Abnett, Helen and de Vries, Robert (2022) *How transparent are charitable foundations? A large-scale comparison of transparency levels in grant-making trusts and foundations in England and Wales.* Voluntary Sector Review, 15 (3). pp. 394-418. ISSN 2040-8056.

## Introduction

There is no legal definition of grantmaking trusts and foundations in England and Wales. As in other countries, the term 'foundation' acts more as a group identifier (Williamson and Luke, 2021), and is widely used as a descriptor denoting an organisation established to make grants for charitable purposes (Sargent and Jay, 2014). In the UK, the terms 'foundation' and 'trust' are increasingly used interchangeably to mean charities whose main activity is grantmaking (Pharoah and Walker, 2019), although legally these terms refer to different organisational forms (see Jung, 2018; Dunn, 2014). In addition, grantmaking foundations are seen to differ from other grantmaking charities in that they do not engage in large scale fundraising – although community foundations do raise funds from a variety of sources (Daly, 2008).

Grantmaking foundations occupy a complex and somewhat anomalous position within the English and Welsh charity sector. These organisations fund other, operational, charities through their grants, and they are not subject to the same pressures as other charities to raise money through fundraising or other income generation activities. This means that, in practice, grantmaking foundations are a distinct class of charities. Yet, these organisations are also legally and practically a part of the sector (Dunn, 2014) and are subject to the same accountability and regulatory requirements as other charities.

The lack of a specific legal framework for grantmaking foundations has contributed to concerns about their transparency and accountability. As Williamson and Luke (2019) note, at a time when private wealth and philanthropy are facing increased public accountability expectations, investigating the nature of foundation transparency and accountability is a continuing concern (Philips, 2018). Such discussions have also gained renewed prominence in UK foundation discourse (Jung, 2018). For example, the Director of Friends Provident Foundation, has stated that foundations in the U.K. "can lack standards of accountability or habits of transparency" (in Whitehead, 2021), while sector organisation New Philanthropy Capital (NPC) has argued there is a need for "[g]reater transparency with regards to where grants are going" (Yeowell, 2018, p.5). The Department for Digital, Culture, Media & Sport (DCMS) similarly argued in 2022 that across civil society there is a need for "a much clearer understanding of 'who is doing what and where'" (DCMS, 2022).

This assumed lack of transparency among grantmaking foundations has led to a number of initiatives within the sector to increase the understanding and practice of grantmaking foundation transparency. Such initiatives include the Foundation Practice Rating which seeks to assess Foundations "on the key themes of accountability, transparency and diversity" (Foundation Practice Rating, 2022), and the 360Giving initiative that seeks to increase the level of openly published grants data (360Giving, 2022). As yet, however, there has been limited academic, empirical exploration of the extant levels of grant-specific data disclosure among the wider population of English and Welsh foundations. This study therefore explores whether English and Welsh grantmaking foundations are transparent about their grant-giving, by examining whether grantmaking foundations itemise their grants given (by recipient and amount) in their Trustees' Annual Reports and Accounts. It also examines i) whether different kinds of foundations are more or less likely to be transparent in this way; and ii) the extent to which grant-specific disclosure practices have changed in recent years – in particular in response to changes in regulatory reporting requirements (specifically a shift in 2015 from a requirement that foundations “should” disclose material grants, to a stipulation that they “must” disclose such grants).

To answer this paper’s research questions, we present findings from a large, novel dataset capturing the grant-specific disclosure practices of over 2,200 English and Welsh foundations over a five-year period (2014-18).

We find that:

1) The majority of English and Welsh grantmaking foundations *do* disclose a substantial amount of grant-specific data. Overall, around half disclose data on all of the grants they make, and around a quarter publish data on grants over a certain value. However, this leaves around a quarter of foundations which publish no grant-specific data at all.
2) The results also paint a picture of stability. Of those foundations with published Trustees’ Annual Reports and Accounts in all five years of this study, 78% had the same disclosure practice throughout.
3) Accounting report format, foundation type, and size are all somewhat associated with differences in disclosure levels. There is, however, limited evidence that the specific change in disclosure requirements in 2015, described above, increased levels of grant-specific disclosure.

**The present research: background and context**

This research study explores the grant-specific disclosure practices of English and Welsh grantmaking foundations. To do this, we focus on these charities’ disclosure practices within their Trustees’ Annual Reports and Accounts. This section provides a brief history of the relevant regulatory accounting reporting requirements applicable to English and Welsh charities.

Until the late 1980s, charity accounting in England and Wales was very poor (Hyndman, 2018) and regulation of charity accounting was weak (Clerkin and Quinn, 2019, p.237). However, in the late 1980s and early 1990s, concerns about mismanagement and fraud in charities led to substantial changes in charity regulation, principally reflected in the mandatory accounting requirements in the Charities Act 1992/1993.

Since this time, charity accounting and reporting requirements have been outlined in the Charities Statement of Recommended Practice (SORP). SORPs are developed “in the public interest” to set out best financial reporting accounting practices for specialised sectors (Clerkin and Quinn, 2019, p.236). As argued by Alsop and Morgan (2021, p.227), the charities SORP “aims to provide a robust reporting and accounting regime enabling charity annual reports and accounts to be a vehicle to discharge accountability to and communicate with the stakeholders” (see also Connolly and Hyndman, 2013; Hyndman and McMahon, 2010; Ryan et al., 2014; Yang et al., 2017).

Charity law states that all charities[1] must prepare a Trustees Annual Report and a set of Annual Accounts, and make them available on request. All English and Welsh charitable incorporated organisations (CIO) and charities with income over £25,000 must file these Annual Reports and Accounts with the regulator, the Charity Commission of England and Wales (CCEW). The format that the Report and Accounts must take depends on the income of the charity: non-company charities with income of £250,000 or less can prepare 'Receipts and Payments' (R&P) accounts that are not bound by the SORP regulations. The CCEW does not mandate the content of R&P accounts, allowing charities freedom to interpret the requirements (Morgan, 2010), although guidance on the preparation of R&P accounts does exist (Alsop and Morgan, 2021). All charitable companies, and charities with income over £250,000, must prepare and file accruals accounts that comply with the Charity SORP (CCEW, 2016).

Since the first (1995) SORP, each SORP has referred to disclosure of information about grant-making activities. These changes are summarised in Table 1 below.

Table 1 here

Within SORP 2005 and FRS 102[2], the information that should or must be disclosed includes the name of the institution in receipt of "material" grants, and the total value of grants made to each institution in receipt of material grants (CCEW, 2015, 16.18). In common with standard accounting practice, the CCEW does not give a value for materiality, but states that "an item is material when its omission or misstatement could influence the economic decisions that users make on the basis of those accounts" (CCEW, 2015, 3.2). The SORP does make for some limited exemptions to this rule, such that foundations are not required to make grant-specific disclosures during the lifetime of a foundation's settlor (or their spouse or civil partner) (CCEW, 2015, 16.23-24). FRS 102 further notes that grant-specific disclosures can be provided in the Trustees Annual Report, in the notes to the accounts, or "by providing details of the charity's webpage URL at which this information can be accessed" (ibid). While the regulations therefore allow charities to publish this grant-specific data outside their Trustees' Annual Report and Accounts as outlined above, this study specifically focuses on transparency within Trustees' Annual Report and Accounts, given these are widely seen as charities' most reliable and important public documents.

**What drives charity disclosure levels?**

Breen (2013, p.866) suggests that, by publishing a SORP, a regulator – in this case the CCEW – is aiming to improve the quality of charities' financial reporting. As described in more detail in the next section, extant research into the link between regulation and information disclosure (for example public benefit reporting) in England and Wales suggests that regulation is effective in increasing

[1] Apart from either exempt charities (those charities that are not directly regulated by the Charity Commission of England and Wales) or excepted charities (certain classes of charities, such as churches, Scout and Guide groups, and armed forces charities, with incomes of £100,000 or less).
[2] Going forward, reference to FRS 102 also includes those foundations using FRSSE 2015 for financial years ending in 2015.

charity information disclosure levels, but that this is limited, with significant shortcomings demonstrated in terms of compliance with SORP regulations (Morgan and Fletcher, 2013; Connolly et al, 2013). This section briefly considers theoretical models as to why charities may or may not disclose information as part of their financial reporting, and considers how these may apply specifically to grantmaking foundations' practice in the context of regulatory disclosure requirements.

***Theorising levels of disclosure reporting by charities***

This section considers two theoretical perspectives on the drivers of charity disclosure reporting: stakeholder theory, and public interest theory. Grantmaking foundations' status as a distinct class of charities, as described in this paper's introduction, requires modification of these existing theoretical frameworks (Irvin and Kavvas, 2020). This section therefore also considers how these theories may be applied to grantmaking foundations.

Grantmaking foundations have long been criticised for being unaccountable (Anheier and Daly, 2007) due to their lack of external stakeholders. However, such arguments are a simplification. While independent and family foundations may only be accountable to their donor-led Trustee boards, company foundations' responsibilities also incorporate the need to create a positive image for their associated company (Rey-Garcia, 2012). Community foundations face a "dual challenge" (Harrow et al., 2016) of being both donor- and community-accountable. Further, all foundations are responsible to the CCEW. Finally, while there are no formal self-regulatory bodies for foundations, these organisations are – currently – operating in an environment of heightened attention on accountability and transparency, with membership bodies such as the Association of Charitable Foundations (ACF) attending particularly to issues of transparency. Foundations may also operate with a sense of responsibility to their constituents and beneficiaries, as well as with attention to the signalling and symbolic power of voluntary accountability (Williamson et al, 2017a).

Stakeholder theory has been widely used to explore issues of charity accountability and transparency (Dhanani and Connolly, 2012; Hyndman and McConville, 2016). As Dhanani and Connolly (2012) outline, the positive model of stakeholder theory (which is closely aligned with legitimacy theory, (Chen and Roberts, 2010)) proposes that organisations require the support of their constituents, and that to gain this support, organisational management must "legitimize" their activities (Roberts, 1991; Dhanani and Connolly, 2012; Hyndman and McConville, 2016). This may impact on what is reported (Hyndman and McConville, 2016), with organisations omitting information that is likely to be perceived negatively (Berthelot et al, 2003; Hyndman and McConville, 2016).

When applied to grantmaking foundations, the positive stakeholder model suggests that foundation staff or Trustees will seek to manage their disclosures so as to present their organisation in a positive light and legitimise their role. Yet, reputational concerns may mean that foundations do not wish to appear less transparent than peers.

- Positive stakeholder theory therefore predicts that grantmaking foundations will publish in line with regulatory requirements (so as to not appear less transparent than peers), but will limit information flow by not making additional, voluntary disclosure.

Alternatively, the ethical model of stakeholder theory suggests that charity managers – in line with the ethical values of their organisations – would feel a moral responsibility to engage with stakeholders, including through being entirely transparent about their operations (Dhanani and Connolly, 2012; Hyndman and McConville, 2016). Within this framework, public discourse is characterised by "complete, truthful and objective" transparency around information disclosure (Dhanani and Connolly, 2012, p.1144).

- The ethical stakeholder model therefore predicts that grantmaking foundations will disclose a high level of grant-specific data, irrespective of regulatory requirement.

In considering the impact of regulation on practice, public interest theory argues that pressure from regulatory and public authorities is one of the main forces behind improved charity accountability and transparency (Ebrahim, 2010; Rey-Garcia et al, 2012; Cordery, 2013). Such theories therefore imply that charities may respond to regulatory efforts to improve transparency by increasing information disclosure levels. However, these theories also do not fully take account of the challenges of regulation. Regulation incurs costs for charities, and while larger charities may meet or even exceed reporting requirements (Hyndman and Mcdonnell, 2009; Cordery, 2013), smaller charities may find such reporting requirements burdensome.

- Public interest theory nevertheless predicts that grantmaking foundations will respond to enhanced regulation by increasing information disclosure levels.

**Literature Review: Extant empirical evidence on the relationship between regulation and charity disclosure levels**

As mentioned above, extant research into the relationship between regulation and charity disclosure levels indicates that, while changes in regulation are linked to changes in charity practice, regulatory changes made with the intention of increasing disclosure levels have not been fully adopted by charities. In some cases, such changes have led to unintentional reductions in the level of information disclosed.

The majority of prior research focuses on charities as a whole, and does not examine the specific case of grantmaking foundations. This section first considers research that explores the relationship between regulatory change and organisations in the broader charity sector, before discussing the limited extant research on the relationship between regulation and UK foundation practice.

When studying transparency practice within the charity sector, both Yetman and Yetman (2012) and Harris and Neely (2018) find that stronger regulatory frameworks are associated with – respectively – greater financial reporting accuracy, and improved transparency. Yetman and Yetman (2012) find that charities are more accurate in their financial reporting when located in a US state with stronger charity regulation and enforcement, while Harris and Neely (2018) find that US organisations subject to a public disclosure requirement are also more likely to be transparent. In addition, Cordery (2013) reports that in New Zealand, light-handed regulation has not achieved its aim of increasing transparency.

In the UK, a number of studies – such as by Connolly and Hyndman (2000, 2001) and Palmer et al (2001) – have specifically examined compliance with the SORP (Morgan and Fletcher, 2013;

McDonnell and Rutherford, 2019). Since 2005, there has been an increasing focus in this work on the nature and extent of financial and narrative information disclosed by English and Welsh charities in their annual reports and reviews (Connolly and Dhanani, 2006; Connolly and Hyndman, 2004; Connolly et al, 2013; Morgan and Fletcher, 2013; Hyndman and McConville, 2016; Yasmin et al., 2014; Clerkin and Quinn, 2019; Dang and Owens, 2020).

Some of these studies have specifically considered the association between changes in regulatory requirements and the level of charities' information disclosure. Building on original work by Bird and Morgan-Jones (1981) and others (Ashford, 1989; Gambling et al., 1990; Hines and Jones, 1992), Connolly and Hyndman (2001) sought to understand the impact of SORP 2 (the revised SORP published in 1995) on charities' presentation of their annual reports. Based on analysis of the 1996/7 financial statements of 225 British and 132 Irish charities, this research found that British charities showed greater compliance with SORP 2 than Irish charities. The authors suggest that this is a result of a previous lack of research into charity accounting practices in Ireland, a lack of scrutiny, and the absence of statutory backing: the governing instruments to charities in Ireland made no reference to the applicability of the SORP, unlike that of England and Wales (Connolly and Hyndman, 2001, p.92). Among the British charities studied, this research provided some indication that charity accounts were demonstrating increasing compliance with SORP recommendations (ibid).

Morgan and Fletcher (2013) investigated reforms linked to the Charities Act 2006 which led to a new requirement for public benefit reporting (PBR) in the Trustees' Annual Report for every registered charity. In their investigation of 1,400 sets of charity reports and accounts published from 2008, these authors found substantial differences between charities in terms of their compliance with the PBR requirements, but that overall, only a minority of charities (11%) met the full requirements of the PBR. Morgan and Fletcher (2013) then expanded this quantitative analysis by conducting focus groups with 33 participants from 30 charities to understand whether charities had behaved differently as a result of the introduction of the PBR requirement. This research, the authors argue, reveals that while "a mandatory system of PBR is achieving higher levels of charity accountability" (Morgan and Fletcher, 2013, p.828), there are still significant shortcomings, with more education and enforcement needed to overcome them.

Connolly et al (2013), have explored the impact of changes made in SORP 2005 on the presentation of charity expenses. In a review of three years of accounts (2004/5, 2005/6 and 2008/9) of 154 of the 200 largest UK charities, Connolly et al (2013) found that, subsequent to SORP 2005, charities did change their expense reporting practices. However, in their application of these changes, charities took advantage of changes in the SORP which allowed these organisations to present more desirable charitable activity to support cost ratios, but did not provide the additional disclosures detailed by the SORP that aimed to improve transparency around cost allocations. The result of these changes, the authors conclude, is that charities have limited their financial disclosures. Overall, Connolly et al (2013, p.798) found that charities "disclosures [of support cost allocations] were poor, and often contravened the requirements and/or the spirit of the SORP".

The literature considered above explores the relationship between regulatory change and organisations in the broader charity sector. There is substantially less research that has specifically focused on grant-making foundations. Leat (2001) and Dunn (2014) have, however, both discussed UK grant-making foundations' response to legislative change.

Leat (2001) reviews the impact of the Charities Act (1992) on UK foundations, and notes that prior to the Act, a 1989 White Paper recommended that regulation should be enacted that required charities to publish details of their grants made. While the ACF publicly welcomed the proposal, according to Leat (2001, p.133), many foundations viewed this as "an unwarranted interference with their privacy". Larger foundations also suggested that such a process was impractical, given the number of grants they make. In the event, the Charities Act (1992) did impose some requirements on foundations to list their grants given to organisations, marking a "radical change in the requirements on foundations" (Leat, 2001, p.134). Leat's research, however, does not assess the extent to which such regulatory changes actually led to a change in reporting practice among grant-making foundations.

Dunn (2014), in her consideration of foundation engagement and response to the build-up and passage of the Charities Act 2006, suggests that English and Welsh foundations are concerned about the "burden placed upon them by the regulatory regime", and that they lobbied for a lighter regulatory regime for foundations under the Charities Act 2006 (Dunn, 2014, p.62). Dunn's research again did not assess the relationship between regulation and practice, but highlights how grant-making foundations may resist regulatory demands. Furthermore, Dunn's study again emphasises that the requirements for charities to publish their grant-specific data were a particular point of concern for foundations (Dunn, 2014, p.64-65).

This study seeks to inform and expand the discourse on foundation disclosure practices, by providing empirical evidence in response to the four specific research questions outlined below.

1) What level of grant-specific data do English and Welsh foundations disclose in their Annual Reports and Accounts? Has this changed over the years 2014-18?
2) Is there an association between reporting format, foundation type, and asset size, and grant-specific disclosure scores?
3) Has the specific change in disclosure requirements between SORP 2005 and FRS 102 increased levels of grant-specific disclosure?

**Methods**

***Determining the study population***

Our population of interest is all foundations in England and Wales which make grants to organizations (excluding foundations which make grants only to individuals) and which have 'Annual Funds' of at least £25,000. We exclude foundations in Scotland and Northern Ireland because they operate under different regulators[3]. We also exclude quasi-government foundations, and fundraising charities that also make grants.

[3] While Scottish and Northern Irish charities are subject to many of the same regulatory requirements as English and Welsh charities, there are some regulatory differences (for example, differences in the income level at which a full audit is required), and Scotland and Northern Ireland each have their own independent

While all charities in England and Wales with income over £5,000 must register with the CCEW, there is no separate registration classification for 'foundation'. Identifying the population of foundations is therefore a complex undertaking (see Jung, 2018). Trusts and foundations can, for example, not be identified simply through key word searches of the charity register: as Jung et al (2018, p.896) note, "[o]rganizational names and labels may be unreliable: few in academic and foundation worlds would consider the British Heart Foundation to be a "foundation," yet the Henry Smith Charity … would [be considered a foundation]". Furthermore, while the CCEW charity register records whether an organisation gives grants, this includes all fundraising charities that may give grants to partner organisations. This includes a large number of fundraising grantmakers (such as Comic Relief) as well as operational charities (such as Save the Children UK or Oxfam UK). These types of organisations are not part of the population of interest for this study.

We therefore sourced our data through The Directory of Social Change (DSC), a national charity support organization which provides the "core" directory of grant-makers (Sargent and Jay, 2014).

The DSC estimates that there are approximately 8,000 Trusts and foundations in the UK (England, Wales, Scotland and Northern Ireland) that give grants to other charities, causes or individuals (Traynor and Walker, 2015; Jung, 2018). In April 2019, the DSC listed 4,798 organizations in its regularly-updated *Trustfunding*[4] database, which they describe as comprising "all charitable trusts in the UK providing grants to voluntary sector groups". This list of 4,798 organizations was reviewed to identify those foundations that meet the criteria for inclusion in this study. After applying the exclusion criteria listed above, we identified an analysis sample of 2,227 grant-making foundations.

***Data gathering and coding***

For each of the 2,227 foundations, available Annual Reports and Accounts for the Financial Years ending in 2014, 2015, 2016, 2017, and 2018 were reviewed. In total, 10,105 Annual Reports and Accounts were examined. Data collection took place between October 2019 and April 2020.

The corresponding author assigned each report a disclosure score from 1 to 3 based on the following criteria:

> 1: No breakdown of grants data is disclosed in the Annual Report and Accounts: data is only included as lumpsum amounts, or by broad category, or is not included at all.
>
> 2: Grants are listed by organization and amount, but only for grants above a certain amount. The submitting charity defines this amount. While the cut-off amount as defined by foundations was often lower than £10,000, this figure rose to many millions of pounds in some cases.
>
> 3: All grants are listed by organisation and amount.

Examples of accounts data meeting each of these Disclosure scores are provided in Figures 1, 2 and 3 below. Note that in many cases, information on grants breakdown was provided in other ways or in

charity regulators: the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland.

[4] *Trustfunding* has since been incorporated into Fundsonline.org.uk.

other parts of the Trustees' Annual Report and Accounts. Figures 1-3 are therefore for illustrative purposes only.

Figure 1 here

Figure 2 here

Figure 3 here

After the completion of initial data collection, a random 2% sample of the 10,105 Trustees' Annual Report and Accounts were coded by a second, independent rater. Agreement between the two raters was 91.5%, with a kappa test result of 0.858 ($p<0.001$), indicating a high degree of inter-rater reliability.

In addition to the Disclosure score, the accounts format of each Trustees' Annual Report and Accounts was recorded. As described above, the required Trustees' Annual Report and Accounts format for each foundation is dependent on the year of reporting and the size of the organisation. Data was collected as to whether the Trustees' Annual Report and Accounts was submitted under SORP 2005, FRS 102/ FRSSE 2015, R&P, other SORP, or if use of SORP or SORP type was not indicated.

We also recorded each foundation's total asset size as given in their most recent available Trustee's Annual Report and Accounts, as well as the type of each foundation. The study considers four different types of foundations, drawing on definitions from Leat (2016), the Council on Foundations (2018), Rey-Garcia et al. (2012), and Anheier and Leat's (2006) insight that foundations must have the "self-understanding" of being a foundation. The four foundation types considered are:
*Family foundation*: A foundation whose funds initially derived from members of a single family, and for which at least one family member currently serves as a Trustee.
*Company foundation*: A foundation founded by a single firm, which obtains the majority of its income from the firm, and whose Trustee Board includes people from the firm.
*Community foundation*: A foundation serving a geographically defined area, with a Board that is substantially drawn from the local community.
*Independent foundation*: Other independently-established (nongovernmental) endowed foundations.
Table 2 provides descriptive statistics for these measures. The most common types of foundation were family and independent foundations. Community foundations were the least common. The modal asset size was between £1m and £10m.

Table 2 here

## Findings

***What level of grant-specific data do English and Welsh foundations disclose in their Annual Reports and Accounts? Has this changed over the years 2014-18?***

In the most recent reports for which we have data (2018), around half of all foundations (52.6%) received the highest possible disclosure score of 3, indicating that all grants made were listed by organization and amount. Around a quarter of foundations (26.4%) received a score of 2 (only larger grants listed by organization and amount). The remainder (21.0%) received the lowest score (no specific breakdown of grants data).

Our analysis shows that this distribution of disclosure scores was largely stable across the five-year study period (see Table 3).

Table 3 here

***Is there an association between reporting format, foundation type, and asset size, and grant-specific disclosure scores?***

We used multinomial logistic regression to model the effect of reporting format, foundation type, and asset size on disclosure scores.[5] The results of this analysis are given in Table 4.[6]

Table 4 here

Table 4 reports the results of two models. The first (M1) predicts disclosure score from report format alone. These results suggest that, in all years, foundations reporting under R&P are more likely than those reporting under SORP to achieve low *and* high (rather than moderate) disclosure scores. They also show that, after the introduction of FRS 102in 2015, foundations reporting under this stricter standard are less likely to achieve low disclosure scores than foundations reporting under the more lenient SORP 2005 standard. However, the former were also less likely than the latter to achieve *high* disclosure scores. The difference between foundations reporting under SORP and FRS 102 also becomes less robust from 2016 onwards (see below).

[5] Foundation type and asset size were recorded for the most recent annual report only. Hence for the purpose of these analyses we are assuming that these characteristics remain consistent over the study period.
[6] Our data is taken from a large, non-representative fraction of all grantmaking foundations in England and Wales. Conventional null-hypothesis significance testing is therefore inappropriate and therefore such tests are not reported.

The second model (M2) adds foundation type and asset size as covariates. These results show, first, that differences in disclosure by reporting format are largely robust to adjustment for foundation type and size. It is not the case, for example, that foundations utilising R&P reports are more likely to achieve low disclosure scores entirely because they are smaller. Second, these results show that small and community foundations were the most likely to achieve a low (rather than moderate) disclosure score, and the least likely to achieve a high score. Table 3 also shows, however, that large and Company foundations, while being less likely to achieve *low* disclosure scores, are also less likely to achieve the *highest* score. By contrast, independent foundations are both more likely to be highly disclosive *and* to disclose no grant-specific data at all.

***Has the specific change in disclosure requirements between SORP 2005 and FRS 102 increased levels of grant-specific disclosure?***

*How did foundations change their reporting formats from 2014-18?*

Figure 4 visualises the changing distribution of report types across the study period. This figure shows that 90% of reports submitted before January 1st 2015 were submitted under SORP 2005, with around 5% of foundations reporting under R&P, and another 5% using another (non-standard) report type (such as an out of date or unspecified SORP format). For reports submitted in 2015, a small but substantial number of foundations had already moved to using the new FRS 102 standards. By 2016 the vast majority of foundations had moved to using FRS 102, with only around 10% continuing to use SORP 2005. By 2018, 90% of foundations were using the FRS 102 format, with only 2% continuing to use SORP 05/08. Overall, a very small proportion move from submitting R&P accounts to accruals accounts (FRS 102); and an even smaller proportion of foundations move from accruals accounts to R&P accounts, and this only occurs in 2015-2016.

Figure 4 here

*Did the shift in grant-specific disclosure requirements result in increasing grant-specific disclosure?*

The figures provided in Table 2 suggest that, among foundations overall, there was very little change in disclosure levels between 2014 and 2018. This would suggest little to no effect of the large-scale movement from the (more lenient) SORP 2005 format to the (stricter) FRS 102 format. However, it is possible that the overall distributions reported in Table 2 conceal substantial changes in transparency *within* foundations over time. For example, overall distributional stability could be produced by improvements in disclosure among some foundations being counterbalanced by deteriorating disclosure among others.

Figure 5 visualises changes in disclosure scores within foundations across the study period. The overall picture remains one of relative stability – of the 1,692 foundations with annual reports in all five years, 78% of had the same disclosure score throughout. However, this means that around a fifth of foundations did show an improvement or deterioration in disclosure scores during the study period. This offers some scope for the change in reporting formats to have driven improvements in grant-specific disclosure.

Table 5 breaks down year-on-year change in disclosure scores according to the reporting formats used in each year. We focus on three groups of foundations, which represent the vast majority present in the data: i) those switching from using SORP 2005 in year *n* to FRS 102 in year *n*+1, ii) those using SORP 2005 in both years, and iii) those using R&P in both years.

Table 5 here

Table 5 shows that, for each year-on-year transition, foundations which moved from using SORP 2005 to using FRS 102 were more likely to see an increase in their disclosure score than either i) foundations which continued to use SORP 2005, or ii) foundations which used R&P in both years. They were also (with the exception of the 2015-16 transition) more likely to show *worsening* disclosure – though this effect was less marked.

Table 6 focuses on the relative and absolute difference in the probability of a year-on-year increase in disclosure score between i) foundations switching from SORP to FRS 102; and ii) foundations continuing to use SORP in both years. Relative differences appear large. However, these differences are considerably smaller when considered in absolute terms. For 2015-16, 2016-17, and 2017-18 transitions, adding fewer than 10 'counterfactual' foundations (foundations switching to FRS which *did not* show an increase in disclosure score) would eliminate these differences – suggesting that they are unlikely to be robust. The exception is the difference seen for the 2014-15 transition, which would require almost 100 such counterfactual observations to eliminate – a much more robust finding. This was the first year in which FRS 102 was introduced, and relatively few foundations had switched to the new standard. Among these 'early adopters' the new standard did appear to increase grant-specific disclosure. However, in subsequent years, as the bulk of foundations transitioned to FRS 102, the evidence of an effect on disclosure is much weaker.

Table 6 here

**Discussion**

By recording and analysing transparency levels in a large sample of grant-making foundations in England and Wales, this research has shown that the majority of foundations do disclose information about some or all of their grants made within their Trustees' Annual Reports and Accounts. Over the five years from 2014 to 2018 (inclusive), between 53% and 54% of foundations disclosed, for all grants, both the grant amount and the organisation awarded the grant. A further 23%-26% of foundations disclosed such information for grants over a certain monetary threshold. Only a minority of foundations (21%-24%) did not disclose any such information in their Trustees' Annual Reports and Accounts. The argument that foundations in the U.K. "can lack standards of accountability or habits of transparency" (see Whitehead, 2021) is therefore not strongly supported by our findings.

Our findings are broadly consistent with the 'ethical stakeholder' model. As discussed above, this model predicts that grantmaking foundations will disclose a high level of grant-specific data, irrespective of regulatory requirement. This clearly applies to the more than half of foundations which disclose *all* their grant-specific data. While we cannot assess whether such disclosure is "complete, truthful and objective" (Dhanani and Connolly, 2012, p.1144), it is nevertheless above and beyond what is required by the 'letter of the law'.

The ethical stakeholder model is also consistent with the high degree of stability we observed in grant-specific disclosure practices within foundations. Despite a clear change in the regulations around disclosure (from the SORP 2005 'should disclose' standard to the FRS 102 'must disclose' standard), and wider initiatives to improve foundation transparency (for example, the 'Stronger Foundations' initiative launched by the ACF), the vast majority (78%) of foundations maintained consistent disclosure practices across all five years of the study. Our specific analysis of the effect of the introduction of FRS 102 also provided little evidence that this regulatory change had a substantial effect on disclosure practices: foundations moving from the SORP 2005 to the stricter FRS 102 reporting format *were* more likely to increase their level of grant-specific disclosure; however, these effects were small and unlikely to be robust.[7]

We did however find differences in disclosure practices between different types of foundations, and between foundations using different reporting formats within the same year. First, we found that the smallest foundations were the most likely to publish no grant-specific data at all (a disclosure score of '1' in our coding scheme), and the least likely to publish data on all grants made (a disclosure score of '3'). This is consistent with previous research on charitable foundations (Saxton and Guo, 2011). However, we also found that larger foundations, while being less likely to achieve low disclosure scores, were also less likely to achieve the highest score.

The latter result may simply arise because, for the largest foundations, a list of all grants made would be extremely long. The finding here that both large and company foundations are most likely to achieve a score of '2' (publication of grant-specific data for grants over a certain value) may also be the result of these organisations being most likely to have a professionalised staff that is aware of and able to meet changing accounting requirements. However, the positive stakeholder model also predicts this finding, arguing that foundations will publish in line with regulatory requirements, and will seek to not appear less transparent than peers, but will limit information flow by not making additional, voluntary disclosure. Saxton et al. (2012) similarly contend that larger organizations may be less motivated to disclose financial information, to reduce their exposure to media scrutiny. Meeting the regulatory requirements even of SORP FRS 102 (scoring a '2' in this study) requires foundations only to publish their 'material' grants, with the level of materiality determined by the foundation itself. Those foundations scoring a '2' generally give no justification for their choice of the cut-off value above which they publish grants. It may be that (at least a proportion of) charities scoring a '2' are focusing on legitimation, rather than open disclosure. This accords with the findings of Hyndman and McConville (2016, p.859), who find that in the UK, levels of charity transparency

[7] The exception here was the first year in which FRS 102 and FRSSE 2015 were introduced, *before* it became mandatory. Foundations voluntarily moving from SORP 2005 to FRS 102and FRSSE 2015 in this year were substantially and robustly more likely to increase their level of grant-specific disclosure.

may be due to an emphasis on "legitimation rather than…fully transparent reporting". Further, qualitative, research with these foundations to explore their decision-making process and disclosure rationale would add substantial value to this discussion.

Among the different foundation types, community foundations are the most likely to achieve a low (rather than moderate) disclosure score, and the least likely to achieve a high score. There are several potential explanations for this. Williamson et al. (2017b) find that in Australia, some foundation managers do not see transparency as a necessary component of overall accountability, and similar perceptions around grant-specific disclosures may apply among English and Welsh community foundation managers. Alternatively, these organizations may perceive their transparency and accountability needs as being met in other ways, such as through direct disclosure with donors and grantees, or engagement with efforts such as 360Giving, which seeks to help organizations openly publish their grants data online (360Giving, 2022). Again, further research would help with understanding the disclosure practices of this specific type of organisation.

With regards to accounting report format, this study finds that, in all years, foundations reporting under R&P are more likely than those reporting under SORP 2005 and FRS 102 to achieve low and high (rather than moderate) disclosure scores. While it is perhaps unsurprising that these foundations are less likely to score a '2' – as they are not subject to the relevant reporting requirements – it does again demonstrate that a proportion of foundations are undertaking voluntary disclosure. Furthermore, as shown in Table 5, with the exception of the year 2016-17, a small proportion of foundations submitting under R&P are increasing their disclosure levels (while in 2016-17 a similar proportion decreased their disclosure levels). These changes cannot be explained by regulatory change, although may have been influenced by the wider discussions around foundation transparency mentioned above, or, again, by a wish to not appear less transparent than peers.

Finally, findings show that foundations reporting under FRS 102 are less likely to achieve low disclosure scores than foundations reporting under the more lenient SORP 2005. However, these foundations are also less likely to achieve high disclosure scores. This may suggest that this regulatory change has - for some foundations - had the unintended consequence of reducing the overall level of grant-specific data published. Mandating the publication of some grant-specific data may have led some foundations to reduce their transparency, acting according to the specific requirements of FRS 102, rather than seeking to achieve more complete grant-specific data transparency.

**Limitations**

Our research was principally limited by the challenge of identifying all relevant foundations registered in England and Wales. This means that our analysis sample may not be entirely representative of our population of interest. This would materially affect our conclusions if foundations we did not analyse were substantively different in terms of disclosure levels. However, given that we sourced our data from the most comprehensive list of grant-making trusts and foundations in the UK, a level of bias sufficient to disturb our main conclusions seems unlikely.

Our research was also limited by the necessity to manually code disclosure scores, introducing a certain degree of subjectivity. Our conclusions would be materially affected if we systematically under or over-estimated disclosure levels for either all foundations, or for specific foundation or report format types. However, clear scoring criteria and a high level of inter-rater reliability make systematic bias of this kind (as opposed to random noise) also unlikely.

The role of audit in forcing disclosure has not been considered within this paper. In England and Wales, FRS 102 stated that an audit is required if a charity's gross annual income exceeds £500,000 or its gross assets exceed £3.26 million and gross income exceeds £250,000. Update 1 to FRS 102 (2016; also included in the second edition of FRS 102 published in 2019) increased this income threshold to £1,000,000. This audit process is seen as an essential oversight for management accounts. This research has not specifically addressed the role of auditors in encouraging disclosure, which may influence disclosure reporting by foundations. Future research to specifically examine the role of (different) auditors in encouraging disclosure would add value to this discussion.

Finally, as noted above, there is a caveat to our findings in that FRS 102 also allows foundations to publish grant-specific data on their website, if they provide a link to this data within their annual report. Analysis of a random sample of 120 of the 329 foundations that submitted under FRS 102 in 2018, and scored a '1', reveals that just five of these organisations stated that their grants were listed at a linked website. Only two of these organisations (1.7% of the total) actually provided a list of grants on their website.

**Conclusions**

We believe that our conclusions about overall disclosure levels are likely to be robust to the above limitations. Hence, we argue that our results contribute to and expand the debate on grant-specific disclosures for English and Welsh foundations. Overall, our findings demonstrate that disclosure levels may be higher than the concerns outlined in this paper's introduction suggest.

This paper further shows that the specific regulatory change made between SORP 2005 to FRS 102, which had the aim of improving grant-specific data transparency (nfpSynergy, 2018), was not robustly associated with a change in practice. Rather, foundation grant-specific transparency has remained largely stable over time. This may be because most foundations – even under SORP 2005 – were already publishing some or all of their grant-specific data. The new requirements under FRS 102 therefore did not require any change in practice for these foundations to be compliant. Those foundations not publishing grant-specific data under SORP 2005 were, as Connolly et al (2013, p.798) have argued, contravening the spirit (if not the specific requirements) of the SORP. These foundations may therefore be less response to the very specific regulatory change studied here.

These findings have both academic and practical implications. Findings are broadly consistent with the ethical stakeholder model, with most foundations engaging in the voluntary disclosure of grant-specific data. Concerns about this specific aspect of foundation transparency are therefore not strongly supported by our findings.

However, findings also do not support the implications of public interest theory, that regulatory change will lead to increases in information disclosure. Rather, our findings suggest that foundations' information disclosure practices are resistant to regulatory change. This suggests that further effort is required to increase transparency levels among the substantial minority of foundations – between 21% and 24% - that do not publish any grant-specific information. This study therefore demonstrates to the regulator, policy-makers, and sector bodies, that attempts to improve foundation practice may require more substantive efforts than the minor (and generally unenforced) policy change studied here.

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