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DECISION MAKING OF CHARITY FUND ALLOCATION: EVIDENCE FROM HONG KONG

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ABSTRACT

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This article aims to study the financial decision-making mechanism by charity funding organizations in Hong Kong using case study approach. As charitable resources are limited, social return on investment (SROI) has become a commonly accepted approach by charity foundation trustees. Lo Kwee Seong Foundation in Hong Kong is one family supported charity foundation to exercise such kind of charity funding decision-making mechanism. Funding principles and project selection guidelines were first illustrated. Professional screening and selection processes were also detailed. Then three approved funding proposals and another three rejected funding proposals were illustrated to demonstrate the considerations when the Foundation handled the funding decision process. These cases provided evidences to explain practical issues of how SROI contributed to the charity fund allocation decision. Impacts of other non-financial, especially behavioral decision-making concerns were illustrated. Limitations of the case study approach were also discussed to reflect the practical concerns in company finance data collection.

Contribution/Originality: The paper contributes the first logical analysis of the implementation of social return on investment (SROI) for financial decision-making in charity funding organizations in Hong Kong. A case studies of both successful and unsuccessful projects have been deployed to investigate the phenomena within the real-life context.

1. INTRODUCTION

Financial resources for social services have always been scarce in most countries. This especially applies to regions with lots of socio-economic uncertainties as Hong Kong. Rational and systematic decision-making of resources allocation is much demanded in almost all sectors. In non-profit making social service sector, charity funds are increasingly drawn to use equitable methods to evaluate social impact of projects supported. Profitability is not the concern as of profit-making organizations. Fair and justified social impacts are of the prime concern. Social Return on Investment (SROI) is one common method for funding evaluation and resources allocation effectively and efficiently (Arena, Azzone, & Bengo, 2015). It assigned monetary values to social results, quantified in financial terms broader social benefits combining quantitative and qualitative approaches.

For charity donation decision, three charity supporting styles were classified. Krosch, Figner, and Weber (2013) suggested that people made decisions either “with the heart”, “with the head” or “by the book”. In charity organization context, decision with the heart referred to the charity foundations compared various helping projects and selected the one that made them the most emotionally touched or where they felt more compassion. It was the

emotional reason. Decision-makers' preferences and interests were likely to play roles in the funding decisions. Or the projects, the schools or hospitals maintained neighborhood relationships with the charity foundation families. They exercised much kinship and/or personal relationship so as to persuade the charity foundations. Decision with the head meant the charity foundations attempted to evaluate the cost and benefit of the various helping projects and selected the one that was supposed to exert a greater impact. It dealt with the efficacy reason (Cryder, Loewenstein, & Scheines, 2013). Systematic and rational project evaluation, selection and funding schedules were to be executed. Decision by the book meant the charity foundations asked themselves to what extent they have the responsibilities or obligations to support the project, and selected the project where they had relatively higher responsibilities to facilitate. This dealt with the responsibility-reason (Winterich & Zhang, 2014). To certain extent, funding decisions related to the decision-makers' responsibility awareness of the projects.

Some other justifications were feasible for selecting one helping project over another. For instance, charities might choose the project they regarded that would improve their public image the most, the project where the need seemed to be greater, or the project they considered would be neglected by others. In short, the three types of justifications could be identified. They related much to the emotional, efficacy and responsibility reasons. People were supposed to provide various good reasons for own choices in various helping dilemmas, and that each kind of supporting reasons (emotional, efficacy and responsibility-reasons) could be linked to one of the three helping dilemmas respectively.

2. LITERATURE REVIEW

2.1. Guidelines for Charity Donation Funding Approval

For charity donation funding approval, Erlandsson, Björklund, and Bäckström (2017) focused on three types of donation: 1) the identifiable victim effect, 2) the proportion dominance effect, and 3) the ingroup effect. Identifiable victim effect took place when one had to distribute resources between a project where there was a named and pictured identified victim and a comparable project without any identified victim. It inferred that counting a victim's name and background information would attract more donations. Proportion dominance effect happened when one had to distribute resources between a high rescue-proportion project and a similar low rescue-proportion project. With such effect, people were generally more motivated to attempt to support a fixed number of victims if these were part of small reference group (e.g. eight out of ten could be supported). Ingroup effect took place when one had to distribute resources between a project helping ingroup victims and a comparable project serving outgroup victims. Corresponding to the ingroup effect, recipients who came from the donor's ingroup achieved more support than recipients from the people from outside).

2.2. Charity Fund Evaluation and Allocation using Social Return on Investment (SROI)

Efficacy reason was commonly accepted for allocating charity foundation resources from organization viewpoint. To ensure continuation of funding a charity project, value for money (VfM) was often an essential concern. Not-for-profit organizations (NPOs) and their funders increasingly preferred to use the Social Return on Investment (SROI) method to measure the social impact of projects, organizations, or organization networks (Maier, Schober, Simsa, & Millner, 2015). There were two major merits: first, SROI analysis could provide legitimacy to NPOs or their funders, and second, it helped allocating resources effectively and efficiently.

SROI was a simple financial assessment of socio-economic value which applied accounting principles using a stakeholder approach. It was a mechanism based on social generally accepted accounting principles that could be adopted to aid managing the social, economic and environmental outcomes. SROI was based on the idea of assigning monetary values to social and environmental results, quantifying in financial terms boarder social benefits combing both quantitative and qualitative approaches (New Economics Foundation (NEF), 2007). There were four important areas for concern. The first was the stakeholder commitment, where the stakeholders' objectives

acknowledged were essential to the SROI development. The second was the materiality, where the analysis concentrated on the areas treated as significant by the stakeholders. The third was the impact map that stated cause and effect chain start from inputs to outputs, outcomes, and impacts; developing a path to recognize how the company enacted change, thereby accomplishing its work. Finally, the increase of weight computed the amount of outcomes that would have happened despite what the company spent was concerned.

The basic form of SROI ratio was: Present Value of Impact / Value of Inputs Illustrated in [So and Staskevicius \(2015\)](#) there were two kinds of SROI. The first was evaluative, which was conducted retrospectively and based on actual outcomes that have already occurred. The second was forecast, which predicted how much social value would be generated if the activities met the intended outcomes. This was practically useful in the planning stage of an activity, or if the existing data were insufficient to help calculating an evaluative SROI.

In measurable terms, SROI compared the net benefits of a project to the investment required, similar to the return on investment (ROI) measure adopted in accounting ([Cryder et al., 2013](#)). For calculating SROI, [Emerson and Cabaj \(2000\)](#) stated that net benefits were treated to be two types of cash flow: net income (profit) and net savings (government savings such as additional tax revenue and reduced welfare spending), less any donated funds. The time length was supposed to be about five years, returns were then reduced to present values and compared to the funds invested to estimate SROI.

The major strength of SROI analysis was based on its ability to afford “business-like” authoritative support. It helped improving the effectiveness and efficiency of resource allocation. The NPO sector’s long-term justification did not depend on its business-like authoritative support, but on the value it created for society by providing valuable products and services, by being an effective supporter for those whose voice would otherwise not be paid attention to, and by providing a room for society structure and the expression of shared values.

Firstly, SROI could be a way to support a society that was oriented towards social impact. The negative situations of profit making businesses as damages to the health, environment, and employees’ family lives may be unavoidable. SROI analysis could be an opportunity for NGOs to communicate to profit making companies and government units in “business-like” language so as to demand equal treatment with the room for movement in public debate about the value of NGOs.

The second suitable use of SROI analysis appeared when NPOs needed to inform the public which referred to simple forms of information, who focused much on finance, or who were not so aware of NPOs’ social value.

Lastly, SROI expresses social impacts in financial term and enables NPOs to communicate with charity foundations, regulators, auditors, and similar groups that act traditionally under a financial paradigm. With SROI, NPOs can shift the focus from traditional input/output measures to social impacts. In addition, SROI can be used to inform the NPO’s employees and volunteers about the value of their work. The actual practices of SROI for charity fund project selection can be illustrated through a case study of charity foundation in Hong Kong.

3. METHOD

A single case study was adopted to collect data and to analyze the financial decision-making mechanism of a charity funding foundation. It was a single subject research that delivered statistical framework for making inferences from quantitative case-study data from a specific organization. It investigated a phenomenon within its real-life context. A case study does not essentially have to be just about one single entity, as there may be many observations within a case (many individuals, projects and entities across many time periods). The merit of the adoption of a single case study is it provides detailed mechanism of how a business financial decision is initiated and processed.

Among the 18 charity foundations in Hong Kong ([Zeshan, 2020](#)) Lo Kwee Seong (LKS) Foundation was contacted successfully and hence invited for case study. Foundation vision, mission, operation routines, donation funding decision-making mechanism, and selected funding projects were detailed for study.

4. DISCUSSION AND RESULTS

4.1. Case Study - Lo Kwee Seong (LKS) Foundation

Lo Kwee Seong (LKS) Foundation was a charity fund established by the founder of soya bean drink, Vitasoy, Lo Kwee Seong, in 1991 in Hong Kong. The mission was to enrich lives of the less privileged through the spirit of philanthropy in different spectrums. This echoed the mission statement of Zeshan (2020) "to improve the lives of the less privileged in world through the family's spirit of philanthropy."

The further elaborated mission focuses were: to promote vocational and technical education, general education, learning culture and the arts; to give financial assistance for the furtherance of health and relief of poverty and sickness; to promote social welfare and support charity; and to support hospitals, vocational or technical schools, home for the aged and art museums for the benefit of the public.

For the public benefits, the wide scope objectives of this charity included support of mainly six areas:

- 1) education and vocational training for the people in need.
- 2) culture and art.
- 3) relief of poverty, sickness and distress.
- 4) facilities like home for the elderly, schools, hospitals.
- 5) academic, medical or scientific research.
- 6) social welfare and charity.

The chain of social impact started from providing education for nurturing students with knowledge and techniques; nurturing students to be cultural; helping the community to relieve the weak communities with the use of knowledge in short-term, then building facilities for continuing the aids in medium-term, and finally funding research for improving the society on long-term basis. For maximizing the social benefits, such charitable settings needed to be reinforced by the foundation management, then to be recognized in the community and hence to gain social support.

Comparing to the other 18 charity foundations in Hong Kong (Zeshan, 2020) LSK Foundation focused on high quality and sustainable educational or vocational training projects. For sustainability and quality, social return on investment (SROI) was employed to justify the charity funding decision.

4.2. Social Responsibility executed through Charity Fund Projects Supported

Lo Kwee Seong said, "well-off society enjoy the best drink supply, so take care of those who are not so lucky, especially among school children and workers, becomes his responsibility." (Cai, 1990).

The start of Lo Kwee Sseong (LKS) Foundation related to the story of Vitasoy, "The Drink of the Poor" began in 1940. During the time of the World War II in Hong Kong, Lo Kwee Seong, the founder of Vitasoy, developed a nutrient-rich, Vitasoy and sold it at an affordable price for contributing to the Hong Kong people. This enabled the public to get enough nutrients and to establish a healthy life. In 1991, Lo established Lo Kwee Seong (LKS) Foundation with major objectives of supporting education; culture and arts; poverty, distress and sickness relief; construction of schools and hospitals; research for the public; social welfare and charity support. There are overlaps among these several objectives. From positive and synergetic viewpoints, these objectives closely correlate with one another as shown in Figure 1. The social benefits are hence maximized.

4.3. Trustee Board for Management

Similar to that of other private family foundations (Zeshan, 2020) a trustee board comprising 10 Lo's family members was established to operate Lo Kwee Seong (LKS) Foundation in 1991. They handled charity project funding decision through clear and significant majority rule. The daily operation work was in charge by the Foundation General Manager. His routine work was to collect funding application and to screen individual application basing on the established framework as stated in Table 1 below. Most of the data and information of

this case study were collected from more than five interviews with the General Manager, and each interview lasted for over an hour.

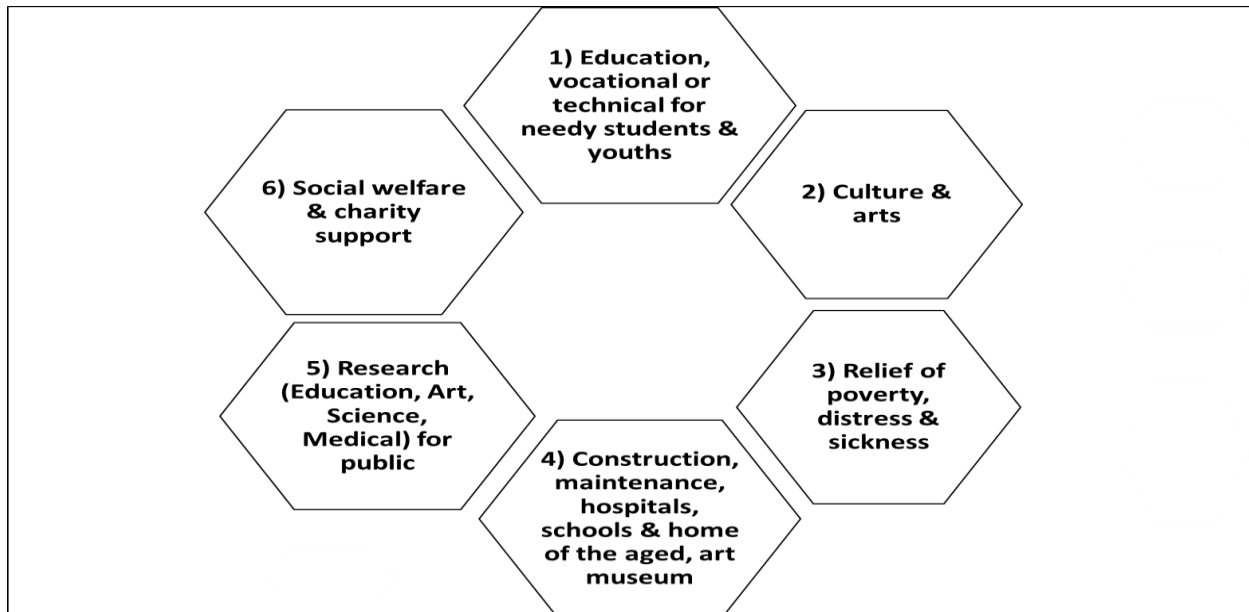


Figure-1. Objectives of Lo Kwee Seong (LKS) foundation.

Table-1. Important application guidelines – Lo Kwee Seong (LKS) Foundation.

Application Stage	Action
1.Project Idea	The Foundation General Manager first meets the applying project leader to evaluate if the project concept may match the objectives of the long-term plan priorities and target towards people in need.
2.Screening	The General Manger screens the project to check project quality, project nature, pilot execution track record and strategic fit partners. The project leader is required to explain why the Government and other charity bodies do not fund, then in return the project leader seeks funds from the Foundation.
3.Coaching	The project team leader seeks advice from the Foundation General Manager, develops self-explanatory project plan, and prepares proposal presentation covering key pitching points.
4.Project Plan	It should highlight background and strength of applicant partner, project goals, social issues, project contents and track record of execution, matching of target groups in need, conservative complete financial analysis, key performance indicators, expected social returns, alternative source of funders, requested donation amounts and recognition to Lo Kwee Seong (LKS) Foundation.

From the General Manager, Elson Law, several charity project leaders had been guided by him after the second stage screening process. He handled the third stage coaching which was cooperative in nature for guiding the project leaders in project plan and presentation writing. He wished to collect supporting evidences and data from the applicants about budget and coverage, and value of project on social return on investment.

Once the applicants felt at risk of missing budget or deadline, the General Manager should communicate this budget risk to the applicants. For the project applicants, adjusted future work to reflect any additional information known should be notified to the Foundation. For instance, when the project was created, many of the activities further into the future may had been vague and placed in the project at a high level. On a monthly basis, this work needed to be defined in greater detail and reported to the Foundation.

4.4. Approval Guidance

Before the death of Lo in 1995, four funding approval guidelines were established for the trustee board about charity project funding decisions. Details are illustrated in Table 2.

Table-2. Approval guidelines – Lo Kwee Seong (LKS) Foundation.

Approval Guide	Action
1. Due Diligence	For significant donation, the charity project leader is to be invited to present the project details to trustees.
2. Approval	Trustee Board voting decision: The General Manager circulates recommendation letter in addition to proposals for seeking clear and significant majority approval among the trustees.
3. Expected Timeline	From project idea to final approval, it may vary from 2 months to 6 months, important projects will likely be scheduled to be approved during the annual meeting in early September every year.
4. Donation Agreement	Main project items summary, interim reports, payment terms and attached proposals for reference will be executed and cash funds can be arranged in 2 to 3 stages for projects approved.

This illustrated operational systems and procedures for funding application and approval which showed a significant contrast with Erlandsson et al. (2017) that dealt with funding approval norms and preferences.

4.5. The Foundation Five-Year Plan

From Elson Law interviewed, the Foundation plan for a five-year duration 2019-2023 had been highlighted in Figure 2 as follows:

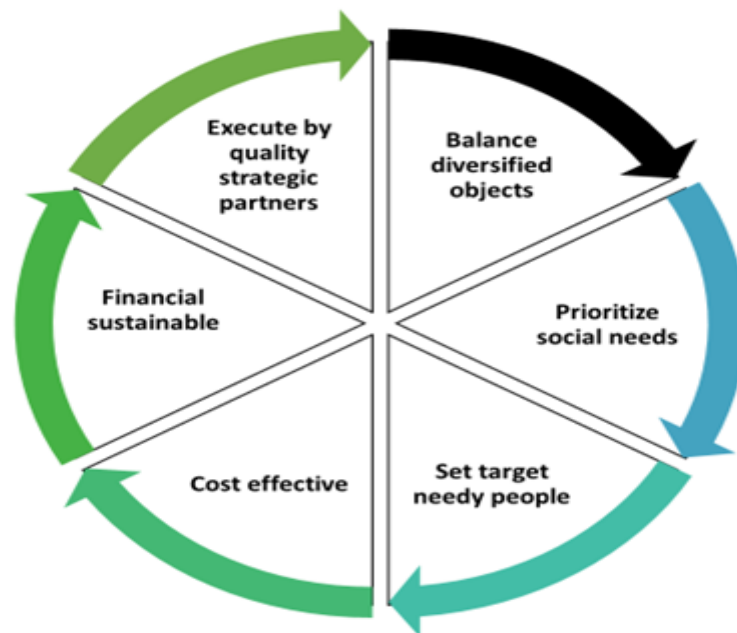


Figure-2. 2013-2023 plan principles.

Seven principles of the charity funding decisions were listed out:

- Balanced and diversified beneficiaries.
- Prioritization of social needs.
- Target set to people in need.
- Cost effectiveness.
- Financial sustainability.

- Execution by quality strategic partners.
- Improving cause of social issues.

Health, education, promotion of strategic philanthropy, human services and social development in Hong Kong are areas to be provided balanced and diversified beneficiaries. Coverage of donation should be spread among various social groupings in needs. Prioritization of social needs depends on the needy situation of the society in respective years of project application. This may change with reference to the Government social welfare policies. The target is set to people in need, cost effectiveness and financial sustainability relate to the adoption of social return on investment (SPOI) for project evaluation. Other financial decision-making concerns are also required to be considered in the framework. Execution by quality strategic partners is monitored in annual charity funding approval in charity donation. Annual review and funding re-approval are scheduled for continuity and sustainability. Finally, improving cause of social issues is the long-term goal of the charity endeavor. Continued improvement is always the underlying mechanism.

Good utilization of scarce financial resources, balanced and diversified funding to beneficiaries, equitable funding of project in need, execution by quality strategic partners, and of course cost effectiveness and financial sustainability were the major concerns. Following the above plan principles, Elson Law disclosed the following areas for supporting people in need in seven groups as shown in Figure 3.

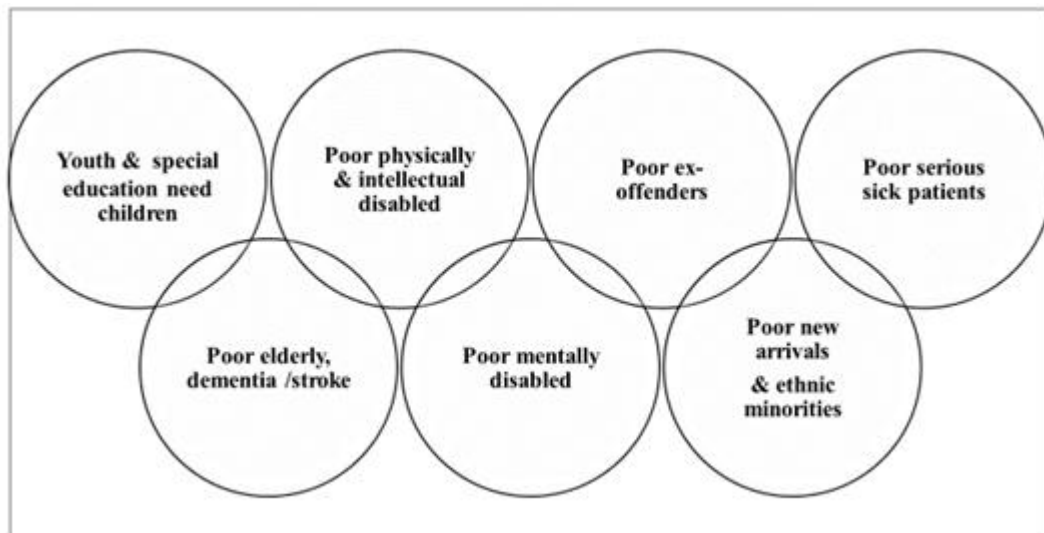


Figure-3. Key target people in need to support.

As a qualified accountant with over twenty years of managerial role in financial management in multi-national company, Elson Law added that he based on the following judging criteria to screen various funding projects applied:

- Objectives of trust deed.
- Financial affordability.
- Emphasis on vocational training.
- Emphasis on medical research.
- Soya bean drink research.
- Quality project nature.
- Sustainability in long term.
- “**lo kwee seong**” naming right of building donated.
- Governance of project resources spent.

After screening by the General Manager, he collected data and proposals and put forward to the trustee board for funding decision as detailed in Table 2 above. From the interview and the follow-up data and information

supplied, three approved projects and another three rejected projects were illustrated. For the approved projects, all had been checked to fulfill the SROI and the adoption of appropriate criteria as above.

4.6. Approved Project Proposals

4.6.1. 1st Approved Proposal

Visually Impaired Youths Education Development. It was about the True-light Blind Hospital and School which has actively promoted vocational and skill training for the visually impaired in recent decades. Pre-employment tailored visually impaired vocation training nearly 200 youths. Job matching, promotion via cedar workshops, social enterprise and were provided. The average annual allocated funds were just US\$308,000, while the social return on investment was 7 times future employment income of visually impaired jobs arranged.

The Foundation helped to cultivate visually impaired students and strengthen their musical talents, and the students would be able to achieve self-reliance and integrate the public in the future. It provided US\$71,000 donation to enable 10 visually impaired students to receive a total of 2,160 hours of professional music tutor training, which cost about US\$33/hour, and enabled them to receive about 2.65 times or about US\$188,000 income in a five-year time. More importantly, this let other teachers and younger schoolmates to have a new perspective on seeing future efforts. This helped to relieve unemployment of the blind youngsters. The unemployment rate of the visually impaired youth was high at about 80%, causing poverty and suffering. There were not enough continuous dedicated resources to raise awareness of potential visually impaired young people and to train visually impaired youth in the job market.

The funding was helpful and beneficial to the people in need. "If we can cultivate visually impaired young people and strengthen their employment skills, they will be able to have self-reliance and hence integrate the public in the future. How can the public turn a blind eye and actively support and encourage "Lo Kwee Seong 's heart and light guide"?, pointed out by Elson Law.

4.6.2. 2nd Approved Proposal

Social Entrepreneurship School Education (SENSE). This was an education programme provided to secondary school students in summer break using university campus. University student dormitories were used to offer short business vocational training lessons to secondary school students. The main goals included: 1) social care and support of disadvantaged group; 2) training of different levels of skills in entrepreneurship and innovation. Entrepreneurship and innovation was the latest trend of vocational education need for Hong Kong secondary school students. SENSE was popular education programme with growing demand trend among secondary schools. It was proven potential relief of spiritual poverty for youth to improve their future social caring, innovative education to animate enriching lives. For social return and SROI, the SENSE programme had been continued in the past few years. The objective was to train secondary school students, through caring for the weak, caring for social affairs, promoting entrepreneurs' self-improvement spirit. At the same time, it inspired the younger generation who were worried about the future. It helped developing constructive high school youth innovative idea and problem solving skills.

By experiencing the disadvantaged communities, they could self-renew and had their own positive energy and ability to create new ways of self-development. For instance, a donation of US\$12.6 million could help more than 2,000 students and about 9,000 training hours. The average funding was about US\$64 per student, or about US\$19 per hour. The entrepreneurial spirit of Vitasoy would continue to be passed on to the University's SENSE project. Elson Law said he would find out the students and teachers and let them understand that Lo Kwee Seong Foundation could help. The start-ups of "the health drink of the poor" could also succeed through constant struggle, and it was the pioneer of social entrepreneurship.

4.6.3. 3rd Approved Proposal

Hand Qing Family Project. This was a creative project to support young women at the grassroots level to pick up handcraft skills and hence help poverty alleviation. The project opened workshops to them for training women handcraft for improving the well-being of the families at home by producing handcraft for sales. 500 persons had been benefited, and the funding for each person was about US\$208, and the profit funding required was US\$104,000. The SROI was 4 times regarding the women part-time work income and the charity funding assigned.

4.7. Rejected Project Proposals

Funding resources were monitored for fair share and equitable allocation and support of charity projects. Besides the successful cases mentioned above, three rejected funding application cases were selected that worth study for financial decision-making of charity funds.

4.7.1. 1st Rejected Proposal

University Entrepreneur Training Camp. It was a three-year plan (2018-2020) of US\$449,000 donation to support more than 400 students to enter short-term learning programmes in world-renowned institutions. It was planned to assist about US\$1,090 for each poor student. The funded students would participate in fundraising and related charity activities after returning from school for helping the project students to have continued development. The reason of rejection was that the foundation trustees interpreted it was similar to an entrepreneurship programme, and it was regarded as a business project rather than a charity project. Financially, it was more expensive per student than the SENSE project mentioned above. SROI was lower and not persuasive than those approved projects.

4.7.2. 2nd Rejected Proposal

Food Bank. Food Bank's service was planned to provide short-term food assistance to poor and grassroots families. In forecast, a total of 450 people would be benefited, and the total funding required was US\$51,300. The average funding for each person would be US\$114. When Vitasoy started its business, the "poor's milk" was the original intention. The fund could assist Food Bank, which was to help Hong Kong's "poor meal." The main reason of rejection was that the majority of the foundation trustees perceived that this would support and encourage low-class immigrants. Potential immigrants without contribution to professional knowhow and capital investment might be attracted by such a free meal provision scheme. Trustee board members preference and decision took place before SROI consideration was forecasted.

4.7.3. 3rd Rejected Proposal

University Medical Research Project. It was a University Research Laboratory Project in three sections of totally US\$1 million over 3 years. The three sections included serious cancer patient treatment, middle mentally handicapped special school, and relief distress experience activities for children.

The reasons of rejection were: 1) There were other similar medical research projects, and this project was not supported by sufficient financial breakdown with details. Project overlapping and project application details were concerned. 2) There were various sources of fund raising to this project and were not specific to the foundation focus as illustrated in Figure 2. Unique source of donation from the foundation was required. 3) They were treated as non-sustainable projects. Only expenditure plan was provided, revenue generation mechanism was not illustrated. Future financial sustainability was much queried.

4.8. Future Development

Through strategic giving, LKS Foundation identified the needs in communities and tackled their root causes through a comprehensive approach. It facilitated reciprocity and mutual respect, and encouraged dynamic and constructive co-operation with and among its grantees. To maximize the impact of its initiatives, it created synergies and leverages opportunities with funders and organizations that were dedicated to the causes that the Foundation supported (Zeshan, 2020). From the General Manager, Elson Law, LKS Foundation's future development was targeted at sizeable project of over USD13 million each for exercising constructive, significant as well as long-term social impact on the community.

5. CONCLUSION

People made financial decisions either "with the heart", "with the head" or "by the book". There were various emotion, efficacy or responsibility reasons. As charitable resources were limited, social return on investment had become a commonly accepted measure by charity foundation trustees, Lo Kwee Seong (LKS) Foundation was one family supported charity foundation to exercise such type of charity funding decision. In addition, other funding decisions affected by emotion, efficacy and knowledge had also been illustrated through the three approved and another three rejected project applications mentioned. Like other exploratory research, the findings from the above case analysis should be regarded as specific and tentative. The selected funding application projects demonstrated distinguished and atypical situations to certain extent.

6. LIMITATION

The current study belonged to qualitative case studies which is restricted by the sensitivity and integrity of the researcher. The researcher was the primary gadget of information collection and analysis. However, exercise of observation and interviewing could be readily offered to ambitious case study researchers. Objectivity of data collection has the prime concern. The researcher was left to rely on own characters and capabilities throughout most of this study effort (Merriam, 2015).

Furthermore, a case study emphasized on a single unit, a single illustration, the issue of generalizability appeared more than with the other types of qualitative research. However, much could be studied from a specific case. Readers could study vicariously from coming across with the case through the researcher's story description (Stake, 2005). The interesting explanation in a case study could create an image: "a vivid portrait of excellent teaching can become a prototype that can be used in the education of teachers or for the appraisal of teaching" (Eisner, 2017).

Other limitations included reliability and validity. The case study was often be criticized for its absence of representativeness, and its insufficient rigor in the collection, construction, and analysis of the practical materials that gave rise to the study. This inadequate rigor was related to the subjectivity of the researcher in interview and data collection. Interview training and emphasis on objectivity in data collection should be concerned.

Some important issues about generalization that merited specific indication. The first issue about to a single-outcome case study was that it was often explicitly disclaimed. Criticism of generalizability was of little relevance when the intention was one of particularization. Particularization related to storytelling which highlights the unique situation of the case concerned. A second issue related to the difference between statistical and analytical generalization; a single case study was obviously less suitable for the former but possibly hold important utility for the latter. It brought out the difference between descriptive and investigative, or theory-building and theory-testing (Willis, 2014).

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