

Commissioners
Productivity Commission
Review of Philanthropy

5 May 2023

Dear Commissioners Robson, Abramson, and Seibert,

Call for submissions – Review of Philanthropy

We are pleased to respond to the call for submissions to the Productivity Commission Review of Philanthropy. Our comments are directed at Information Request 7 – Consumer information on the effectiveness of not-for-profit organisations. Our comments are based primarily on insights from recent research projects we have conducted on the use of information about not-for-profit effectiveness, which collectively involved interviews with over 180 donors and not-for-profit managers in Australia. In addition to our direct research, we also have wide-ranging research experience in the not-for-profit sector, publishing articles in a variety of leading accounting and not-for-profit academic journals. While the members of this research team are associated with the Department of Accounting at Monash University, the views expressed in this submission do not necessarily reflect the position of the department or the university.

How do individual donors make donation decisions?

- Individual donors tend to donate relatively small amounts to not-for-profit organisations - on average donating less than \$1000 per annum.¹
- Individual donors spend very little time on actively searching for information on not-for-profit effectiveness.
- Individual donors typically donate to not-for-profit organisations that address causes they know about and have an affinity with, as well as organisations they already trust and are connected to through their personal networks (e.g., friends and relatives).
- Individual donors do not see themselves as ‘consumers’ or ‘investors’ and act largely on emotion and personal connection to causes.
- **In summary, individual donors typically make donations decisions quickly based on affinity and trust and do not attempt to identify the most effective not-for-profit organisations.**

What information do individual donors use and/or want to use?

- Individual donors tend to have a strong preference for stories, videos and other qualitative information that provides first-hand insight into the impact a not-for-profit organisation is having on beneficiaries.
- Individual donors are wary of not-for-profit organisations spending too much money on ‘administration’, but they do not always view more spending as a sign of an ineffective organisation.

¹ McGregor-Lowndes, M. and Crittall, M. (2019), “An examination of tax-deductible donations made by individual Australian taxpayers in 2016-17”, working paper [No. ACPNS 72], Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, Brisbane, 7 August.

- Individual donors often desire more information and explanation about specific items of administrative spending that may be regarded as inappropriate (e.g., fine dining, paid fundraisers, large executive salaries).
- Individual donors often desire measures of effectiveness that are specific and related to the mission of the not-for-profit organisation rather than any generic, comparable measures.
- Individual donors can easily become overwhelmed by the huge variety of information available and providing additional information can confuse donors and lower their trust in not-for-profit organisations.
- **In summary, individual donors typically prefer qualitative information about beneficiary impacts, organisation-specific measures of effectiveness, and providing more information could confuse donors and not necessarily encourage more giving.**

Existing initiatives related to information on the effectiveness of not-for-profit organisations

- In late 2022 the Australian Accounting Standards Board restarted a standard setting project on 'Service Performance Reporting' for not-for-profit entities.² Service Performance Reporting aims to provide information on the efficiency and effectiveness of not-for-profit entities not currently captured in financial statements.
- The Australian Charities and Not-for-profits Commission requires charities to submit an annual information statement, which includes information about a charity's purpose and programs.
- The International Financial Reporting for Non Profit Organisations (IFRf4NPO) initiative, which aims to develop guidance to improve the consistency of not-for-profit financial reporting to secure the trust of stakeholders (<https://www.ifr4npo.org/>)
- **In summary, there is a range of existing requirements and ongoing initiatives that could be drawn upon to provide further information on the effectiveness of not-for-profit organisations.**

We urge the Commission to consider these issues in its deliberations on the provision of consumer information on the effectiveness of not-for-profit organisations. We are happy to discuss any of these points in more detail.

Yours sincerely,

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 Ms Yuki Guo
 Associate Professor Ralph Kober
 Dr Richard Pucci
 Dr Paul Thambar
 Dr Leona Wiegmann

² <https://www.aasb.gov.au/media/uu2fmvtf/workprogramnovember2022.pdf>