	.600	.357	.396	1.000	1.000	.104	.117	.101	.900	.238

		B1_a_vi	B1_a_vii	B1_a_viii	B1_a_ix	B1_a_x	B1_a_xi	B1_b_i	B1_b_ii	B1_b_iii	B1_b_iv	B1_b_v	B1_b_vi	B1_b_vii
Most Extreme Differences	Absolute	.250	.286	.200	.500	.286	.600	.167	.267	.429	.333	.500	.500	.286
	Positive	.000	.286	.200	.500	.286	.200	.000	.267	.000	.333	.500	.500	.000
	Negative	-.250	.000	-.200	-.500	-.143	-.600	-.167	-.233	-.429	-.333	.000	.000	-.286
Kolmogorov-Smirnov Z		.327	.456	.316	.548	.535	.949	.289	.440	.732	.408	.598	.655	.456
Asymp. Sig. (2-tailed)		1.000	.985	1.000	.925	.938	.329	1.000	.990	.658	.996	.867	.785	.985
Exact Sig. (2-tailed)		1.000	.533	1.000	.800	.874	.286	1.000	.766	.356	1.000	.714	.429	.533
Point Probability		.343	.276	.556	.400	.573	.278	.104	.156	.101	.600	.286	.171	.276

		B1_b_viii	B1_b_ix	B1_b_x	B1_b_xi	B1_c_i	B1_c_ii	B1_c_iii	B1_c_iv	B1_c_v	B1_c_vi	B1_c_vii	B1_c_viii	B1_c_ix
Most Extreme Differences	Absolute	.200	.500	.286	.600	.286	.233	.190	.417	.300	.667	.371	.333	.333
	Positive	.200	.500	.143	.600	.286	.233	.167	.417	.300	.667	.000	.000	.333
	Negative	-.200	-.167	-.286	-.200	-.143	-.167	-.190	-.083	-.100	.000	-.371	-.333	-.333
Kolmogorov-Smirnov Z		.316	.548	.535	.949	.535	.385	.342	.546	.447	.873	.634	.550	.408
Asymp. Sig. (2-tailed)		1.000	.925	.938	.329	.938	.998	1.000	.927	.988	.431	.816	.922	.996
Exact Sig. (2-tailed)		1.000	.800	.874	.286	.916	.870	.937	.771	.937	.400	.470	.545	1.000
Point Probability		.556	.200	.591	.278	.451	.130	.147	.114	.063	.171	.177	.152	.600

		B1_c_x	B1_c_xi	B2_a_i	B2_a_ii	B2_a_iii	B2_a_iv	B2_a_v	B2_a_vii	B2_a_viii	B2_a_ix	B2_a_x	B2_a_xi	B2_b_i
Most Extreme Differences	Absolute	.304	.467	.333	.550	.571	.667	.500	.229	.400	.500	.429	.550	.333
	Positive	.304	.200	.000	.050	.000	.000	.100	.229	.400	.167	.429	.550	.167
	Negative	.000	-.467	-.333	-.550	-.571	-.667	-.500	-.229	-.200	-.500	-.029	-.200	-.333
Kolmogorov-Smirnov Z		.587	.771	.550	.820	.828	.816	.598	.390	.632	.548	.732	.820	.516
Asymp. Sig. (2-tailed)		.882	.593	.922	.512	.499	.518	.867	.998	.819	.925	.658	.512	.952
Exact Sig. (2-tailed)		.618	.338	.662	.381	.367	.600	.810	.909	.810	.600	.500	.381	.886
Point Probability		.093	.091	.104	.190	.250	.500	.238	.162	.603	.200	.139	.190	.229

		B2_b_ii	B2_b_iii	B2_b_iv	B2_b_v	B2_b_vii	B2_b_viii	B2_b_ix	B2_b_x	B2_b_xi	B2_c_i	B2_c_ii	B2_c_iii	B2_c_iv
Most Extreme Differences	Absolute	.550	.571	.333	.500	.229	.400	.333	.500	.600	.214	.550	.429	.333
	Positive	.000	.000	.333	.000	.229	.400	.333	.500	.600	.214	.050	.000	.333
	Negative	-.550	-.571	-.333	-.500	-.086	.000	.000	.000	.000	-.214	-.550	-.429	-.333
Kolmogorov-Smirnov Z		.820	.828	.408	.598	.390	.632	.408	.826	.894	.342	.820	.621	.408
Asymp. Sig. (2-tailed)		.512	.499	.996	.867	.998	.819	.996	.503	.400	1.000	.512	.835	.996
Exact Sig. (2-tailed)		.429	.400	1.000	.714	.977	.810	1.000	.247	.286	.982	.357	.575	1.000
Point Probability		.143	.150	.600	.286	.068	.524	.600	.074	.167	.091	.071	.183	.600

		B2_c_v	B2_c_vi	B2_c_vii	B2_c_viii	B2_c_ix	B2_c_x	B2_c_xi	B3_j	B3_ii	B3_iii	B3_iv	B3_v	B3_vi
Most Extreme Differences	Absolute	.500	.500	.262	.400	.500	.524	.600	.333	.161	.232	.286	.175	.270
	Positive	.300	.000	.095	.400	.500	.524	.600	.333	.161	.000	.143	.095	.270
	Negative	-.500	-.500	-.262	.000	-.500	-.167	.000	.000	-.054	-.232	-.286	-.175	.000
Kolmogorov-Smirnov Z		.598	.577	.471	.632	.548	.942	.894	.661	.311	.449	.567	.346	.535
Asymp. Sig. (2-tailed)		.867	.893	.980	.819	.925	.338	.400	.774	1.000	.988	.905	1.000	.937
Exact Sig. (2-tailed)		.714	.933	.811	.683	.800	.277	.286	.431	.916	.849	.435	.908	.599
Point Probability		.286	.533	.157	.476	.400	.065	.167	.086	.210	.214	.127	.092	.063

		B3_vii	B3_viii	B3_ix	B3_x	B3_xi	B3_xii	B3_xiii	B3_xiv	B3_xv	B4_i	B4_ii	B4_iii	B4_vi
Most Extreme Differences	Absolute	.571	.175	.127	.190	.286	.175	.349	.063	.125	.250	.250	.194	.375
	Positive	.571	.175	.127	.000	.286	.175	.349	.063	.125	.250	.250	.125	.000
	Negative	.000	-.063	-.063	-.190	-.143	.000	.000	-.063	.000	-.125	-.125	-.194	-.375
Kolmogorov-Smirnov Z		1.069	.346	.252	.378	.552	.346	.693	.126	.242	.500	.500	.400	.772
Asymp. Sig. (2-tailed)		.203	1.000	1.000	.999	.921	1.000	.723	1.000	1.000	.964	.964	.997	.591
Exact Sig. (2-tailed)		.103	.906	1.000	.714	.576	.816	.355	1.000	1.000	.782	.720	.712	.191
Point Probability		.098	.047	.101	.206	.077	.138	.144	.063	.218	.651	.280	.216	.060

		B4_v	B4_vi1	B4_vii	B5_i	B5_ii	B5_iii	B5_vi	B5_v	B6_i	B6_ii	B6_iii	B6_iv	B6_v
Most Extreme Differences	Absolute	.194	.375	.125	.127	.143	.143	.208	.111	.143	.175	.125	.000	.250
	Positive	.014	.000	.125	.111	.143	.032	.208	.097	.000	.000	.125	.000	.250
	Negative	-.194	-.375	-.014	-.127	-.048	-.143	-.111	-.111	-.143	-.175	.000	.000	.000
Kolmogorov-Smirnov Z		.400	.772	.257	.252	.283	.283	.429	.229	.276	.346	.250	.000	.463
Asymp. Sig. (2-tailed)		.997	.591	1.000	1.000	1.000	1.000	.993	1.000	1.000	1.000	1.000	1.000	.983
Exact Sig. (2-tailed)		.911	.219	.951	1.000	.937	.878	.689	1.000	.467	.550	1.000	1.000	.473
Point Probability		.138	.066	.049	.089	.112	.092	.207	.093	.467	.338	.718	1.000	.308

		B6_vi	B6_vii	B6_viii	B6_ix	B6_x	C1_i	C1_ii	C1_iv	C1_v	C1_vi	C1_vii	C1_viii	C1_ix	C3_i	C3_ii	C3_iii
Most Extreme Differences	Absolute	.125	.054	.125	.125	.161	.403	.028	.625	.125	.194	.181	.014	.125	.319	.431	.319
	Positive	.125	.000	.125	.000	.000	.111	.028	.625	.083	.181	.083	.014	.000	.000	.333	.222
	Negative	.000	-.054	.000	-.125	-.161	-.403	-.014	-.125	-.125	-.194	-.181	.000	-.125	-	-.431	-.319
Kolmogorov-Smirnov Z		.257	.104	.250	.242	.311	.829	.057	1.250	.257	.400	.372	.029	.250	.657	.886	.657
Asymp. Sig. (2-tailed)		1.000	1.000	1.000	1.000	1.000	.498	1.000	.088	1.000	.997	.999	1.000	1.000	.780	.412	.780
Exact Sig. (2-tailed)		.471	1.000	1.000	1.000	.569	.198	1.000	.059	.948	.689	.712	1.000	1.000	.343	.131	.294
Point Probability		.471	.392	.685	.533	.369	.089	.228	.058	.104	.164	.230	.529	.685	.150	.081	.163

		C3_iv	C3_v	C4_i	C4_ii	C4_iv	C4_v	C4_vi	C4_vii	C4_viii	C4_ix	C4_x	C4_xi	C4_xii			
Most Extreme Differences	Absolute	.319	.333	.014	.500	.194	.292	.208	.222	.161	.222	.250	.208	.333			
	Positive	.222	.333	.000	.000	.194	.292	.208	.222	.071	.222	.000	.208	.167			
	Negative	-.319	-.194	-.014	-.500	.000	.000	.000	-.159	-.161	.000	-.250	-.014	-.333			
Kolmogorov-Smirnov Z		.657	.686	.029	.866	.400	.540	.429	.441	.311	.457	.500	.429	.516			
Asymp. Sig. (2-tailed)		.780	.734	1.000	.441	.997	.932	.993	.990	1.000	.985	.964	.993	.952			
Exact Sig. (2-tailed)		.294	.300	1.000	.338	.620	.650	.698	.621	.804	.698	.925	.793	.571			
Point Probability		.163	.107	.529	.268	.285	.385	.202	.196	.131	.108	.699	.104	.257			

**APPENDIX 7: WILCOXON RANK SUM TEST (PAIRED TEST) OUTPUT ON CHAIR VERSUS CEO FOR EACH CHARITY**

		N	Mean Rank	Sum of Ranks
Chair_1 - CEO_1	Negative Ranks	22	35.77	787.00
	Positive Ranks	36	25.67	924.00
	Ties	19		
	Total	77		
Chair_2 - CEO_2	Negative Ranks	8	13.00	104.00
	Positive Ranks	18	13.72	247.00
	Ties	29		
	Total	55		
Chair_3 - CEO_3	Negative Ranks	12	13.00	156.00
	Positive Ranks	26	22.50	585.00
	Ties	21		
	Total	59		
Chair_4 - CEO_4	Negative Ranks	9	14.72	132.50
	Positive Ranks	26	19.13	497.50
	Ties	26		
	Total	61		

		N	Mean Rank	Sum of Ranks
Chair_5 - CEO_5	Negative Ranks	13	18.58	241.50
	Positive Ranks	17	13.15	223.50
	Ties	20		
	Total	50		
Chair_6 - CEO_6	Negative Ranks	13	25.15	327.00
	Positive Ranks	33	22.85	754.00
	Ties	23		
	Total	69		
Chair_7 - CEO_7	Negative Ranks	23	15.89	365.50
	Positive Ranks	11	20.86	229.50
	Ties	10		
	Total	44		
Chair_8 - CEO_8	Negative Ranks	14	26.68	373.50
	Positive Ranks	34	23.60	802.50
	Ties	20		
	Total	68		

		N	Mean Rank	Sum of Ranks
Chair_9 - CEO_9	Negative Ranks	28	19.50	546.00
	Positive Ranks	10	19.50	195.00
	Ties	20		
	Total	58		
Chair_10 - CEO_10	Negative Ranks	10	15.50	155.00
	Positive Ranks	22	16.95	373.00
	Ties	29		
	Total	61		
Chair_11 - CEO_11	Negative Ranks	14	14.57	204.00
	Positive Ranks	14	14.43	202.00
	Ties	24		
	Total	52		
Chair_12 - CEO_12	Negative Ranks	20	19.80	396.00
	Positive Ranks	19	20.21	384.00
	Ties	16		
	Total	55		

		N	Mean Rank	Sum of Ranks
Chair_13 - CEO_13	Negative Ranks	18	16.97	305.50
	Positive Ranks	13	14.65	190.50
	Ties	26		
	Total	57		
Chair_14 - CEO_14	Negative Ranks	15	17.67	265.00
	Positive Ranks	27	23.63	638.00
	Ties	15		
	Total	57		
Chair_15 - CEO_15	Negative Ranks	17	17.24	293.00
	Positive Ranks	20	20.50	410.00
	Ties	23		
	Total	60		
Chair_16 - CEO_16	Negative Ranks	27	25.33	684.00
	Positive Ranks	22	24.59	541.00
	Ties	17		
	Total	66		



		N	Mean Rank	Sum of Ranks
Chair_17 - CEO_17	Negative Ranks	23	21.91	504.00
	Positive Ranks	17	18.59	316.00
	Ties	29		
	Total	69		
Chair_18 - CEO_18	Negative Ranks	13	22.42	291.50
	Positive Ranks	29	21.09	611.50
	Ties	20		
	Total	62		
Chair_19 - CEO_19	Negative Ranks	30	28.60	858.00
	Positive Ranks	24	26.13	627.00
	Ties	12		
	Total	66		
Chair_20 - CEO_20	Negative Ranks	10	20.30	203.00
	Positive Ranks	32	21.88	700.00
	Ties	16		
	Total	58		
Chair_21 - CEO_21	Negative Ranks	11	23.59	259.50
	Positive Ranks	32	21.45	686.50
	Ties	22		
	Total	65		

		N	Mean Rank	Sum of Ranks
Chair_22 - CEO_22	Negative Ranks	36	23.33	840.00
	Positive Ranks	6	10.50	63.00
	Ties	2		
	Total	44		
Chair_23 - CEO_23	Negative Ranks	12	11.33	136.00
	Positive Ranks	11	12.73	140.00
	Ties	36		
	Total	59		
Chair_24 - CEO_24	Negative Ranks	11	12.91	142.00
	Positive Ranks	14	13.07	183.00
	Ties	32		
	Total	57		
Chair_25 - CEO_25	Negative Ranks	26	23.87	620.50
	Positive Ranks	20	23.03	460.50
	Ties	22		
	Total	68		

	Chair_1 - CEO_1	Chair_2 - CEO_2	Chair_3 - CEO_3	Chair_4 - CEO_4	Chair_5 - CEO_5	Chair_6 - CEO_6	Chair_7 - CEO_7	Chair_8 - CEO_8	Chair_9 - CEO_9
Z	-.547	-1.907	-3.206	-3.131	-.191	-2.364	-1.231	-2.346	-2.652
Asymp. Sig. (2-tailed)	.584	.056	.001	.002	.849	.018	.218	.019	.008
Exact Sig. (2-tailed)	.592	.061	.001	.001	.868	.018	.225	.018	.007
Exact Sig. (1-tailed)	.296	.031	.000	.001	.434	.009	.112	.009	.004
Point Probability	.002	.004	.000	.000	.002	.000	.000	.001	.000
	Chair_10 - CEO_10	Chair_11 - CEO_11	Chair_12 - CEO_12	Chair_13 - CEO_13	Chair_14 - CEO_14	Chair_15 - CEO_15	Chair_16 - CEO_16	Chair_17 - CEO_17	
Z	-2.274	-.025	-.087	-1.172	-2.436	-.904	-.760	-1.296	
Asymp. Sig. (2-tailed)	.023	.980	.931	.241	.015	.366	.447	.195	
Exact Sig. (2-tailed)	.027	.985	.926	.251	.014	.381	.472	.208	
Exact Sig. (1-tailed)	.014	.493	.463	.126	.007	.190	.236	.104	
Point Probability	.007	.030	.002	.010	.001	.008	.009	.010	
	Chair_18 - CEO_18	Chair_19 - CEO_19	Chair_20 - CEO_20	Chair_21 - CEO_21	Chair_22 - CEO_22	Chair_23 - CEO_23	Chair_24 - CEO_24	Chair_25 - CEO_25	
Z	-2.107	-1.042	-3.218	-2.644	-4.897	-.065	-.588	-.917	
Asymp. Sig. (2-tailed)	.035	.297	.001	.008	.000	.948	.556	.359	
Exact Sig. (2-tailed)	.035	.307	.001	.007	.000	.954	.607	.372	
Exact Sig. (1-tailed)	.018	.154	.000	.004	.000	.477	.303	.186	
Point Probability	.001	.009	.000	.000	.000	.031	.020	.005	

## APPENDIX 8: NORMAL Q-Q PLOTS FOR TESTING THE NORMALITY ASSUMPTION OF DATA

**Estimated Distribution Parameters**

		A1_i	A1_ii	A1_iii	A1_iv	A1_v	A1_vi
Normal Distribution	Location	13.10	11.84	5.01	3.14	10.25	4.81
	Scale	6.236	6.704	2.026	1.213	4.508	4.267

The cases are unweighted.

