EXPLORING ACCOUNTABILITY RELATIONSHIPS IN THE NFP SECTOR

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ABSTRACT

Purpose: Accountability relationships in the NFP sector have been insufficiently explored. This paper uses submissions to an Australian Parliamentary enquiry to explore the attitude of the sector to accountability.

Methodology: Content analysis of submissions to the inquiry of the 2008 Australian Senate Standing Committee on Economics into the disclosure regimes for charities and not-for-profit organizations. Leximancer and NVivo software packages were used for the analysis.

Findings: Current models of accountability relationships are inadequate in that they do not put enough focus on the role of the Clients and Community stakeholder group. We argue that there is a problem in putting too much emphasis on upwards accountability through mechanisms of financial reporting to the detriment of downwards accountability.

Originality/Value of the paper: Ebrahim's (2003) model is augmented by giving greater focus to clients and community.

Paper classification: Research paper

Keywords: accountability, not-for-profits, reporting

Introduction

The Not-for-profit (NFP) literature is yet to fully explore the current level of satisfaction among different stakeholders to the use of financial reporting to fulfil accountability (Christensen & Mohr, 2003; Lee, 2004; Gray, Bebbington, & Collison, 2006; Parker, 2007). The accountability of NFP organisations has been a recent area of interest in the Australian context (Lyons, 2000; Flack, 2007; Choice, 2008) with the Australian Senate referring to the Standing Committee on Economics an inquiry into the Disclosure regimes for charities and not-for-profit organizations. This inquiry attracted much interest (178 submissions) and gives a timely opportunity to explore opinions in the sector about the current state of disclosure and accountability. We have used content analysis to seek for common themes or patterns in the attitudes of respondents to accountability.

The paper proceeds as follows. The following section reviews the existing literature relating to accountability in not-for-profits and introduces the Ebrahim (2003) model. This is followed by the research methods section which explains the content analysis methods used. This is followed by the results and discussion. The last section is the conclusions which shows the potential limitations of the study and areas for further research.

Prior Literature

Accountability

Becoming more open and accountable to the wider public is one of the central challenges for NFP entities (Lyons, 2001); improving accountability ‘is one of the most important issues facing the sector’ (Benjamin, 2008, p. 201). There is little dispute about the need for accountability, but how accountability is defined and provided ‘is far from resolved’ (Sinclair, 1995, p. 219). Lee (2004) argues that generally, in relation to NFP entities, the concept of accountability has tended to have two distinct meanings; firstly accountability to an external stakeholder and secondly the method of legally requiring information to be submitted to government regulatory agencies. Thus accountability is proactively ensuring the public trust is served as well as a reactive response to overseers (Ebrahim, 2003).

Accountability and Financial Reporting

While the term accountability is broad, elusive and ‘chameleon’ like (Sinclair, 1995, p. 219) definitions of accountability invariably include a reporting or informing function; ‘the provision of information on how one’s responsibilities have been performed’ (Mulgan, 1997, p. 27). Thus, within the accountability paradigm, annual reports and financial statements are seen as essential; to provide feedback to stakeholder groups and for management to discharge its accountability (Tower, 1993; Connolly & Hyndman, 2004; Kilcullen, Hancock, & Izan, 2007; Mack & Ryan, 2007), as a means whereby accountability to the citizenry can be enhanced (Lee, 2004) and to discharge legal obligations (Woodward, 2003).

Stakeholders

Being held responsible for behavior and performance needs to be considered in the context of to whom and for what is an organization accountable (Mulgan, 2001; Young, 2002). In a broad sense there is a need to report financial and non-financial information to stakeholders with a legitimate interest in an enterprise (Tower, 1993). Stakeholders are individuals, groups or organizations that have in interest in an organization and who can influence it or be influenced by it (Freeman, 1984; Savage, Nix, Whitehead, & Blair, 1991; Hill & Jones, 1992; Donaldson & Preston, 1995; Donaldson, 1999; Friedman & Miles, 2002).

It is argued that the number of stakeholders that NFP entities must take into account is larger than that of for-profit entities and determining how an NFP entity can be accountable to a different range of stakeholders is 'extremely vexed' (Woodward & Marshall, 2004, p. 124). There are multiple reasons for establishing NFPs, multiple means of financing, multiple stakeholder groups; NFPs 'potentially have many masters' (Young, 2002, p. 4). NFP entities therefore face 'multiple accountabilities to a number of stakeholders rather than to a single source of authority' (Mulgan, 2001, p. 89). Legally donors and recipients of goods or services have few rights over the actions of NFP entities (Barman, 2007). Thus, one of the differences between for-profit and NFP entities is the latter's 'uncertain accountability' (Lyons, 2000, p. 9).

Despite multiple accountabilities of NFP entities there is little research on the characteristics of such accountability relationships and the affect on the information flows between NFPs and stakeholder groups (Flack, 2007). One of the reasons for the variation in accounting systems and disclosure requirements of NFPs is the heterogeneity of the information demanded by the diverse stakeholder community (Keating & Frumkin, 2003).

In the context of large fund raising charities, research finds that most contributors seek non-financial information where in fact most of the information disclosed is financial (Hyndman, 1990; Khumawala & Gordon, 1997) and that donors 'are concerned primarily with the donative act rather than the usage of funds' (Berman & Davidson, 2003, p. 427). Hyndman (1990) suggests that simplified financial statements would better serve the contributors of such organizations.

The diversity of stakeholders concerned by the standardisation of accounting practices make accounting rules a matter of public interest (Chiapello & Medjad, 2009). In its latest guidance for annual and financial reporting by NFP entities the Institute of Chartered Accountants in Australia recommends that NFP entities identify and disclose its major stakeholders and give attention to the informational needs of the number, diversity and location of stakeholders (The Institute of Chartered Accountants in Australia (ICAA), 2009, p.9).

Importantly, little empirical research is available on the characteristics of accountability relationships between NFP entities and stakeholders and the stakeholders' information preferences (Flack, 2007). Some stakeholders may not require formal accountability or may accept that accountability is discharged in other ways (Gray, *et al.*, 2006). The NFP literature is yet to fully explore the current level of satisfaction among different stakeholders to the current approaches and practices of financial reporting of NFP entities.

Theoretical Perspective

Accountability relationships of nonprofit organizations lacks a unified theoretical perspective (Flack, 2007); it 'remains relatively under explored and untheorised' (Kreander, Beattie, & McPhail, 2009, p. 157). Established theories relevant to for-profit entities' accountability relationships do not fit neatly into the NFP sector (Gray, *et al.*, 2006; Unerman & O'Dwyer, 2006; Kreander, *et al.*, 2009)

Stakeholder theory has been used to model accountability relationships in NFP entities (Kreander, *et al.*, 2009). On a broad level stakeholder groups have been classified as either internal; that is, parties providing resources, or external; that is, parties performing a review or oversight function (Keating & Frumkin, 2003; Flack, 2007). Inside stakeholders include the board of directors and staff (Keating & Frumkin, 2003; Flack, 2007) as well as volunteers, purchasers/users of services, creditors, suppliers of goods and services, private grant makers and government funders (Flack, 2007). External stakeholders include donors, clients and the public (Keating & Frumkin, 2003; Flack, 2007) and government regulators, mass media, professional bodies, labour unions, employer groups, peak bodies, analysts and advisors, special interest groups, and charity 'watchdog' organisations (Flack, 2007). Kreander et al. (2009) focus on five key stakeholder groups for accountability relationships in NFP organisations: donors, beneficiaries, trustees, regulators and staff.

In a broader context, stakeholders have been described as having the attributes of power; the extent to which it has or can impose its will in the relationship, legitimacy; socially accepted and expected structures and behaviours, and urgency; the degree to which stakeholders claims call for immediate attention (Mitchell, Agle, & Wood, 1997). These attributes impinge on the accountability relationships in NFP organisations which have been described as upward and downward (Christensen & Ebrahim, 2006; Kreander, *et al.*, 2009) or as relational and identity accountability (Unerman & O'Dwyer, 2006). Upward or relational accountability is being held accountable from above, where the dominancy in the relationship (power, legitimacy and urgency) resides with the stakeholder to whom the NFP is answerable for its actions (Sinclair, 1995; Ebrahim, 2005; Christensen & Ebrahim, 2006). Such upwards accountability is often to funders and sector regulators for the acquittal of funds (Najam, 1996; Ebrahim, 2005).

Downwards and identity relationships use less formalised means to achieve accountability and are more often a felt responsibility (Ebrahim, 2005; Christensen & Ebrahim, 2006; Unerman & O'Dwyer, 2006). Downwards accountability is described as being to clients, recipients of services and communities affected by NFP programs (Edwards & Hulme, 1996; Najam, 1996; Ebrahim, 2003; Kilby, 2006; Kreander, *et al.*, 2009). Such stakeholders are described as being discretionary; that is, they possess the attribute of legitimacy but have no power to influence the provider of services (Mitchell, *et al.*, 1997; Kilby, 2006; Unerman & O'Dwyer, 2006) and legally have few rights over the NFP entity's actions (Kilby, 2006; Barman, 2007). Such stakeholders do not possess power or urgency and therefore 'there is no pressure on managers to engage in an active relationship with such a stakeholder, although managers can choose to do so (Mitchell, *et al.*, 1997, p. 875). A NFP may feel a moral accountability to its clients but the danger is the accountability relationships will be skewed towards the most powerful constituents (Edwards & Hulme, 1996; Ebrahim, 2003).

How accountability to downward and identity stakeholders is achieved is not clear (Najam, 1996; Christensen & Ebrahim, 2006). There is a lack, and even undesirability, of measuring such accountability relationships (Najam, 1996) and no defined path of being held responsible to such stakeholders (Kilby, 2006). Some stakeholders will not want a formal accountability relationship and the provision of a service may itself be 'the account of that action' (Gray, *et al.*, 2006, p. 336)

Ebrahim (2003, p. 198) argues that agency theory makes the most significant contribution to framing accountability relationships as well as our understanding of such accountability relationships 'by focusing attention on relationships between actors (principals and agents) and the strategies used by principals to have their agendas fulfilled'. In this model (Figure 1), the diverse accountability relationships NFP's face are simplified into three primary groups. Each of the three key stakeholder groups – funders, sector regulators and clients and communities – is related to the NFP in a principal-agent relationship. Although the principal-agent relationship does run both ways, there is a dominant (upwards or relational) accountability relationship identified by the solid line in which the agent accounts to the principal. The dominant relationship is determined by the presence and use of accountability mechanisms to enforce it.

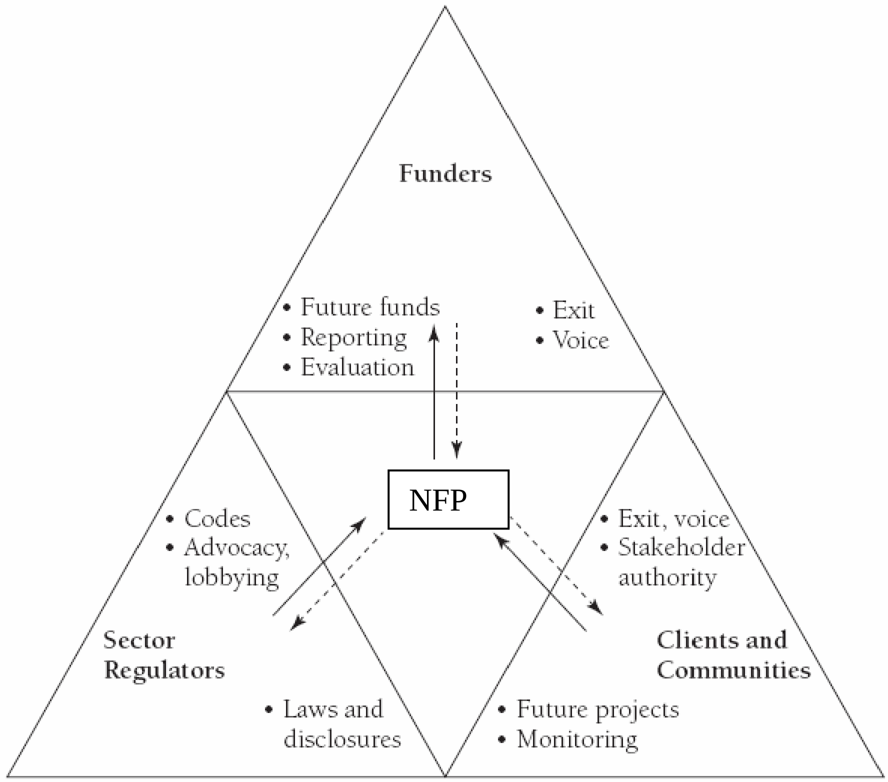

Figure 1 Source: Adapted from Ebrahim (2003)

Funders provide money to NFPs and in many cases require reports and evaluations confirming the legitimate use of those funds thus holding the NFP accountable to the funder. In some instances the NFP can act as principal by refusing donor funds (exit) or by voicing complaint in an attempt to reform their funders, although the first relationship is the most dominant (Ebrahim, 2003).

Sector regulators will also often have requirements for information from NFPs to hold them accountable and ensure a minimum level of transparency. NFPs, however, can in some cases exert a policy influence on public officials and develop standards or codes of behaviour for themselves thus acting as principals in ‘shaping standards for the sector as a whole’ (Ebrahim, 2003, p. 202). Ebrahim (2003) argues that the relationships in this set are equal in both directions.

NFP’s often provide a predetermined set of activities to their clients (such as education or health care) and if clients find the services inadequate their options are generally limited to refusing the service or complaining (Ebrahim, 2003). Thus the NFP acts as the principal and the client the agent. In this instance the accountability relationships are downward or identity relationships (Christensen & Ebrahim, 2006; Unerman & O'Dwyer, 2006). For this relationship to be reversed Ebrahim (2003) argues that the client options would need to be considerably stronger.

Research Method

The submissions made to the 2008 Australian Senate Economics Committee in response to the inquiry into the *Disclosure regimes for charities and no-for-profit organisations* are available from the Australian Senate Economics Committee website[1]. It is recognised that the respondents to the Senate inquiry may not be representative of the whole NFP sector and that their responses may not be as candid as those provided in an interview setting. However, the responses are from those entities interested enough in the issue to write a submission and submit it to the inquiry. Additionally the responses cover a broad range of NFP entities; small and large, from a range of sectors (e.g. education, health, social services) and from a range of different geographical locations in Australia as well as individuals, academics, government departments and professional bodies. The sampling bias is towards those NFPs and individuals that are committed enough to respond to the call for submissions.

Content analysis is a 'well-established method in the social sciences' (Beattie, McInnes, & Fearnley, 2004, p. 214) and 'involves codifying qualitative and quantitative information into pre-defined categories in order to derive patterns in the presentation and reporting of information' (Guthrie, Petty, Yongvanich, & Ricceri, 2004, p. 287). The Leximancer package has been used in a number of studies which undertake a similar analysis to the current study, including the analysis of corporate responsibility reports (Chen & Bouvain, 2009), transcripts of interviews (Parsons, 2008), US securities and exchange filings (Martin & Rice, 2007), web based surveys (Davies, Green, Rosemann, Indulska, & Gallo, 2006), policy documents (Rooney, 2005) and abstracts from conferences (Grimbeek, Bryer, Davies, & Bartlett, 2005).

Leximancer is able to efficiently quantify and explore large text documents based on a classification system of learned lexical concepts rather than only keywords (Grech, Horberry, & Smith, 2002). Extracted information is presented in a visual form known as a conceptual map (Leximancer Manual, 2009). Initially Leximancer examines the documents and selects a ranked list of important lexical terms based on word frequency and co-occurrence, referred to as concepts (Smith & Humphreys, 2006; Martin & Rice, 2007). Results are produced based on algorithms using a Bayesian approach to prediction (Davies, *et al.*, 2006; Smith & Humphreys, 2006; Martin & Rice, 2007; Chen & Bouvain, 2009; Leximancer Manual, 2009). During the pre-processing stage an editing phase allows the user to remove concepts which are not of interest or provide little value, merge concepts which have the same meaning, and to insert the user's own concepts (Martin & Rice, 2007; Parsons, 2008; Leximancer Manual, 2009; Stockwell, *et al.*, 2009).
While Leximancer enables the linkage of key words and concepts it does not assist in teasing out the richness of the ideas. We used NVivo software to do qualitative coding, a 'process by which segments of data are identified as relating to, or being an example of, a more general idea, instance, theme or category' (Lewins & Silver, 2007, p. 81). The key concepts emerging from the high level Leximancer analysis were therefore explored using NVivo.

Results

Concept Maps

The submissions were separated into three categories of respondents: academics, the legal and accounting professions and government departments, and a majority group comprising NFP entities and individuals. Leximancer allows for differential analysis based on categories and the three categories were chosen as representatives of external observers of the sector

[1] http://www.aph.gov.au/senate/committee/economics_ctte/charities_08/submissions/sublist.htm [accessed 21 August 2009]

(academics), those involved in the external regulatory process and preparation and auditing of the financial information presented by NFP entities (legal and accounting professions and government departments) and preparers and users of financial information presented by NFP entities (NFP entities and individuals).

An editorial process was then undertaken using the Leximancer program to remove concepts of little interest or value and to merge similar or identical concepts and insert defined concepts central to the analysis (Martin & Rice, 2007; Parsons, 2008; Chen & Bouvain, 2009).

Figure 2 shows the themes that emerge from the analysis and where the three groups of respondents are positioned in relation to those themes.

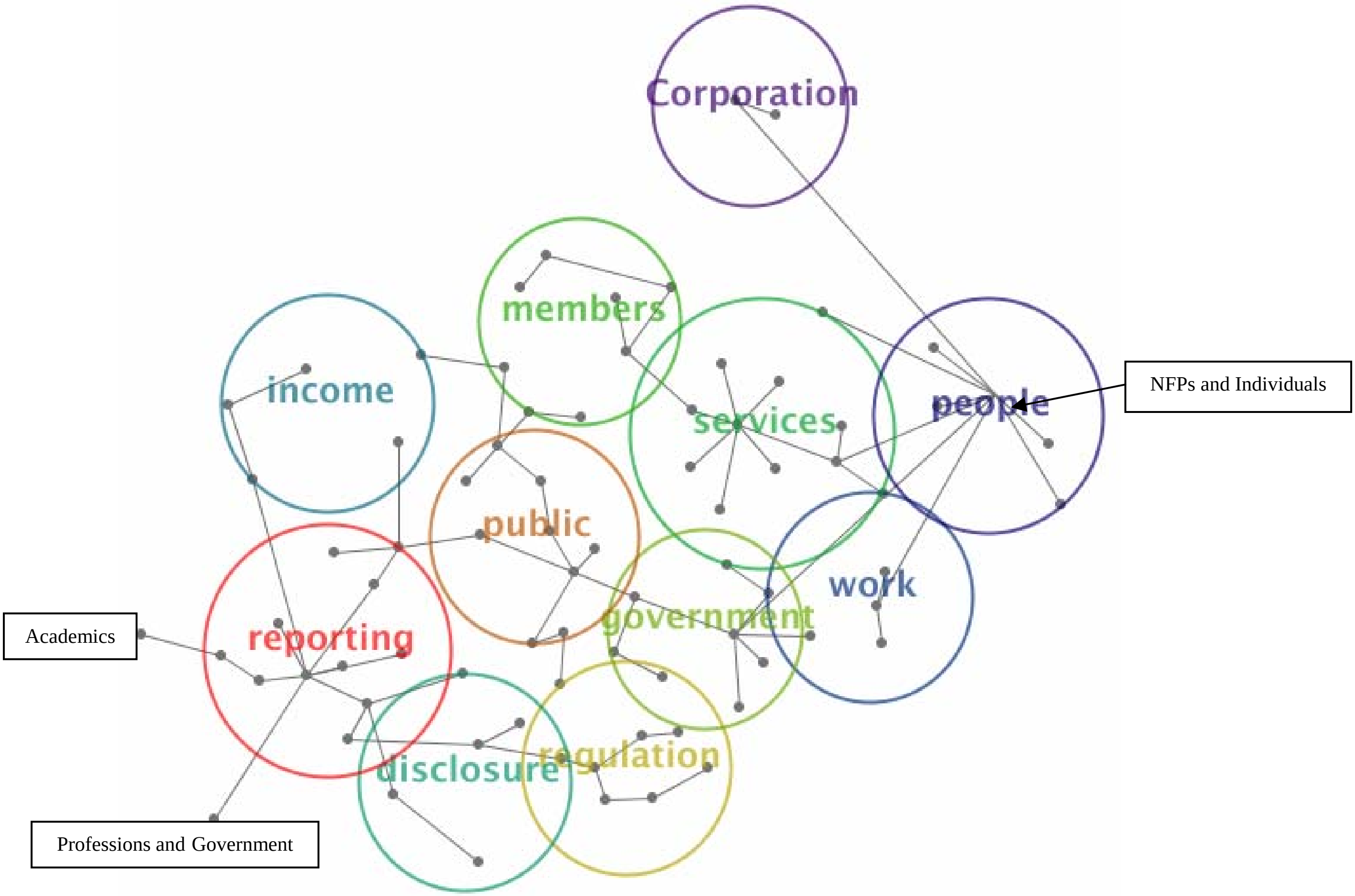

Figure 2: All submissions

Two major groups of themes emerge; themes centred on the social aspect of NFP organizations; people, services, work, members and public, and those centred on the regulatory aspect of NFP organizations; reporting, disclosure, regulation, income, government. This would indicate that respondents to the Senate inquiry cover a broad range of subjects covering the important aspects of reporting, regulation and disclosure and also focus on what NFPs do; services, members, work, public and people.

Figure 3 reveals where the focus of the three groups of respondents is located and enables comparison of the categories based on shared concept usage (Leximancer Manual, 2009); results show that three groups of respondents have a different focus. Not surprisingly the NFP and individual group are located near the themes of people, services, work, members and public as shown in Figure 3.

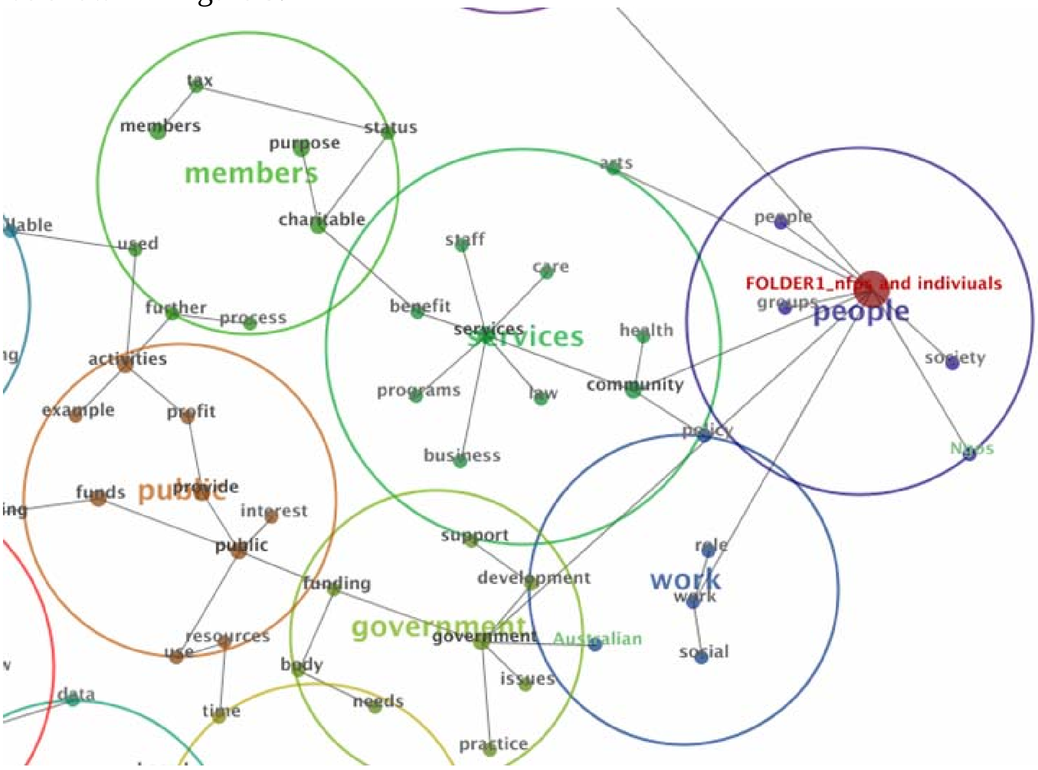

Figure 3: Themes and concepts near ‘NFPs and individuals’ tag

People, groups and society are the concepts closest to the NFPs and individuals tag, indicating these are the concepts most commonly found in this group’s responses to the Senate inquiry. This reveals that NFPs and individuals are much more interested in the impact on the ‘Clients and Communities’ section of Ebrahim’s (2003) theoretical model.

Accountability

> “Accountability is a central issue in our increasingly interdependent world and is largely due to the advocacy of NFPs challenging the ethical conduct of corporations and governments”. Wesley Mission NSW – p. 6

The above extract from Wesley Mission NSW highlights the sectors understanding of the importance of accountability and the need to enhance it. The concept of accountability itself is discussed later but it should be observed that in Figure 4 accountability is located between the themes of disclosure and regulation. This indicates that respondents feel that the disclosure of information is linked to discharging accountability and that a regulated level of disclosure will assist in discharging accountability. This is supported from the information that emerges from the data. The next three sections consider the location of accountability and its relationship to the themes of disclosure, reporting and regulation.

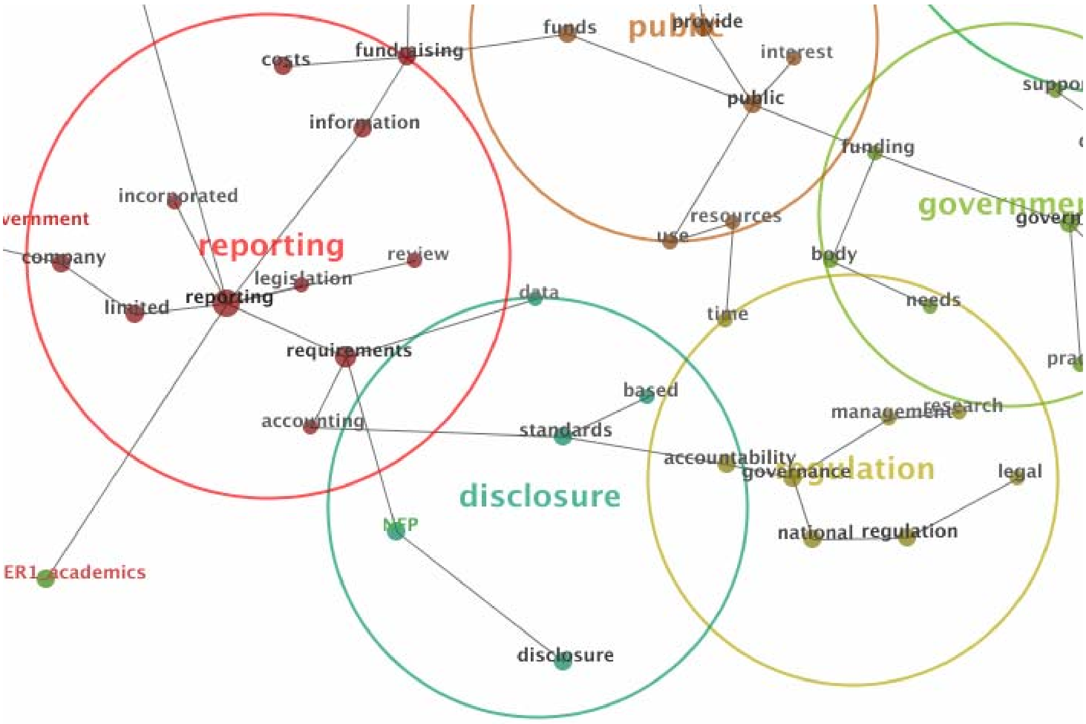

Figure 4: Themes and concepts for ‘reporting’, ‘disclosure’ and ‘regulation’

Accountability and Disclosure

Figure 4 shows the accountability concept in the overlapping themes of disclosure and regulation. When considering the accountability relationships of NFP entities, disclosure is seen by the sector as an important part of accountability. It is argued that a lack of disclosure by NFP organisations has resulted in a lack of public accountability (Perpetual Limited). Emphasising the link between disclosure and accountability is the point of view of an accounting firm, an entity involved in the preparation of financial information (BDO Kendall). They argue that standardised reporting and disclosure will lead to greater transparency and accountability in the sector. Chartered Secretaries Australia, concerned with the external regulatory process and the financial information provided by NFP organisations believes that accountability ‘could be fostered by requiring a short-form report from all NFPs, with further disclosure and reporting required of some NFPs according to size’.

Accountability and Regulation

In Figure 4 the accountability concept is located in the theme of regulation. The data also reveals that respondents to the Senate inquire believe there is a strong relationship between the concepts of accountability and regulation; that is, respondents feel that disclosure and reporting needs to be a regulated to enhance accountability. The Australian Government’s arts funding and advisory body, Australia Council for the Arts is a funding body to NFP entities and argues that having a regulated level of financial disclosure may reduce the level of complexity for its clients by allowing it to align its accountability requirements of them with such regulated disclosure. This concept of accountability being easier to achieve with a regulated level of disclosure is shared by NFP entities themselves:

> Alleviate the administrative burden on NFP organisations...by providing a standardised approach to accountability...this should involve reporting to a

> single national entity, with uniform reporting methods. Wesley Mission NSW, p. 3

It is not only funders and NFP entities themselves that feel this way. Those professions involved in the external regulatory process and preparation of financial information of the sector have also emphasised the relationship between regulation (standardised reporting) and greater accountability:

> The objectives of the reform should be to create greater transparency and accountability within the not-for-profit sector through standardised reporting and disclosures. BDO Kendall.

Accountability and Reporting

Using Leximancer there are appears to be a strong link (Figure 5) between the concept of accountability and the theme of reporting, via the theme of disclosure and the concepts of 'standards and accounting'. It is evident that reporting (financial and otherwise) is viewed as being very closely aligned with accountability. The Public Interest Advocacy Centre Ltd (p.3), a non-profit legal and policy centre, argue that any changes to the current reporting regime for NFP entities should 'be designed to improve accountability to all stakeholders...and include non-financial information'. The Alcohol and other Drug Council of Australia, a preparer of financial information, view the publishing of financial reports (income and expenditure statement) as being an important element in 'minimum standards of public accountability'. Additionally Dr Ted Flack, an academic and external observer of the sector, argues that 'the disclosure of comparable financial information is the foundation stone of not-for-profit accountability and transparency'.

Having considered the relationship between accountability and the themes of disclosure, reporting and regulation, what the respondents to the Senate inquiry think about the importance of accountability, and what they understand the term to mean are investigated.

Accountability Defined

While many responses explained accountability relationships and obligations, it was surprising to find that out of the 178 responses to the Senate inquiry there could only be found two instances where a definition of accountability was provided.

> Oxfam defines accountability as the process through which an organisation makes a commitment to respond to and balance the needs of stakeholders in its decision making processes and activities, and delivers against that commitment. Oxfam Australia, p .8
>
> We might better define accountability as the process by which a NFP holds itself openly responsible for what it believes, what it does and what it does not do, in a way which shows it involving all concerned parties and actively responding to what it learns. Wesley Mission NSW , p. 6

Both of the definitions are from large NFP entities and both centre on being accountable to stakeholders for achievement of organisational goals. Both definitions encompass upwards (relational) and downwards (identity) accountability.

Accountability – onerous and complex

While the need for accountability is evident in the responses there is also some level of disturbance in the sector about the current accountability mechanisms. These are described as being many, onerous and complex and NFPs are concerned that fulfilling these current accountability requirements absorb many resources and takes time away from focusing on the primary objectives of the NFP entities (Southern Youth and Family Services). Smaller NFP entities in particular see reducing the amount of accountability requirements (Skyline Education Foundation Australia) and simplifying such requirements (Melbourne Community Foundation) as being a key part of any reform.

Furthermore, there is concern about the current level of accountability within the sector. Some challenge the concept that accountability in the sector needs improving (Illawara Forum Inc) and feel that as individual entities their accountability levels are rigorous:

> …we feel we are applying rigorous disclosure accounting and reporting strategies, both as a function of reporting to our members but also in meeting our various funding body requirements. (Australian Society for HIV Medicine, p. 1).

This conclusion, however, focuses on the discharge of upwards or relational accountability. The Australian Society for HIV Medicine feels that it is rigorous in discharging its *reporting* obligations to members and funders. It does not explain the downward or relational accountability to clients and communities.

Many responses highlight that downward or identity accountability is hard to achieve and measure and that such accountability needs improvement in the sector. The Fairholme Disability Support Group argue that accountability to stakeholders is on many occasions still ‘opaque or non-existent’, especially given at times the range of people covered by the term stakeholder. Additionally there is concern that current accountability models are based on a ‘reporting and company model tailored more for the for-profit sector, which is not always suitable for NFPs’ (Australian Evangelical Alliance, p. 6). This again reflects concern that accountability is being considered and measured in terms of upward accountability. Consider:

> Accountability is not just financial. There is no reasonable measure of real outcomes for the people we serve, our clients never ask what have you spent raising money they just want to know how you can help. Presently all measurement is around profitability because commercial business practices, accounting and reporting standards are being used. The problem with that is their overarching imperative of profitability is not what this sector is about nor should it ever be. The Epilepsy Foundation of Victoria Inc
>
> The term ‘accountability’ has been heavily influenced by a commercial definition, reducing it to a financial model – a ledger style balancing of figures. This characterization is the one that has been imposed on NFPs by government and corporate funders, essentially asking a sector whose role is that of providing ‘connectivity, care and passion’ to act as accountants. This is a reductionist model which does not factor other key accountabilities or outcomes. Such a focus fails to adequately acknowledge that funding bodies are not the only stakeholders to which an NFP should be accountable. Wesley Mission NSW, p. 6

Concern is raised about the lack of a reasonable measure of downward and identity accountability and that accountability being reduced to a financial model is not where many in the NFP sector see their primary accountability obligations to be.

Accountable to whom and for what?

Wesley Misson NSW (p. 9) argues that any consideration of accountability needs to consider who the stakeholders are. ‘Stakeholder analysis becomes one of the key tools of organizational accountability the need to map and analyse various stakeholders in a given situation is paramount’. The three key stakeholder groups (Ebrahim, 2003); funders, sector regulators and clients and communities and argues they are related to the NFP in a principal-agent relationship. These key stakeholder groups, and the theorised direction and strength of the principal-agent relationship are explored in this section.

Funders

It is argued that funders, in providing money to NFPs, require reports and evaluations confirming the legitimate use of those funds and that this relationship is the most dominant between funders and the NFP (Ebrahim, 2003). The results provide support for this premise in terms of high accountability to grant providers and government funds where it is argued that the ‘community services sector is highly accountable in its compliance with funding bodies’ (Illawara Forum Inc, p. 3) and that reporting is required ‘to multiple government funding bodies for the acquittal of government grants’ (Graham, Young, Wilson, Laverty, p. 2).

In terms of NFPs receiving government funding, the Association of Independent Schools of Victoria Inc indicate that because they receive government funding they ‘are required to submit detailed financial and operational information to both the state-based school registration body and the Australian Government department responsible for the administration of funding for schools’. Health care providers also report that they have a responsibility to ‘provide full reporting information on the expenditure of funds provided for aged care’ to the relevant government department (UnitingCare NSW.ACT, p. 1).

The accountability relationships in these examples would appear to be clear and extant, with upwards accountability to the funder as the principal and acquittal of accountability provided by financial reporting. What is not clear is how these accountability relationships play out for donors. Ebrahim (2003) includes donors in the funding group and indicates that they are the principal in the principal-agent relationship. This premise does not appear to be supported by the results of this study.

It is clear that the sector, and those observers of the sector, have ‘expectations of a high level of accountability on the part of those handling funds donated’ (The Institute of Chartered Accountants in Australia p. 7) and that donors may be interested in the outcome of the specific program or appeal they may have donated funds to (Clough). Additionally there are benefits to the sector as a whole; accountability to donors would help to ‘maintain confidence’ in the charity sector (BDO Kendalls) and being accountable for use of funds from donors would ‘continue to help grow the trust levels within the community’ (Australian Evangelical Alliance Inc, p. 5).

Community Information Strategies Australia Inc, a NFP organization which aims to support and strengthen the NFP sector by providing online learning and other services to nonprofit professionals, however, feel that NFPs ‘do not provide sufficient accountability for funds derived from the public’. Additionally the sector, and observers, who responded to the Senate inquiry, use terms such as ‘should be accountable’, ‘there is a need for public accountability’, ‘to be held accountable’ in terms of accountability and donors, indicating that while this accountability is something the sector would like to see, it would seem that there are no current mechanisms to enforce it.

Associations Forum Pty Ltd (p. 7) argue the NFPs that receive donations ‘should meet appropriate and stronger disclosure requirements’ because the donors are not the beneficiaries of the services provided by the NFP. Trustee Corporations Associations of Australia would like to see donors and potential donors have access to relevant information about the NFP’s activities, including how donations are spent and the extent to which the NFP is achieving its goals. A basic level of information should be provided to donors and prospective donors (e.g. Stradwick). It is also recommended that, NFPs that are beneficiaries of public benefits, including Deductible Gift Recipient status should be accountable for the value of the support they receive (Institute of Public Affairs; Social Ventures Australia).

It would also appear that the sector understands the distinction between upwards (relational) and downwards (identity) accountability relationships. Wesley Mission NSW (p. 9) argue that the current accountability requirements in the sector are ‘funder-centric’ (upwards accountability) and that this constrains the type of information available to other decision makers (downwards accountability). Likewise, Public Interest Advocacy Centre Ltd, an independent, non-profit law and policy organisation, argue that there is a distinction between accountability requirements for tax purposes and governments funds (upwards accountability) and accountability to those who make decisions about donations and who benefit from NFP services (downwards accountability) and that the risk is, that by concentrating on the upward accountabilities, the downward accountabilities will be ignored.

In summarising these findings it is clear that there is support for the concept of an accountability relationship to funders, whether the government or other funding bodies. In these relationships the funder acts as the principal and the NFP, being the agent, provides financial reports to demonstrate acquittal of accountability requirements. However, contrary to Ebrahim’s (2003) suggestion, respondents to the Senate inquiry do not perceive that the same accountability relationship exists for individual donors and the public. Accountability to these stakeholders is described as lacking – something that ‘should be’ rather than something ‘that is’. Additionally, while funding bodies may be satisfied with financial reports satisfying accountability requirements, the NFPs see that too much focus on these upwards accountability relationships could be to the detriment of downward accountability to recipients of services.

Sector Regulators

The second of Ebrahim’s (2003) stakeholder groups are sector regulators. It is argued that sector regulators will have requirements for information from NFPs to hold them accountable for a minimum level of transparency. The results provide support for this, with independent schools being accountable to the curriculum authorities in each state and territory (Australian Catholic Bishops Conference) for a range of performance targets and measures (The Independent Schools Council of Australia) including educational goals and targets (Association of Independent Schools Vic). Health providers are accountable to the

Department of Health and Ageing and other regulatory bodies for the provision of health care services (Wesley Mission NSW; Royal Flying Doctor Service).

It is argued that the relationships in this set are equal in both directions (Ebrahim, 2003), but the results of this study would indicate that the sector regulators are in a position to demand non-financial information from the NFP entities, especially in the education and health sectors. The Independent Schools Council of Australia reports that schools are obliged to commit to an extensive regime of educational accountability. Examples under the current legislation include: a commitment to the National Goals for Schooling; committing to achieving a range of performance targets and performance measures'. Many NFP entities 'are required to meet specific government directives' and find they therefore tend to 'operate in a similar way to governmental authorities/agencies and larger private organisations (Alcohol and other Drug Council of Australia).

Ebrahim (2003) argues that in some cases the NFP can act as the principal in this relationship by developing standards or codes of behaviour for themselves and shape standards for the sector as a whole. Associations Forum (p .6), a user group for NFP entities, indicates that a unique feature of the NFP sector 'is its capacity for self-regulation' and that a greater effort by the sector to self regulate 'would be an excellent way forward, backed by government encouragement'. The Leukemia Foundation would like to see the NFP sector 'continue operating with existing self-regulation based on best practice'. An existing code of conduct, the Australian Council for International Development which is a voluntary, self regulatory industry code, is an example of a system that requires signatories to maintain the highest standards of public disclosure (Union Aid Abroad) and is supported as a model that could be used 'in tandem with a cooperative compliance relationship' with any NFP regulator (Australian Council for International Development, p. 9). Another example of self-regulation in the sector is the Fundraising Institute Australia's (FIA) code of self-regulation for professional fundraisers. This code is a guide to ethical, accountable and transparent fundraising (Australian Council for International Development). It would appear from these comments that self-regulation is seen as being complementary to sector regulation.

While there is some support for the concept of NFPs establishing and maintaining self-regulation it does not appear that these initiatives are strong enough, in the Australian context, to shape accountability requirements in the sector. It would appear that the dominant party in this relationship are the sector regulators, who have the power to enforce accountability mechanisms.

Clients and Communities

The final stakeholder group (Ebrahim, 2003) are clients and communities; these are project beneficiaries, users of services and community members who are not directly involved in a project but are indirectly affected by it. Ebrahim (2003) argues that in this set the NFP acts as the principal and that the client's options are generally limited to refusing the service or complaining.

There is strong evidence that NFP entities believe that they are accountable to their beneficiaries and community (Illawara Forum Inc) and that accountability to these groups 'should be seen as primary' (Oxfam Australia, p. 3). The St Vincent de Paul Society (p. 13) recognises that ultimately NFPs 'are accountable to the disadvantaged and excluded people they assist'. Disclosure of how effective a NFP is in achieving its program outcomes (i.e.

demonstrating accountability to clients and communities) is also considered to be important (Trustees Corporations Associations of Australia; Fundraising Institute Australia; Social Ventures Australia). NFP entities report that internal governance structures provide a platform 'which ensures appropriate accountability and transparency for the members' (The Uniting Church in Australia, p. 2)

Where the beneficiaries of services are also partly funders of a NFP entity, as is the case with independent schools, NFPs feel a high level of accountability to these beneficiaries. The 'ongoing success of independent schools relies on their accountability and transparency to their school community' and they 'must therefore deliver standards of transparency and accountability that accord with the expectations of parents and supporters which may be above and beyond any regulatory requirement' (Association of Independent Schools of Victoria Inc, p. 4). The Independent Schools Council of Australia (p. 4) also reports that 'the accountabilities of independent schools do not begin and end with national and state educational authorities, but also include high levels of accountability to fee-paying parents and students'. Thus the beneficiaries of the services are also funders, and appear to have an increased level of accountability directed to them:

> "The freedom of students and their families to exercise choice in schooling is one of the most demanding forms of accountability for independent schools. (The Independent Schools Council of Australia, p. 6)

Ironically, while NFP entities may see accountability to clients and communities as being their ultimate accountability, achieving it would seem to be the most difficult. The Epilepsy Foundation of Victoria Inc recognize the while 'accountability is not just financial' there is 'no reasonable measure of real outcomes' for NFP clients and recipients of services. They indicate that at the moment 'all measurement is around profitability' but that this 'overarching imperative of profitability is not what this sector is about nor should it ever be'. The focus on financial accountability 'fails to adequately acknowledge that funding bodies are not the only stakeholders to which an NFP should be accountable' (Wesley Mission NSW, p. 6). The Public Interest Advocacy Centre (p.8) recognise there should be 'a mechanism for deciding what level of detail is needed to achieve accountability to their community and to funding bodies'. While the latter is discharged by financial reporting, the former is harder to achieve. Social Ventures Australia (p. 1) have concerns about the lack of 'requirements for transparency in reporting, particularly in relation to program outcomes/impact'.

Figures 2 and 3 revealed that NFPs and individuals submissions were more aligned to the themes of people, services, work, members and the public which is supported by the submissions discussed above. NFPs see their primary accountability relationships are to the clients and communities stakeholders but acknowledge that accountability to them is hard to define and measure. There is clear concern by the sector that a funder centric, profit driven accountability model does not assist in discharging accountability to clients and communities.

Discussion

Ebrahim (2003) simplifies the diverse accountability relationships that NFPs face into three primary groups; funders, sector regulators and clients and communities and suggest these three groups are related to the NFP in a principal agent relationship. Ebrahim (2003) includes donors in the funding group, suggesting they are also included as a principal in the principal-agent relationship. The results of this study indicate that individual donors and the general public are a genuine stakeholder group in their own right. These four stakeholder groups are presented in Figure 5.

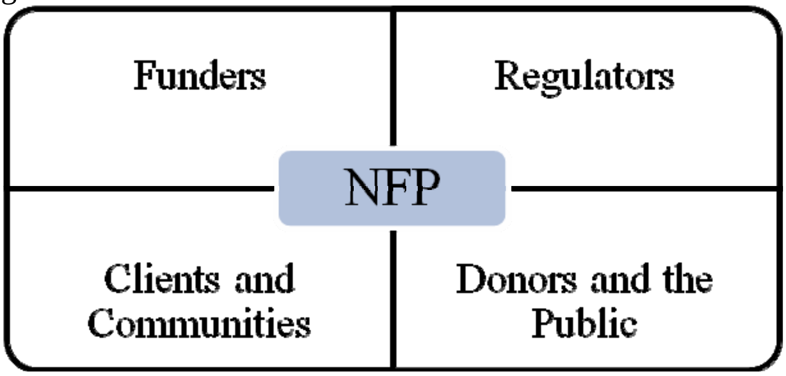

Figure 5: NFP Stakeholder relationships

Ebrahim (2003) suggest that in the funding part of the model funders require reports and evaluations, based on the funders requirements, confirming the legitimate use of the funds and that in this case the funder acts as the principal in the principal-agent relationship. There is an upwards accountability relationship to funders. This is supported by the results of this study with NFPs providing detailed financial reports and operational information to various funding bodies.

While it may be contended that the accountability relationships between the NFP and sector regulators are equal in both directions, due to sector regulators requiring disclosure from the NFPs and the NFP being able to exert a policy influence on public officials by establishing voluntary codes of conduct (Ebrahim, 2003). The results of this study indicate that, while the sector has established some voluntary codes of conduct, the dominant power in the relationship is almost exclusively with the sector regulators.

In terms of clients and communities, while the sector recognises the importance of those they seek to serve, there is concern that there are few, if any, mechanisms for being held accountable to recipients of programs and services. Also the results of this study indicate that individual donors and the general public are a genuine stakeholder group in their own right and that contrary to the upwards accountability of other funding bodies, accountability to donors and the general public is something that the sector, and observers of the sector see as lacking currently.

Therefore a model of accountability for the NFP sector revealed in this study, building on that of Ebrahim (2003) is presented in Figure 6. The solid arrows denote an upward accountability relationship between the NFP and funders and sector regulators, where the latter groups have the power to demand accountability from the NFP entities. The dashed arrows denote downwards accountability from the NFP to clients and communities and donors and the public, where the latter groups do not have the power the hold the NFP entities to account.

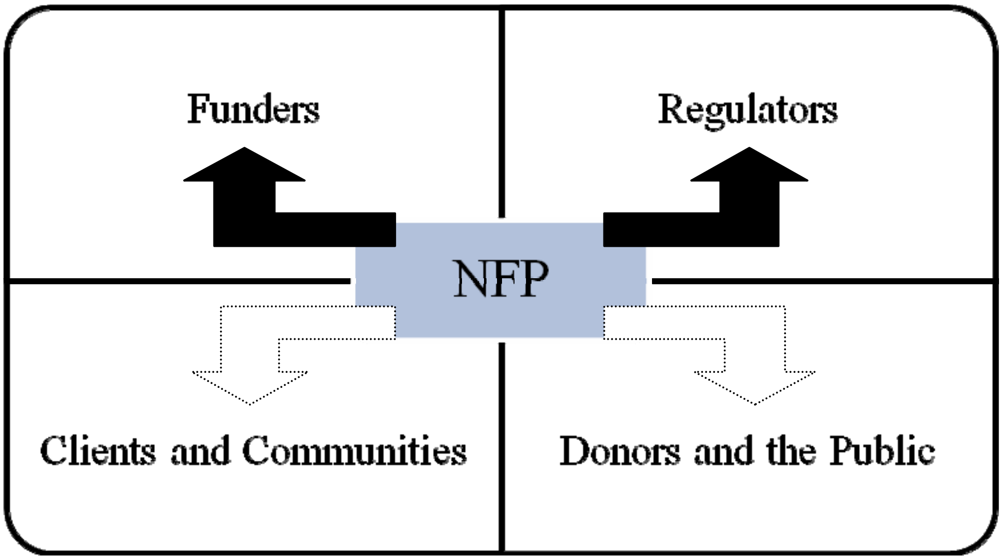

Figure 6: Accountability Model for the NFP sector

These findings were supported by the NVivo analysis where it was identified by NFP respondents that their beneficiaries and community are their primary stakeholders and that accountability to these groups is where NFPs see their obligations to be. NFPs also recognise that there are problems with defining accountability relationships to these groups. They identify that discharging accountability to funders is achieved by financial reporting, but that discharging downwards accountability to clients and communities is difficult to achieve.

Thus, while all three groups acknowledge the role of financial reporting in discharging accountability, and make contributions to these topics, the NFP and individual group raise additional concerns that the focus on discharging upwards accountability via financial reporting does not address, or assist in discharging downwards accountability to clients and communities and the general public.

Furthermore NFPs are concerned that the current accountability models are focused on a commercial definition and based on reporting and financial measures and that such a focus either limits the type of information available to other stakeholders or that by focusing on discharging upwards accountability, downward accountability will be ignored; that is, time and energy is focused on financial reports not organisational goals.

Conclusion

In this study we have developed existing model of accountability relationships using the submissions to the Australia Senate Economics Inquiry into disclosure regimes of NFP entities. We remain concerned that there is a lack of attention towards downwards accountability and especially to the stakeholder group of Clients and Communities. We remain concerned that in an environment with corporate failures not diminished and many NFPs struggling for financial resources there may be too much concentration of financial reporting as an upwards accountability mechanism.

A clear limitation is the sampling bias of using submissions to an Australian Parlimentrary inquiry. Not only may this limit the generalisability of the results but there is an obvious sampling bias within Australian sampling bias. Only the opinions of those who feel passionate enough about the sector to respond to the inquiry have been included. These opinions may be constrained in public statements and richer data may be collected by interviewing. A key stakeholder group of Clients and Community is unrepresented in the analysis. In particular, while there was a broad range of NFP entities that responded to the inquiry the views expressed may not be reflective of the views of the sector as a whole.

This provides an avenue of further research to explore whether the findings of this study are reflective of what the sector actually considers the accountability relationships and to be as well as attitudes to financial reporting.

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