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NEGOTIATING FOR SURVIVAL: BALANCING MISSION AND MONEY

Abstract

The impetus for prioritising money over mission in charities is increasingly pertinent as public sector austerity progresses in the UK. Mid size charities – who are heavily reliant on grant funding - have experienced proportionately greater challenges to austerity than larger entities. A substantial part of accountability efforts in mid size charities are directed towards funders, where funder imposed frameworks and measures may direct charity attention away from social mission towards funder needs, causing mission drift. Four charity case studies, and grant funder interviews were conducted to investigate how charities can pursue social mission in a challenging funding environment. This paper shows that charities can protect social mission despite high dependence on grant funding, but also provides evidence of susceptibility to mission drift in cases where the balance between money and mission changes. Charity accounting systems display pertinent funder influence. A resource dependence perspective is utilised to highlight the complexity in assessing dependence of charities in a challenging environment and demonstrates the extent of funder influence in accounting and performance systems in these charities. However, charities employ strategies to cope with external requirements enabling them to retain mission focus.

Keywords:

Resource Dependence Perspective; Charities; Grant Funders; Mission Drift

1. Introduction

The issue of mission drift in charities has become increasingly prevalent, particularly as public sector austerity progresses in the UK (Hyndman, 2017). Mission drift can be observed when an organisation deviates from its original mission (Jones, 2007). The external funding environment has been identified as a cause of mission drift in charitable organisations, as efforts are directed towards upward accountability (Bennett & Savani, 2011; Christensen & Ebrahim, 2006; Hudson, 2010; O'Dwyer & Unerman, 2008). However, underlying causes of mission drift are more complex than magnitude of financial reliance on funders (Verschuere & Corte, 2014) and there is case evidence that social mission can be maintained despite high financial dependence (Doyle, Kelly, & O'Donohoe, 2016). This paper utilises a resource dependence perspective (RDP) (Pfeffer & Salancik, 1978; Mitchell, 2014) to analyse four mid size charities – defined as those with an income of between £25k and £1m (NCVO, 2016) - in Scotland amidst a challenging grant funding environment (Hyndman, 2017). Grant funders are the largest funders of mid size charities in Scotland (SCVO, 2014), therefore concerns about mission drift are inevitably linked to the nature and extent of grant funding (Bennett & Savani, 2011). To that end, this paper seeks to answer the following research question: How do mid size charities continue to pursue social mission in conditions of high dependence on grants? It is argued here that RDP can effectively explain how charities protect mission whilst addressing financial scarcity.

Specifically, RDP demonstrates that mission drift can gain traction through accounting and performance information produced in charities responding to funder demands. As well as external reports for grant awards, management accounting information is also shaped by funder stipulations, influencing decision making in charities. Performance measurements are also shaped by funder needs, creating susceptibility to mission drift. Yet RDP can also explain and identify why mission focus is *maintained* despite high financial dependency. Charity management absorb environmental demands and create conditions which protect social mission. Organisational factors, such as growth and adaptability also support mission focus. Finally, RDP demonstrates that dependency is a complex interplay of financial requirements, charity cost structures and the nature of services delivered. The paper contributes findings which demonstrate the importance of funder influence on accounting information; the need to investigate charity accounting more widely (Connolly, Hyndman, &

McConville, 2011; Hyndman & McDonnell, 2009) and the resilience of smaller charities seeking funds (van der Heijden, 2013).

The paper proceeds as follows: section 2 considers the nature of mission drift in charities, section 3 discusses RDP and its resonance in a charitable setting, section 4 outlines the research design, and section 5 presents the findings analysed using key insights of RDP. Finally, concluding thoughts are presented in section 6.

2. Mission Drift and Funder Accountability

At the most basic level, mission drift occurs when a charity deviates from its original mission. There is however, ambiguity around what constitutes mission drift - which tends to be quite loosely defined - and how it impacts upon charities (Copestake, 2007). Similarly, the identification of mission drift can be problematic, it may appear clearly visible as a formal change in mission, strategy or objectives (Cornforth, 2014). In contrast, it may be something much subtler in terms of working practices or quality of service (Cornforth, 2014; Weisbrod, 2004). Mission drift is generally associated with negative connotations, for example Jones (2007) labels the underlying causes as 'threats', however positive consequences of mission drift are also noted (Bennett & Savani, 2011). There are also instances where mission drift may be a necessity, for example if the needs of beneficiaries have changed, although a challenge exists in distinguishing such changes from mission drift (Bielefeld, 2009). Mission drift in charities can come from many sources, with two of the most common causes being attributed to the pursuit of business-like approaches in the management of charities (Hyndman, 2017; Ramus & Vaccaro, 2017; Weisbrod, 2004) and conditions of the external funding environment (Jones, 2007). Hyndman (2017) discusses how such New Public Management approaches have made their way across to the charity sector as a result of public sector funding, for example performance reporting requirements insisted upon by funders. The external environment is particularly pertinent to this current study, where external forces (grant funders) exert control over charities to move them away from their core mission:

> "Mission drift arises when a charity's priorities and activities are determined in part by external funders and, in consequence, the organization's operations then deviate significantly from its original mission. Typically, the driving force behind mission drift is an outside funding body's desire that a charity alter the scope or contents of its

services to match more closely the funder's requirements" (Bennett & Savani, 2011, p.218).

There is evidence that different types of funding and funder requirements impact on social mission in different ways (Thompson & Williams, 2014), for example they may request bespoke reporting information, which complies with funder needs over charitable service improvements and diverting staff attention from other stakeholders.

For charities, funders are the primary stakeholder to which accountability activities are directed (Connolly et al, 2013) and mission drift can be caused when working to fulfil funder requirements (Coyte, Rooney & Phua, 2013; Christensen & Ebrahim, 2006). Much has been written about the interplay between accountability mechanisms and mission in charities, where the hierarchical, functional model of accountability tends to dominate over a broader holistic[1] one (Cordery, Baskerville & Porter, 2010; O'Dwyer & Unerman, 2007). Hierarchical reporting focuses more on quantitative measures of achievement and custom funder measurements (Christensen & Ebrahim, 2006; Cordery et al, 2010; Moxham, 2010, 2013). Reporting to funders can then be construed as a burden, unrepresentative of charitable goals and vision, and focusing on compliance, with little contribution to service improvement. Furthermore, the focus on accountability to funders can come at the expense of other stakeholders to whom accountability is due, and this in turn can be counterproductive to mission (McKinney & Khan, 2004; O'Dwyer & Unerman, 2007, 2008). One distinct contrast to previous studies is O'Dwyer & Boomsma (2015) who report on a situation whereby rather than reporting requirements being entirely imposed by the funder, they are co-produced by both funders and charities. The nuances of funder relationships are therefore pertinent.

Further evidence of the ways in which charities utilise 'coping strategies' to manage the tensions between funder requirements and mission suggest that charities can be proactive in avoiding mission drift (Christensen & Ebrahim, 2006; Cornforth, 2014). In contrast, a study by Bennett & Savani (2011) found that case charities saw mission drift as an 'inevitable' part of government contract funding. In this study however, mission drift was found to have a positive impact on charities, who chose to go beyond the provision of the services they were contracted to supply and proactively expanded what they could offer to take full strategic

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[1] For further elaboration on broader conceptualisations of accountability see Jørgensen & Larsen (1987) and Stone (1995).

responsibility for state-funded activities. The issues of addressing mission drift which has already occurred was investigated by Ramus & Vaccaro (2007). Here, a combination of social accounting and stakeholder engagement was successful in redirecting the organisation back towards its socially oriented motivations.

While a number of studies have highlighted the tension between funding and mission, few studies have analysed how these conflicts manifest specifically within accounting and performance systems, and how charities then buffer the impact on mission. RDP is well placed in connecting the challenging financial environment for charities with the work performed to achieve social mission. Furthermore, current fiscal austerity is particularly pertinent for testing RDP as it suggests resource scarcity motivates action, with managers prioritising strategies to manage interdependencies (Malatesta & Smith, 2014). The following section explains RDP and its resonance to charities in more detail.

3. Theoretical Framework: Resource Dependence

To understand the relationship between dependence on grant income and mission autonomy, a resource dependence perspective (RDP) is utilised. Since Pfeffer & Salancik's seminal publication in 1978, scholars have continued to apply and extend RDP (Drees & Heugens, 2013; Hillman, Withers, & Collins, 2009). However, the importance of the original contribution by Pfeffer and Salancik (1978) continues to be emphasised (see Cohen, Guillamón, Lapsley & Robbins, 2015; Froelich, 1999). In fact, Hillman et al (2009), undertaking a review of resource dependence conclude that "although the basic tenets of RDT are well supported, it has not experienced substantial theoretical development or refinement" (p.16). The current study engages what we view as the sometimes overlooked ideas of this theory. There remains empirical work to be done in RDP, as the link between resource dependence and the predicted organisational impact have not always been straightforward (Drees & Heugens, 2013; Pfeffer & Salancik, 1978, pXX). Furthermore, the focus on RDP has centred on the structural organisational responses to resource dependence and less attention has been on the information systems within organisations, a key aspect of this current study. Indeed, the 2003 reprint of The External Control of Organizations identified that:

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"There is little research that attempts to explore the complete connection between environmental constraint and internal organizational dynamics, including outcomes other than who occupies critical organizational positions and their backgrounds" (pXiX)

This section will proceed by presenting the key insights of RDP, before considering some specific developments in charity research.

3.1 Resource Dependence: Key Insights

Pfeffer and Salancik (1978) articulate RDP in terms of organisational survival:

'To survive, organizations require resources. Typically, acquiring resources means the organizations must interact with others who control those resources. In that sense, organizations depend on their environments. Because the organization does not control the resources it needs, resource acquisition may be problematic and uncertain. Others who control resources may be undependable, particularly when resources are scarce. (Pfeffer and Salancik, 1978:258).

Organisations therefore require resources to survive and must obtain these resources from the environment (Pfeffer & Salancik, 1978). In return for resources or capabilities, the environment receives some ability to control and direct organisational action (*ibid,* p27). However, RDP recognises that dependent organisations are not passive, and highlights the importance of adapting to such environmental uncertainties, managing interdependencies and internal dynamics so external environmental influence is minimised (Pfeffer & Salancik, 1978).

External influence in organisations is shaped by the interdependence of different entities and individuals in an environment. Interdependence can have consequences for an organisation. Organisations will concentrate efforts on responding to environmental demands depending on the relative importance of the resource to the organisation's survival, considering both magnitude and criticality to the organisation. Furthermore, the organisation will consider the amount of discretion enjoyed by the contributing actor as to how resources are deployed internally. Finally, interdependence analyses the concentration of resources within the environment and the ability of the organisation to seek alternative relationships. Taken together, these insights on interdependence can establish a more holistic perspective on

dependency in the grant funding environment for charities than focusing exclusively on the amount of financial connections between two entities at one given time.

However, the social control of organisations through resource dependence requires that actors within an organisation are aware of the environment and respond to it. RDP terms this the 'enacted environment' (Pfeffer & Salancik, 1978, p63), to which the information system is central. The nature of information produced and used by an entity is the key link between organisational actions and environmental inputs (*ibid,* p74). As environmental demands change, so does the information that the organisation processes as part of its activities (*ibid,* p76). Managerial responses change as the environment is enacted through information produced by the entities:

> "Information filters leave out some information and later other information; people in organisations focus on what they have been trained to notice and on those things relevant to their jobs…that which is measured is attended to, and that which is not measured ignored." (*ibid,* p81)

The enacted environment within an organisation therefore is inherently subjective and is subject to the information produced internally. This is highly pertinent in charities using accounting and performance information to obtain grants in a stretched funding environment. The potential for mission drift is also exhibited through this enactment of the environment. If mission is absent from information produced by entities, it will not be attended to, and drift could occur.

Once the environment is enacted through information systems, the organisation attends to demands of the environment whilst trying to maximise autonomy within. Several responses to environmental demand have been articulated (Pfeffer and Salancik,1978; Mitchell, 2014). Compliance to environmental demands is a straightforward response, but can lead to a loss of autonomy. Organisations may therefore decide on other ways to manage environmental demands. One example is controlling the definition of satisfaction, particularly if there is room in interpreting criteria. It is difficult for external entities to question output and so the organisation retains discretion (*ibid,* p99). Alternatively, organisations can flexibly change activities in response to environmental conditions. Organisations adapt by selecting the market [funding] segment that they serve (Pfeffer & Salancik, 1978, p107). Furthermore, organisations can avoid conditions which demand compliance altogether by reducing resource dependence (Pfeffer & Salancik, 1978, p108). Finally, organisational structures

may also help support autonomy. Larger organisations have more power and leverage within the environment. However, growth can create more interdependency rather than less if not carefully managed (Pfeffer & Salancik, 1978, p130).

3.2 Resource Dependence and Charities

RDP is highly pertinent to research in charities (Doyle, et al., 2016; Helmig, Jegers, & Lapsley, 2004; Verbruggen, Christiaens, & Milis, 2011). Agostino and Lapsley (2012) examine the interdependencies between charities and the government, highlighting the varying profound impacts on charities when council budgets were cut. A number of studies consider how diversified revenue strategies in charities impact upon resource dependence. Carroll & Stater (2009) find this leads to greater financial stability in charities. Froelich (1999) suggests charities have moved away from concentrated dependence on a single revenue strategy in order to reduce their vulnerability to uncertain income streams and funder influence, however new challenges manifest in growing constraints and management tasks which divert resources from mission-oriented efforts. It has also been reported that when charities alter their locus of dependence and change their pattern of diversification, there can be a negative impact upon fundraising efficiency (de los Mozos, Duarte & Ruiz, 2016).

The above studies rely heavily on the work of Pfeffer & Salancik (1978), however, Mitchell (2014) asserts that previous insights into resource dependence in charities have under appreciated the strategic capacity of these organisations to respond to their environment. Mitchell (2014) identifies specific tactics with which charities respond to conditions of resource dependence to safeguard their autonomy. Three categories of strategic response are presented: adaptation, avoidance, and shaping. Within adaptation, charities may employ the tactic of alignment where charities adjust their programming to suit the preferences of donors. Avoidance tactics include: revenue diversification; selectivity where a charity will reject restricted funding when it is incompatible with current organisational goals; and specialization, where an organisation carves out a specific niche for itself, this is generally categorised by high donor demand and low organisational supply. Finally, shaping tactics include donor education and compromise. Both Mitchell (2014) and Kheing & Dahles (2015) suggest that charities will employ strategies which will preserve organisational autonomy. Such responses are of particular relevance to this current study.

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Within a charity setting, RDP suggests a complex relationship between level of financial dependence and mission autonomy which requires further research (Verschuere & Corte, 2014). This research project builds upon these insights and considers the internal nuances of funder demands for information in charities.

4 Research Design

4.1 Research Setting

This study investigates how mid size charities – defined as having incomes between £25,000 and £1m (NCVO, 2016; SCVO, 2014) - continue to pursue social mission in conditions of high dependence on grants. The research setting is the Scottish charity sector which makes a significant social and economic impact. There are 24,055 registered charities in Scotland handling an estimated £10bn of assets (OSCR, 2016). Charities are a subset of the wider not for profit sector, and as such they are non profit and non governmental. The sector is distinct from both the private and public sector in terms of motivation, activity, resources, and societal contribution (Connolly, Hyndman, & McConville, 2013). In Scotland, under the Charities and Trustee Investment (Scotland) Act 2005 s7, to become a charity an organisation must work towards one or more defined charitable purposes and provide public benefit in Scotland or elsewhere. The role of charities in the delivery of public services in Scotland is increasing (Lindsay, Osborne, & Bond, 2014). Yet, the environment within which these organisations operate is increasingly fragile in the contemporary world (Agostino & Lapsley, 2012). The financial crisis and the age of public sector austerity have presented substantial challenges for mid sized charities in particular (NCVO, 2016). Recent reports suggest that the financial crisis has hit these charities the hardest, as mid size charities have lost a higher proportion of total income compared to their larger counterparts (NCVO, 2016). The SCVO (2014) terms the organisations in this income bracket as the 'squeezed middle', deemed too large to rely on donations and volunteers, yet too small to win contract funding, resulting in a heavy reliance on grant funding.

Grants may be awarded to charities from a range of organisations. For, this paper we identify four major types of grant funder: private trusts & foundations, private companies, public

governmental, public non-governmental. Private trusts and foundations are a key source of income for charitable organisations. A report by Traynor and Walker (2015) considered the top 2500 grant makers in the UK and estimated they give £2.65 billion each year to charities and other voluntary organisations. Assets held by these trusts and foundations are estimated to be in the region of £45 billion, this gives them independence to provide funding to charities, with many large foundations having permanent endowments which are used to generate income. Asset values and investment income have reduced as a result of the financial crisis where actual grant spending by these organisations has only recently recovered to pre-recession levels (Traynor & Walker, 2015). One of the largest grant giving trusts in Scotland is the Robertson Trust which distributed £14.8 million in 2015/16 (Robertson Trust, 2017).

Corporate entities are estimated to provide approximately 2% of income to the charity sector, with an estimated £420 million in donations in 2016, corporate giving has decreased in recent years, down from £658 million in 2014. The largest donations come from Lloyds Banking Group with £64 million and ITV plc with £24 million (Reynolds, Huyton & Hobson, 2017). In terms of public money which is non-governmental, this would include organisations who distribute public donations such as comic relief, children in need and the big lottery fund which awarded £1 billion in grants in 2014/15, 95.6% of which went to the voluntary and community sector (BLF, 2017). The Big Lottery Fund Scotland published the success rates for grant applications between April 2016 and March 2017, these varied from 40% to 70% depending on the type of fund offered (BLF, 2017), highlighting the competitive nature of these grants. In Scotland public sector funding for charities has dropped in recent years by as much as 18%, as grants have been replaced by competitive commissioning and contract models, where larger organisations dominate the market (SCVO, 2016).

These sources of grant funding are competitive, and there are limited funds available relative to funding applications (Coyte, Rooney, & Phua, 2013), which coupled with a reduction in overall awards by some funders, these medium sized charities face substantial uncertainty around their income streams. Meanwhile, these charities are seeing an increase in demand for their services, tackling disadvantage in flexible ways that larger charities, business and the public sector cannot, and often reaching those facing the greatest disadvantage (Hunter, 2016). Mid size charities are therefore particularly apt to analyse the conditions of grant dependency and mission drift.

4.2 Data Collection & Analysis

In order to interrogate the myriad of ways that funder demands may impact on charities information systems and social mission, four case studies were conducted with mid size Scottish charities and 12 semi-structured interviews were conducted with 10 grant funders. Data was collected from key informants working with charities and funders working to distribute resources (Jones, 1996). The case study charities all work to support individuals and families of individuals with additional support needs. The charitable purposes of these case studies is "The relief of those in need by reason of age, ill health, disability, financial hardship or other disadvantage" ("Charities and Trustee Investment (Scotland) Act 2005,").

Case studies were selected for the collection of rich data (Stake, 1995). The common area of work for the charities allowed a degree of parity across cases to assist comparisons, and to eliminate noise from other factors.   The cases were given the pseudonyms: North, South, East and West. The charities were selected according to the total income and nature of services outlined above (see table 3, below). Data within the charities came from two main sources: documentation, and semi-structured interviews.   The individuals interviewed had expertise in various aspects of the grant funding process or in fulfilling social mission. The themes of the interviews revolved around mission, accountability, the grant funding process, measuring performance and either details on the accounting processes, or about the nature of front line services as appropriate.   Documents collected from charities included trustee annual reports (TAR), as well as examples of confidential funding applications and reports. Internal performance measurement documentation and management accounts of the charities were also used in analysis. We examined the extent to which mission drift had occurred because of grant funding. Challenges exist in defining and identifying mission drift (Cornforth, 2014; Weisbrod, 2004). In order to assess whether mission drift occurred, we considered how the charities had deviated from their original mission and how current activities aligned to the charities' mission. The nature of activities was investigated via self-reporting through interviews, analysing the financial reports and documents to funders, and utilising the definitions and understanding of mission drift gained from the literature. The charities themselves did not necessarily reflect on mission drift in a formal and regular manner.

In addition to the case study settings, the research study encompassed individual interviews employed in a range of funding bodies. The themes for funder interviews centred on the management of grant applications, monitoring of grants and the wider accountability requirements of the funders themselves. Further details of interviewees are given in table 1. Most interviews[2] were conducted by both authors, transcribed and analysed according to themes from RDP. The analysis of interviews was conducted in word and excel. Key themes and features of the charities were agreed upon by both authors, utilising insights from RDP to understand and explain the different experiences in environment and social mission (Ritchie & Lewis, 2003).

Insert table 1 here

5 Findings

The four cases analysed within this study all exhibit varying degrees of dependency on grant funding, with 3 of the 4 cases obtaining over half of their income from grants. RDP explains the varying responses employed by the charities, highlighting diverse approaches to managing money and mission. The findings are structured around three key themes: the grant funding environment; interdependence in charities and funders; and funder demands and mission drift.

5.1 The Grant Funding Environment: The Demand for Accounting and Performance Information

The social control of organisations is operated through interdependence (Pfeffer & Salancik, 1978, pp. 39-61). In this setting, charities must engage with funders to obtain financial resources to operate and realise social mission. In return, charities must be responsive to funder demands. As outlined previously, the grant funding environment is currently very challenging for the cases. The stretched grant funding bodies rely substantially on accounting and performance information to manage awards.

Currently, financial resources are concentrated in a small number of grant giving bodies. To illustrate, there are 174 grant making bodies in Scotland who distribute more than £5,000

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[2] Solo author interviews (7) – F8, F5 & F6; C19; C11; F11, F12

annually to charity organisations compared to 8,321 active mid-size charities (OSCR, 2017). The concentration of resources results in an asymmetric distribution of power (Pfeffer & Salancik, 1978). The charities who apply for funding are therefore willing to meet the demands of the funders, as the resources provided are critical for survival.

There are several consequences from this context. One pertinent item for this study is the reliance on the accounting and performance mechanisms provided in formal documentation to create and maintain relationships between funders and beneficiary charities. Further information is provided in table 2, below. It is relevant to note that there are differences in requirements with some larger funders appearing more onerous in their demands than, for example some of the smaller trusts. Charities noted that obtaining money from certain larger funders enhanced their credibility with other funders.

The funders explained in interviews that they need to manage the volume of demand in terms of applications from the individual charities. Funders minimise their own administrative activities to maximise monies available for distribution, this forces the grant giving bodies to actively manage communication channels with grant applicants (Pfeffer & Salancik, 1978, p98) . As a result, charity applicants are unaware of other funding applications and the priorities and pressures in the requisite award round. Therefore, an individual charity has to 'compete' for grants (Glennon, Hannibal, & Meehan, 2017). Furthermore, the charities vying for grant awards have very low discretion in how resources are allocated (Pfeffer & Salancik, 1978, p47). The power to determine deserving causes remains with the grant giving bodies based on objectives, constitution and quality of applications received, as highlighted by the funders interviewed for this study.

Insert table 2 here

In addition, grant funding is managed through restricted time frames. Financial awards for projects are often limited to 3 – 5 years. This is problematic for these charities as when this funding ends, there is no guarantee that further sources can be found to fund the service, jeopardising its survival. In addition, many funders reported that they did not fund longstanding projects and were attracted by new and innovative ideas. For applicant charities, the importance of the resource relates not just to the extent of funding, but also to its relative certainty (Pfeffer & Salancik, 1978, p46). This 3/5 year cycle creates an unstable funding environment for the charities. Stability is a central aspect of organizational survival (Pfeffer

& Salancik, 1978, p47) as without funding , the charities found it very difficult to plan, for example, the chair of East (C15) explained:

> "If you're trying to agree a project with (a partner) wanting to agree a programme of work, you can only really agree it for as far as you've got the funding horizon for. So funding horizons can impact on that (the charity services)."

In this challenging grant funding environment, the alignment of mid-size charitable activities with funder demands is highly desirable to enable financial stability, but concomitantly creating vulnerabilities for mission drift in beneficiary organizations. The reliance on grant funding is analysed in more detail for the case charities, next.

5.2 The Interdependence of Charities and Funders

In prior literature, the magnitude of reliance on external resources has been used to express financial interdependencies, explaining the varying degrees of empirical affirmation of RDP and its impact on organizations (Drees & Heugens, 2013; Verbruggen, et al., 2011). However, this study considers a multitude of factors discussed in Pfeffer and Salancik's seminal work (1978) which demonstrates that additional organizational attributes impact on the criticality of grant resources to survival. An overview of the four mid-size charities is provided in table 3, with information about social mission, staffing and financial context, including the reserves policy of each charity.

North is a Scottish charity whose aim is to support families of disabled children and young people. The charity has grown slowly since being set up in 1992, and subsequently, in 2007 the charity was awarded a grant of £1m over five years from the Big Lottery Fund (BLF). This enabled the charity to employ more staff and to grow activities towards advocacy for parents of and young people with disabilities. At the time, BLF constituted 70% of the charity's income, although funding has since been diversified. The charity currently employs 17 staff, most of whom are parents of disabled children themselves. North is the most reliant on grant funding at 82% of total income.

South offer dedicated play centres for children and young people with additional support needs, their mission is described as bringing fun and friendship to children with additional

support needs across Scotland. South was established in 1986 and the service has developed substantially, now working with over 2000 individuals, from pre-school children to young people up to the age of 25. Services have expanded to a range of play, youth work services and training, operating in three separate centres.

East is an arts-in-health charity whose aim is improve the experience of people in hospital and in hospice, residential and respite care by using the performing arts to encourage communication, interaction and laughter. East operates across two main programs, the first was established in 1999, and the second in 2001. Finally, West works to improve the lives of people with disabilities, running a range of group activities such as art, craft, computing, music, and swimming. West has a befriending project and gives grants to individuals, for basic household equipment, and sporting achievements. They are predominantly funded through investment income, originating from a number of high value legacies. Government funding is precluded as West lobby for improved State provision of services. West is the least dependent on grant funding, comprising only 11% of total income, providing an important contrast to the other charities.

Insert table 3 here

RDP considers dependence in terms of resource importance and discretion of resource allocation and use (Pfeffer & Salancik, 1978, pp. 43-49). The importance of the resource relates both to magnitude, as highlighted, *and* criticality for survival. This approach identifies other features of the charities which contribute to the criticality of grant funding in the case settings. Each charity is discussed in turn, next.

The features of North demonstrate that grant funding is critical to its continued survival and therefore, grant awarding bodies will be able to exert extensive control over its activities. North obtains most of its income from grant awards (see table 3) and lacks alternative sources for money, due to its size and resources it cannot compete for public sector contracts. North has significant financial commitments through salaries and leases. In addition, North's low reserves do not meet stated policy in the TAR. Overall, the failure to obtain grant funding would substantially impact capacity for survival. Consequently, RDP stipulates that North will ensure funder demands are serviced.

Yet North has some advantage relating to the nature of its service knowledge and access to disadvantaged areas (Pfeffer & Salancik, 1978, p48). Skilled workers conduct highly specialised work, which is only visible to funders through direct reports from North. This allows the charity discretion in actual activities, but an equally challenging onus to ensure that its services can demonstrably satisfy funder demands (Pfeffer & Salancik, 1978, pp. 104-106). One means of achieving this comes from North's access to areas of maximum social deprivation (Hunter, 2016). Interviews with two funders – a private trust, and a public non-governmental funder (F1 & F4) - identified the difficulty of directing resources to these areas and their desire to support the scarce initiatives used in the localities. Therefore, North has higher discretion over the nature of its activities once grant funding is assured and justified.

South is less reliant on grant funding as it has more diversified income and greater flexibility in cost structure. Total grant funding is 68% of total income, with the remainder from donations or service contract income[3], reserves exceed stated policy. Organisational adaptability to funding conditions is possible due to low rental costs and hourly paid staff. However, South has a transparent, understandable service that funders attempt to control through eligibility of users or nature of provision. In addition, South has a high growth strategy and charity management draws heavily from commercial organisations. This business like style has also been identified as a cause of mission drift (Hyndman, 2017).

East's significant organisational adaptability reduces dependency through minimal fixed financial commitments and independent contractors for service delivery. Charity costs contract and expand according to grants received. Furthermore, as the services have sectoral cross over between arts, health, and education, East can access a greater range of funder types. This means grant funding resources, whilst critical, are less concentrated than for South and North (Pfeffer & Salancik, 1978, p50). The services East delivers require a specialist skill set and funder control over nature of delivery is minimal. However, grant funding terms may specify beneficiaries. This flexibility in cost structure allows East considerable autonomy to focus on mission.

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[3] We classify donations and service contract income as 'non-grant income' therefore it is not necessary to distinguish between these two sources of funding in terms of amounts for this paper.

West differs from the other case charities in several ways. West has low dependency on grant income (see table 3), and it can fund most of its services through investment returns. Furthermore, reserves are within stated policy levels. The opportunity for funders to control activities at West is therefore low (Pfeffer & Salancik, 1978, p51). Unlike the other charities, West is wary of grant funding conflicting with the demands from other components of the environment. Part of West's social mission is to campaign for improved public sector support for its service users, as a result public sector funding is not sought and further grant funding is pursued only if it corresponds with this lobbying agenda.

This section demonstrates that dependence on the grant funding environment varies beyond the extent of financial reliance displayed in the four case studies. The availability of alternative income sources, cost structure and the nature of services have been pertinent to consider under RDP. These intricacies highlighted by the theory have been integrated in table 4. Furthermore, dependency has directed the case study charities towards particular approaches to enacting the environment and managing environmental demands, which are discussed next.

5.3 Obtaining Money, Maintaining Mission: Funder Demands and Mission Drift

The enacted environment is created through a process of attention and interpretation, supported by information systems within the focal organisation (Pfeffer & Salancik, 1978, pp. 74 - 76). If information is produced solely for funder needs, mission drift may occur unless mission priorities receive requisite management attention. Case study evidence highlights the risks of mission drift because of funder influence over accounting and performance information. South is particularly vulnerable as information is produced to satisfy environmental demands. However, RDP explains preservation of social mission in the other charities. The combination of organisational attributes and managerial strategies enable these organisations to fulfil mission in an uncertain funding environment. Table 4 summarises the ensuing discussion by connecting environmental dependencies, information systems and mission for each charity.

Insert table 4 here

5.3.1 The Enacted Environment: Funders' Influence in Accounting and Performance Information

Environmental influence in accounting and performance information occurred in North, South and East. Influence was less marked in West. Funder requirements dictated expense allocations, project boundaries and influenced financial decision making. Likewise, performance information in these dependent charities is highly aligned to funder requirements. Apart from West, the remaining cases have a dedicated fundraising function, which is viewed as important, particularly for South and East. Fundraisers are completely dependent on the information system to monitor and report on the funding. Yet the distinct ways that the charities manage information and demands created resilience to mission drift. The following discussion begins with funder influence on accounting information before turning to performance information.

The accounting information produced in highly dependent North, South and East was driven by funder needs. With relatively low resources to invest in support functions, the detailed accounting systems accommodated the funders' demand for project budgets and cost variance analyses (see table 2). The management accounts used for internal monitoring for North, South and East reflected the grant terms and conditions in place. If necessary this could require an intricate set of accounts to ensure all expenditure complied with grant award expectations, as funding conditions varied from full cost recovery to capital expenditure only. Financial control and decision making was based on project boundaries, as reflected in discussions with board chairs of South and East (C11 & C15). In contrast, West's information system was reflective of its distinct enacted environment focused on stewardship of investment assets and State provision for service users. As Pfeffer & Salancik note:

> "Organizations learn to attend to new sectors of their environments when these sectors begin to demand certain performances of the organization. Those that do not develop new, appropriate information systems are less likely to survive. Either through adaptation or selection similar results will emerge – as environments change, organizational information processing and attentional mechanisms will change." (1978, p76).

As accounting information drives both financial control and funder demands in these case charities, susceptibility to mission drift occurs. Likewise, funders exerted extensive influence over the nature of performance information in the highly dependent charities. Yet each charity has distinct responses to this type of information collected. Performance practices are now presented for each case study.

North's performance information system was historically created at the request of its major funder, the Big Lottery Fund. Unable to report back on outcomes, North was obliged to develop an information system which captured the charitable achievements of the grant project. Substantial discretion in design of the system was given by the funder, and therefore North adapted and expanded the information captured for its own strategic priorities. This resonates with the experiences of co-production in other settings (O'Dwyer & Boomsma, 2015). North generated specialist knowledge which was not known externally, allowing them to approach funders for specific funding, and increase autonomy through controlling the satisfaction of funder demands (Pfeffer & Salancik, 1978, p100). The charity was then able to target funders with specific issues, this is particularly relevant given that North had access to high priority funding areas from maximum social deprivation. For example, the chief executive (C1b) stated:

> "I look at the dataset, and say 'ok, all these families are 'funded', but these one's aren't, so who could I go to who might fund that lot kind of thing …so I actually selected out a dataset and said we're applying for a grant to fund these families who come to our helpline".

The original design of the accounting and performance information stemmed from the need to comply with the major funder to North. However, over the years, the charity adapted this and developed a much more focused approach to achieving mission. North received funding through its superior knowledge of need (Mitchell. 2014). The organisation has adopted what the front-line workers (C4 & C5) term a more 'professional approach' and mission has been subtly refined. For example, previously staff would take out rubbish or open and read the mail of service users unable to do so themselves, however, boundaries were created after the development of the performance information system, and such extraneous services stopped. Instead, needy individuals were referred on to relevant support services. These parameters allowed more people to use the service whilst core mission remained unchanged.

In South, performance information was produced by an influential fundraising department reporting to funders (Pfeffer & Salancik, 1978, p77), and fuelling the charity's growth. Concurrently, service quality was assessed by front line workers in a daily diary focusing on beneficiaries. Thus, the information produced by South for funders was primarily compliance based (Moxham, 2010 & 2013), and performance information aimed at improvement was the responsibility of the front-line workers.

Compliance with funder demands in South has been fuelled by the strategy to grow as a response to the environment (Pfeffer & Salancik, 1978, p131). Growth expanded services to new user categories. Funding new projects was relatively easy as programmes could be adapted to funder preferences (Mitchell, 2014), but the charity found funding for longstanding projects problematic. As growth occurred, back office costs increased. Complying with funder demands had also placed pressure on the service and resulted in a loss of discretion and autonomy for the organisation, leaving it vulnerable to mission drift. For example, the chief executive (C16) gave an example where meeting funder targets had compromised the quality of service being delivered.:

> "it is a numbers game, so for example with funding by [retail] bank, they want to support 1000 children from special schools…we are driving that so hard...we are not doing that again because having 1000 children through your schools programme means that we would have been better trying to have 600 because the 600 would get a better quality experience than 1000".

Growth had resulted in increasing interdependencies with funders, requiring greater effort directed to manage relationships with others (Froelich, 1999; Pfeffer & Salancik, 1978, p92). This has had an impact on the direction of the charity, who have moved away from only providing to children with disabilities to services for all children at weekends, including those without disabilities. This goes beyond stated mission (see table 3).

The mission in South has moved into the background as the focus on growth has occupied board discussions. The Chairman of South (C11) noted:

> "Are we affected by what funders want? Well yes to some extent I suppose we are … think of our expansion into [other parts of Scotland]. Because that's what funders want. I suspect if they hadn't wanted those areas, we might have gone somewhere else... In things like Geography, it's not going to influence us in if you like in what is the essence of [South]. Or what is the culture of the place."

The performance information produced for funders was also produced for the board and affirmed the need to expand to meet social mission. Of all the case study charities, South was susceptible to mission drift as the environment drove the growth strategy of the organisation. South was very business-oriented and prominence was given to fundraisers, who were set income targets. This may lead them to prioritise money over mission and act as a further trigger for mission drift (Weisbrod, 2004; Hyndman, 2017). It is clear from the above examples that South was aware of environmental impact.

In East, the information system assisted the charity to flexibly respond to its financial situation over time. The benefits of charitable activities were already known in house, due to evidence based practice studies available internationally. The general manager (C13) reported that performance information was for external use:

> "I mean to be honest a lot of the time it is just captured because of the funders, and this is one of the things that we sort of do get a little bit frustrated with is a lot of it is about figures and not necessarily about the quality".

The information system captured activity details of practitioners, focusing on numbers of beneficiaries and outcomes associated with these. This resulted in a very detailed system of recording and managing information for internal and grant funder requirements. In addition, the information systems acted as a buffer to further control by the environment (*ibid,* p77), with the general manager (C13) highlighting that:

> "Our mission statement is that we want to be able to visit and engage with every sick or vulnerable child across Scotland. *Now, sick or vulnerable, that, vulnerable can mean anything*" (emphasis added).

In contrast to the other cases, the services offered by East were very flexible and could therefore be adapted to fit the requirements of a range of different funders (Pfeffer & Salancik, 1978, p.107). This ability to adapt was possible because of two factors, the nature of the service which spanned arts, health, and education, and the flexibility in terms of the cost structure of the charity. The charity had also worked to diversify the service which insulated the organisation against the effects of dependence (Pfeffer & Salancik, 1978, p.127; Mitchell, 2014). Regardless of the ability to reach a wide range of funders, there was still a challenge in terms of funding core projects. The desire for something new forced the organisation to become creative by rebranding existing services. The chief executive (C12) noted how East was able to 'slice up the pie in different ways' which opened up a wider range of funding, yet maintain activities and keep in line with their original mission.

West had low dependency on the external environment, enabling the charity to remain largely focused on social mission. West had a streamlined accounting system which reflected the low numbers of grants managed. The enacted environment was directed towards the priorities of maintaining investment values and keeping abreast of the developments in state policies as described by the chair of the finance committee (C19). Despite minimal reporting

requirements, the service manager (C18) noted that performance information was produced for internal purposes to assess service quality to highly vulnerable beneficiaries.

West sought to avoid influence on two levels. Firstly, by minimising the reliance on grant funding and ensuring it was not critical to the operation of the charity, and secondly the way it identified funding opportunities. Small grants were targeted from private trusts, who were perceived to have minimal reporting requirements, and no capacity or desire to influence West's activities. For example, the chief executive (C16) explained his funding preference:

> "None of them are giving us a lot of money, but actually the effort I put in to getting ten lots of £2,000 is less that I would put in to say £20,000 out of one outfit. To me this works. It's a very simple system, because it's just a letter a year."

The Chief Executive had a clear funding strategy, avoiding funders whose demands would compromise mission which was of fundamental importance

> "the Board doesn't want to have funding that tells it how to run its charity, which is frankly what some funders are doing… I am working with a Board that understands, actually not just understands but encourages my concept of trying to work for high quality for the most disabled rather than ticking a box saying yes, I can write 12 names down of people who are attending, and that actually matters to me" (chief executive, C16).

Therefore, mission was retained in West and there was a very clear focus on 'protecting what we have' which was a view shared by the chief executive (C16) and by the board member who was also a beneficiary (C17). Dependence on grant funding therefore had differing impacts on charitable missions for the case charities. South was the most vulnerable to mission drift, although it was not the most financially dependent on grant funders. In contrast, North, whose dependency levels were high, had greater autonomy in mission fulfilment. East's organisational structure enabled resilience from the funding environment while West benefited from substantial financial independence, allowing it to select funding relationships that would support mission.

Information systems allow the charities to fulfil accountability demands to funders, while also acting as a buffer against mission drift. In North, the information system has allowed them to target specific funders or funding opportunities because of specialist knowledge, ensuring mission drift does not occur. In South and East, mission drift is also buffered because the performance information that is produced for the funders is not an intrinsic part

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of the performance evaluation internally. However, the fundraising status has been increased in these charities, particularly in South, which could potentially have an impact on mission drift. Apart from West, the remaining cases all have a fundraising function with specific fundraising expertise. The existence of this, and the presence of fundraisers who are driven to raise money and meet targets to ensure the survival of the organisation, means there could be implications for mission drift. Fundraising is completely dependent on the information system to monitor and report on the function, therefore this also has the potential to enable mission drift. This was visible in South, where fundraisers had targets, with acknowledgement that certain funding had compromised the quality of the service offered.

6 Conclusion: Charitable Mission & the Impact of Funders

For mid size charities, the grant funding environment is increasingly prominent in ensuring survival through financial solvency and pursuit of social mission. This paper sought to investigate: How do mid size charities continue to pursue social mission in conditions of high dependence on grants? The findings demonstrate that funding requirements have a meaningful impact on the structure of internal charity accounting systems, which could cause mission drift. Thus, the nuances of funder relationships are pertinent in determining dependence on grant funding. Moreover, managerial responses to external demands play a key role in protecting social mission. Managers utilise a range of strategies and tactics to retain autonomy and mission while still responding to funder requirements. The findings affirm the relevance of RDP in analysing the charity sector and its ability to explain diverse responses to a challenging environment. However, limitations are acknowledged, and more research is needed with more cases, more variation in organisational sizes, and in different research settings.

The present grant funding environment for mid size charities exhibits highly concentrated resources which are critical in ensuring charitable survival. We argue that the accounting systems shed light on how external influence can lead to mission drift in mid size charities. Charities and funders use bespoke accounting and performance information as an integral mechanism to manage grant relationships. The information produced within charities is directly influenced by the demands of the grant funding environment, with accounting information accommodating the different grant requirements used in service delivery. Furthermore, the charities noted that their wider performance information prioritises service user numbers over quality of services provided, at the behest of funders. Cumulatively, these

shape the information produced by charities for decision making, creating a mechanism for mission drift caused by external influence (Pfeffer & Salancik, 1978, p81)   Despite these acute funding pressures, the charities are largely able to manage the demands of the environment to protect charitable mission.

Charities utilised a range of strategies and tactics to maintain organisational autonomy and minimise the influence of funders. These included: compliance, avoidance, controlling the definition of satisfaction, and organisational change strategies. These strategies resonate with prior literature on RDP (Froelich, 1999) and particularly Mitchell's (2014) development in relation to the nonprofit sector. North employed a shaping strategy through its superior knowledge of need (Mitchell, 2014), gained from the information system. South pursued an adaptation strategy through growth to align itself with funders' interests in specific areas of Scotland (Mitchell, 2014).   Diversification of funding was utilised in East which protected them against the effects of dependence (Froelich, 1999). Finally, West utilised an avoidance strategy, shunning funders who were perceived to be controlling, this was possible due to the low dependence on grant funding (Pfeffer & Salancik, 1978; Mitchell, 2014).

The efforts by charities to fulfil accountability to the funders are substantial.   In all four case studies, it was apparent that activities related to mission had changed subtly over time in response to the requirements of funders. North moved to a more professional service. South's change was also important as its services expanded greatly due to growth in funding. This arguably left South susceptible to mission drift. For East, mission was linked to its therapeutic programme rather than beneficiaries allowing more flexibility in delivery. In West, the mission of the charity was buffered by its comfortable financial footing. Moreover, its strategy of avoidance for grant funding meant that West was not challenged over activities.

Three out of four of the charities managed funder demands whilst fulfilling social mission. Although subtle changes had occurred in North and East, they were still very much in line with the original mission. There is evidence, however, that South had deviated from core mission. Mission drift is acknowledged to be an unintended consequence stemming from misaligned organisational objectives in a challenging funding environment. Funders do not seek to cause mission drift, and in fact, aim to be supportive. The perspective from the charities, however, was that funder demands were onerous and the risks of mission drift were not regularly analysed by the charities. There is scope for further research in understanding

the rationale and motivations of the grant giving process; , how funders select, manage and assess grants, and how they deal with their own upward accountabilities.   Given the central role of accounting and performance information established in this paper, the funders' management of grants deserves further research attention from an accounting perspective.

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Table 1: List of Interviewees

Code	Organisation	Role	Date
C1a,b	North	Chief Executive (2 interviews conducted)	18.03.2015; 02.09.2015
C2	North	Fundraiser	7.10.2015
C3	North	Board Chair	8.12.2014
C4	North	Front Line Worker	18.03.2015
C5	North	Front Line Worker	18.03.2015
C6	South	Chief Executive	30.09.2015
C7	South	Head of Fundraising & Communications	12.08.2015
C8	South	Senior Fundraising Officer	15.10.2015
C9	South	Accountant	05.11.2015
C10	South	Front Line Worker	30.09.2015
C11	South	Chair of the Board	16.10.2015
C12	East	Chief Executive	13.07.2015
C13	East	General Manager	26.08.2015
C14a	East	Fundraiser	21.07.2016
C14b	East	Development Officer	21.07.2016
C15	East	Chair of the Board	08.09.2016
C16	West	Chief Executive	13.07.2015
C17	West	Board Member & Service User	13.10.2015
C18	West	Service Manager	17.11.2015
C19	West	Board Member/ Finance Committee Chair	09.09.2015
F1	Funder 1: Public Non-governmental	Department Lead	22.07.2015
F2	Funder 2: Public Non-governmental	Department Lead	20.04.2016
F3	Funder 3: Private Trust	Chief Executive	12.08.2015
F4	Funder 4: Private Trust	Chief Executive	30.09.2015
F5	Funder 5: Private Trust	Department Lead	13.11.2015
F6	Funder 5: Private Trust	Manager	13.11.2015
F7	Funder 6: Private Trust	Chair	05.05.2015
F8	Funder 7: Private Trust(s)	Trust Administrator –Accountancy Firm	18.05.2016
F9	Funder 8: Private Trust(s)	Trust Administrator –Accountancy Firm	30.06.2016
F10	Funder 8: Private Trust(s)	Trust Administrator – Accountancy Firm	30.06.2016
F11	Funder 9: Public Governmental	Department Lead	14.08.2016
F12	Funder 10: Public Governmental	Chief Executive	10.08.2016

Table 2: Information Used in Grant Applications and Grant Monitoring

Grant Funders	Grant Applications	Grant Monitoring
All (F1 – F12)	Charity Reputation/ Prior Experiences	
	Website	
Grant Funders distributing individual awards in excess of £5,000 (F1 – F6; F9 – F12)	**Overview of Project**	**Project Progress – Narrative**
	Project Budget	**Variance Analysis by spend type**
	Project Outcomes/ Targets	**Project Outcomes/ Targets Achieved**
	Trustee Annual Report	**Case studies/ vignettes**
Grant Funders distributing individual awards under £5,000 only (F7 & F8)	**Letters** Personal relationships with board members	**Letters** Personal relationships with board members
Additional Communications with beneficiary charities (F1, F5, F6 & F7)	Phone Calls regarding applications	Networking groups (F1, F5, F6, F12) Learning (F1, F5 & F6)
Time limits on successful awards	Yes, apart from F7 & F8	

Source: Primary Interviews and Associated Documents

Table 3: Summary of case study charities

	North	South	East	West
Social Mission	**Support families with children of complex needs**	**Bringing play and fun to children with disabilities**	**Arts in health programme – children and adults**	**Provision and support for adults with disabilities**
Income rounded to nearest £'000 (Change from prior year)	**475,000 (+30% PY)**	**742,000 (+31% PY)**	**368,000 (+5%PY)**	**191,000 (-14% PY)**
Grant Funding (% of total current year income)	**390,000 (82%)**	**496,000 (68%)**	**235,000 (64%)**	**20,000 (11%)**
No. of Projects	**5**	**5**	**5**	**4**
No. of Grants	**13**	**22**	**20**	**5**
Fixed Costs	**High**	**Medium**	**Low**	**Low**
Reserves Policy Compliance	**Deficient Reserves**	**Reserves in excess of policy**	**Reserves in excess of policy by £5k**	**Partially met reserves policy**
Staffing	**Specialist salaried staff**	**Provided by hourly paid staff**	**Provided by specialist contractors**	**Mixed salaried and waged staff provision**

Source: Case Charity Annual Reports Year ending 2015 & Interview data

Table 4: Money and Mission: Connections through Information Systems

Case	Dependency on Grant funding	Accounting Information System	Performance Information System	Managing Environmental Demands	Impact on Mission
North	Critical to survival	Projects are major headings, costs allocated to projects according to grant conditions	Designed for funder needs, extended by charity	Controlling the definition of satisfaction (Increase charity autonomy through information systems)	Tasks to meet **mission refined** due to funder demands and charity adaptations in measurement for service improvement
South	High, Increasing	Income by source, expenses by nature	Dual system – funder focused performance measurement by fundraising team, beneficiary focused assessment by front line workers	Compliance and Growth (reduce charity autonomy, encouraged by information systems)	**Susceptible to mission drift** as board focus on expansion of services and business processes over service quality
East	Medium, Steady	Projects are major headings, day rates are determined for each visited setting	Performance measures produced for funders' compliance	Diversification, organisational adaptability (response to maintain autonomy outside information systems)	**Mission focus retained** due to organisational flexibility and focus on programme delivery, despite influence from funders on information system
West	Low, declining	Budgets based on projected investment returns, costs adapted accordingly	Informal measures of performance centring on quality to those most in need	Avoidance of environmental interdependencies (maintain charity autonomy)	**Mission focus retained** due to lack of dependence on external environment

Sources: Case Interviews and Supporting Documents