PERSPECTIVES OF ACCOUNTABILITY IN CHARITIES

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ABSTRACT

This study identifies three different perspectives of accountability in charitable organisations – agency, stewardship and stakeholder. To examine current accountability practices seventy-five interviews and informal conversations with auditors/accountants, managers, board members and experts of charities in New Zealand have been undertaken.

Most of the charities interviewed operated under some form of stewardship milieu. They regard the need to discharge accountability through the provision of accessible financial information as a low priority both as a distraction and deviation of resources and also as unnecessary in that they claim their stakeholders put no value on such information.

To temper idealism with pragmatism by means of education is a way forward to resolve this issue by advancing the stakeholder perspective of accountability. For as stakeholders become sued to accessing detailed information on the impact the charity is making to its beneficiaries they will demand the same access and detail from others within the charitable sector which could result in a lowering of support for charities that do not discharge stakeholder accountability appropriately.

Key Words:
Accountability, Perspectives, Stewardship, Agency, Stakeholders, Charities, Non-Profits, Not-for-Profit, and New Zealand

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PERSPECTIVES OF ACCOUNTABILITY IN CHARITIES

INTRODUCTION

Globally the charities sector is becoming recognised as playing an important part in communities by furthering government's social objectives through increasing support to disadvantaged members of society. This is also the case in New Zealand (NZ) where the government considers that the charities sector assists them in furthering their own social objectives through, for example, increasing support to disadvantaged members of our society (Cullen & Dunne, 2006; Fisher, 2006b).

As well as gaining in significance the charities sector has unfortunately attracted controversy. This can be seen with the disclosure (Hope & Gardham, 2008) in the United Kingdom (UK) of cash donated to charities being used to fund terrorists. This has gained the attention of the European Union (EU) where the European Commission has a specific recommendation on transparency in the charities sector relating to preventing abuse of non-profit organisations by terrorist financing (European Commission, 2005).

Before going further it is important to clarify the profusion of nomenclature employed within the charities sector. These include: non-profit organisation (NPO); not-for-profit organisation (NFP); non-governmental organisation (NGO); public benefit; community service; voluntary; public benevolent institution (PBI); religious institution and other terms. Please note that these terms are used interchangeably throughout this paper as some of the research cited focuses solely on charities or sectors for which charities are a sub-group.

The empirical and theoretical contribution of this paper highlights the different perspectives of accountability – agency, stakeholder and stakeholder and the resultant need to discharge accountability appropriately. The primary purpose of this paper is to determine whether these different perspectives of accountability impact on the availability of the financial information of charities.

This paper first outlines the concept of accountability before acknowledging the importance of accountability in the charities sector and the need to discharge accountability by the furnishing of financial reports. The paper then looks at each of the three perspectives of accountability. Next the methodology employed is described followed by an empirical section before finally discussing the empirical data which highlights the impact that the different perspectives of accountability can have on the financial information of charities.

ACCOUNTABILITY

Accountability is a wide and loosely used term and means many different things to different people. Authors (Stewart, 1984; Roberts and Scapens, 1985; Hyndman and McDonnell, 2009 & Kreander, Beattie & McPhail, 2009) have been grappling with the definition of accountability for many years supporting Ebrahim's (2003) comment that:

> "*It is an irony of accountability that the term itself has often evaded clear definition*".

In this paper we are focussing on the core definition of accountability rather than the different categories of accountability which include: upward; downward; financial; public; hierarchical; compliance; formal; horizontal; bureaucratic; technical; social; identity; voice; participation (Lindkvist & Llewellyn, 2003; Adams, 2004; Steccolini, 2004; Association of Chartered

Certified Accountants, 2006; Narayan, 2006; Cordery, 2008; O'Dwyer & Unerman, 2008; Bracci, 2009; Jayasinghe & Soobaroyen, 2009).

There are many different definitions of this core accountability (Patton, 1992; Steccolini, 2004; Alam, 2006; Unerman & O'Dwyer, 2006; Cordery, 2008; Hyndman, 2008; Messner, 2009; O'Sullivan & O'Dwyer; 2009 & Roberts, 2009). However, for the purpose of this paper we will follow Fishman's (2007) definition of accountability as:

> *The process by which assets devoted to charitable purpose are put to their proper purpose and <u>information</u> about their use is made available to.* (p. 13)

This definition is supported by Unerman & O' Dwyer (2006) who consider that the main purpose of accountability is
To provide mechanisms through which all those affected by an organisation's actions can demand an <u>account</u> from the managers of that organisation regarding how and why the organisation has acted in the manner it has (p. 351).

Importance of accountability
Accountability is seen as important for the charities sector in maintaining the confidence and financial support of the public by giving an account of charities' activities. As the charities sector plays such a rich and varied role in modern society the sector's continued success is dependent upon the public's trust and confidence in their work. However, Palmer and Randall's (2002) study found that trust in the charities sector is at an all time low. Their study found that 74% of the general public surveyed agreed that there needs to be tighter control over the laws governing charities' affairs and 41% considered that money given to charities would not go to the charities' beneficiaries. One response to these problems is to provide clear and open information about the use of monies and the benefit given to beneficiaries of resources used. In Australia the Senate Standing Committee on Economics (2008) consider that

> *It is in the public interest for* [charitable] *organisations to be more transparent and accountable, as they attract significant public funds through tax concessions.*

The importance of accountability in the charities sector is specifically seen in England and Wales where the Charity Commission has an objective to:

> *Enhance the accountability of charities to donors, beneficiaries and the general public (Charity Commission, 2009).*

New Zealand does not have a specific accountability objective for their Charities Commission but the Charities Commission in their publication of October 2009 on what constitutes an effective charity included accountability as one of the seven qualities of a charity:

> *An effective charity understands that the public has a valid interest in it, and manages its accountabilities to its stakeholders* (Charities Commission, 2009).

Accessible financial information
With accountability comes the requirement to discharge that accountability. Studies (Connolly & Hyndman, 2000; Connolly & Hyndman, 2004; Flack & Ryan, 2004; Steccolini, 2004; Connolly & Dhanani, 2009; van Staden & Heslop, 2009) have identified that one important mechanism in the discharge of accountability by charities is the furnishing of relevant, consistent and understandable financial information. England and Wales' Charity Commission consider that easy access to accurate and relevant information about organisations in the charities sector is essential for real accountability and for trust and confidence in the charities sector (Charity Commission, 2004).

In fact the concept of accountability seems inextricably linked with the view that financial information should provide information to satisfy the information needs of users (Unerman & O'Dwyer, 2006 & Fishman, 2007). This underlines the seminal definition of accounting as:

> *The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information* (American Accounting Association, 1966).

The American Accounting Association (1966) also developed five guidelines for communicating this information: (1) Appropriateness to expected use; (2) Disclosure of significant relationships; (3) Inclusion of environmental information; (4) Uniformity of practices within and among entities; and (5) Consistency of practices through time. The fourth guideline is particularly relevant to the charities sector as a study of 1,000 users of annual reports (Charity Commission, 2004) found that 60% of respondents considered the ability to compare important information between charitable organisations would affect their decision about which organisation to support (Charity Commission, 2004). This reinforces Connolly and Hyndman's (2001) supposition that the dissemination of accounting information can be an important and regular mechanism through which major aspects of accountability are discharged (Connolly & Hyndman, 2001). In particular, financial reports are generally recognised as key documents in the discharge of accountability to external users (Connolly & Hyndman, 2004).

Accessibility of financial reports has recently become possible in New Zealand where a charities register has been developed. This register will ultimately provide public access to the financial accounts of all registered charities (Charities Commission, 2006). As Brandeis (Fishman, 2007) said in 1914 "*sunlight is the best disinfectant*". This was reiterated by Fisher (2006a) who felt that opening the books will provide more transparency for contributors of charities. There is now an awakening to the problems with opacity as a result of scandals in charitable organisations (Palmer & Randall, 2002; Fremont-Smith, 2004; Cordery & Baskerville, 2005; Fishman, 2007; National Kidney Foundation Singapore, 2007; BDO International, 2008).

This paper is concerned with whether the different perspectives of accountability have an impact on the accessibility of charities' financial information. This paper puts forward three perspectives of accountability: agency, stewardship and stakeholder. Such perspectives are, it is argued, important because charities and other non-profit organisations (refer *Figure I*) not only employ USD millions in the western world (Salamon, et al, 2003) but also allocate huge resources, largely at the discretion of managers, and often without acceptable and transparent accountability as discharged by the furnishing of financial reports.

≠# $1.3 trillion in expenditures
– 5.1 percent of combined GDP

≠# 39.5 million FTE workforce, including 21.8 million paid workers and 12.6 million FTE volunteers
– 4.4 percent of economically active population
– 46 percent of public sector employment
– 10 times the employment in the utilities and textile industries in these countries

≠# 190 million people volunteering
– 221 volunteers per 1,000 adult population

Figure I: The scale of nonprofit activity in 25 countries (Salamon et al, 2003)

AGENCY

An agency relationship exists where one person, or entity, does something on behalf of another (Olson, 2000; Subrananiam, 2006). An agency relationship demands accountability to maintain credibility. According to Caldwell and Karri (2005) among American business organisations there is a growing lack of trust accompanied by public criticism and expectations of increased accountability. Olson (2000) considered that agency theory could be extended to charitable organisations if the board of directors have the power and duty to oversee the organisation. So that such expectations of better accountability apply also to charities but, in doing so; imply a shift in accountability perspectives. If charitable organisations are to run on more businesslike lines then managers of charities owe a duty of care to donors (principals) to maximise benefits, i.e. surplus, in accordance with the charity's goals, goals to which their principals are willing to give time and money.

In November 2002 the Methodist Mission in NZ discovered that an estimated NZ$160,000 had been stolen from its clients who entrusted the Mission with administration of their social welfare benefits (Cordery & Baskerville, 2005). To avoid such a scenario, charities may attempt to control managers by separation of duties, boards of trustees with independent members, and audited accounts (Baysinger & Hoskisson, 1990; Donaldson & Davis, 1991). Under an agency perspective some form of monitoring is the key to controlling managers, reducing costs, to ensuring managerial compliance with the goals of the organisation and discourage self serving objectives (Fama, 1980; Alam, 2006; Bracci, 2009). Agency theory is not often associated with the management of charities and one of the reasons is because it implies negative assumptions of agents, whereas many who operate charities do so for altruistic reasons and often for less than commercial reward rates. A perspective focused on altruistic reasons leads us to the stewardship approach to accountability will be considered next.

STEWARDSHIP

Advocates of the stewardship model maintain that managers who are stewards are most effective when given authority and discretion (Jones, 1995). Davis et al (1977) believe that

> *Because the steward perceives greater utility in cooperative behaviour and behaves accordingly, his or her behaviour can be considered rational* (p. 26).

Dicke (2002) suggests that an internal sense of responsibility is created when the core values of principals and agents converge as they generally do in the case of charities. Even when their interests diverge Heinrich (2007) observes that the milieu of stewardship still emphasises a collective and cooperative nature of interaction.

According to Lippincott and Aannestead (1964) many voluntary agencies originally grew without a plan and many still exist without adequate planning. Yet their conclusion is positive referring to, "*The great variety springing from this unplanned growth has shown itself, and still shows itself, to be more an asset than a liability*" (p.93).

Traditionally managers are seen as stewards, stewardship, then, employs a positive perspective and assumes managers are motivated in the best interests of principals (donors) (Davis et al 1997; Hung, 1998). The assumption is that managers that will perform well have a high utility and perceive greater utility with co-operative behaviour (Fox & Hamilton, 1994;

Bracci, 2009). Thus, stewards should be empowered with more authority and discretion and this can be obtained by allowing managers to be trustees or even to chair the board of trustees (Donaldson & Davis, 1991). Such managers will be free to determine strategic goals without fear of rebuke and censor from their trustees.

The stewardship focus on discretion and secrecy differs to a stakeholder approach which considers all stakeholders by being open, rather than secret. This approach is analysed next.

STAKEHOLDER

As an alternative perspective to agency and stewardship, Donaldson and Davis (1991) argue that managers should operate in situations where they both pursue the best interest of their principals and the needs of other stakeholders. Stakeholders are an individual, or group of individuals, who are affected by an organisation (Hung, 1998; Adams, 2004; Collier, 2008). Joseph (2007) highlights that this "*involves the use of resources by managers for other than short-term, shareholder wealth maximisation*" (p. 52). Collier (2008) considers that an absence of shareholders "*makes stakeholder theory a viable perspective from which to understand accountabilities to multiple stakeholders*" (p. 934)

Stakeholdership relegates the role of trustees as monitors of managers but rather sees the trustees as supporting the managers whose success will ensure stakeholder satisfaction. The assumption is that managers will try to meet the needs of all stakeholders and reconcile the conflicts of interest that occur between the organisation and the various stakeholder groups (Carroll & Buchholtz, 2009, p.27). The overall goal is to ensure organisations act fairly and ethically and that people are dealt with justly; not necessarily a goal for commercial organisations. According to Caldwell and Karri (2005), the relationship between managers and stakeholders imposes duties that are fulfilled by a network of implicit contracts based upon normative principles. The purpose of the organisation is to serve as a vehicle for coordinating stakeholder interests (Freeman and Evan, 1990; Alam, 2006).

The table below (refer *Table I*) represents a summary of the perspectives of accountability gleaned from the literature.

Characteristics	*Agency Perspectives*	*Stewardship Perspectives*	*Stakeholder Perspectives*
Philosophy	Self serving	Idealistic and altruistic	Pragmatic and open
Financial reports	Focus on short term benefits by maximising annual surplus	Minimal emphasis on financial reports as focus on long term benefits	Long term balance of stakeholder needs reflected in understandable financial reports
Staff	Require monitoring	Independent and self governing	Open

Table I: Characteristics of Perspectives of Accountability

There appears to be no specific research that considers the impact these three perspectives of accountability have on the accessibility of the financial information of charities which is the purpose of this research.

RESEARCH METHOD

The primary purpose of this study is to determine whether the different perspectives of accountability impact on the availability of the financial information of charities. To identify the most common practices, seventy-five interviews, informal conversations and follow-ups were conducted in New Zealand amongst charitable organisations.

Semi-structured interviews and informal conversation interviews were used as they provide the best possible understanding of the problems. As the people being interviewed are informants towards learning about activities which determines their particular perception of accountability. Informal conversational interviews were used as the study found that several participants preferred to talk informally rather than be formally interviewed.

Participants will be: (1) people involved in the preparation or auditing of the financial information of charities; (2) managers; (3) board members; and (4) experts in charities. Experts included heads of supporting organisations within the non-profit sector within New Zealand.

The research consists of seventy-five interviews comprising: twenty-two semi-structured interviews; seventeen informal conversations; and thirty-six follow-ups. The role of the participants is detailed in *Table II* below. Of the participants four were groups with approximately ten people in them. Of the managers two were also accountants and one was also a board member. Of the board members four were accountants and one was also a manager. Also several accountants and auditors were responsible for numerous charities. Hence, the researchers are unable to quantify the number or type of charitable organisations interviewed as some interviewees have links to several hundred charities whilst other interviewees only have links to one charity.

	Auditors Accountants	Managers	Board Members	Experts
New Zealand	17	8	12	10

Table II – Role of participants

The final stage was to analyse the interview data with particular emphasis on the constructions inherent in each interview. This was undertaken through an inductive thematic analysis and coding of the interview transcripts utilising NVivo. The findings covered in this paper emerged from the interview evidence and were defined after the researchers had worked with the interview evidence. The findings were themes that recurred in the interview evidence and were not anticipated and were added to the preset categories of research questions conducted as part of a wider research project. The empirical findings that emerged from this are analysed next.

PERSPECTIVES OF ACCOUNTABILITY

It is hard to specifically ask interviewees what perspectives of accountability they have for as Butler (Messner, 2009) comments

> *Sometimes the reasons why somebody has taken a particular course of action are not entirely clear to this person herself* (p 919).

Thus the range of perspectives of accountability for all charitable organisations from agency through stakeholder to stewardship was seen in the actions of interviewees' which were analysed according to the literature summarised in *Table I.*

Agency perspectives

Some charities have gone down the business route by registering as a company and thus consider there is no need to prove they have met their charitable purpose as seen by one interviewee:

> *I wrote to X and asked them if I could please have a copy of their accounts because they were a limited liability company with charitable purposes. They wrote back to me very nicely and said we're not going to give you the accounts because you're not a shareholder. They argue commercial sensitivity, we are a company, we're not required to disclose.*
>
> *If you read the history of X, and see the basis on which it was founded and look at it today, it's chalk and cheese. So somewhere along the line [pause] they've just said, we're just a business.*

The agency focus on maximising annual profit was seen in one charity where a surplus was consistently made contradicting the altruistic nature of the charity:

> *An accountant who I think probably was an excellent accountant* [however] *he kept generating all these surpluses… his [altruism] was unbelievably appalling.*

This nearly led to a constructive dismissal situation that the charity found itself in for as the above interviewee further elaborated:

> *The guy with the* [surplus]*, I think it's because he was squeezing it out of the staff. And the staffing levels had stayed the same through at least a 30% increase in volume I think the staff did have legitimate concerns about that.*

The result more of a commercial (agency) perspective than an altruistic stewardship perspective which will be considered next.

Stewardship Perspectives

In New Zealand there are several regional centres which operate a stewardship style of accountability. These regional centres are part funded by the government and loosely federated into a national body. According to the managers interviewed in two of these regional centres each centre sees itself as self governing and no attempt at consolidation of accounts at a national level is undertaken, even though the Government, a major funding stakeholder, wants financial reports on a national basis.

> *A combined report doesn't tell anyone anything. We pride ourselves on our independence including how we do our financial reporting. We even have different financial years.*

Another interviewee was uncomfortable with disclosing what the charity's activities were as:

> *It [registration] wouldn't provide any more advantages to X …. but would place a disproportionate amount of compliance in terms of disclosures.*

Interestingly, the charities' managers admit to deliberately arranging the accounts to look selectively poor so as to get lottery grants. Asset income is transferred to a charitable trust, which is off-balance sheet:

> *We didn't want to attract people to our organisation because they think they're going to get a finger in dealing with this money. We put (the money) into a trust with the same objectives.*

Independence is enhanced because, apart from the Government, other stakeholders seem indifferent:

Hardly any stakeholders pay any attention to our financial reports as far as we can tell. Which is partly why [charitable] *organisations resent the time spent on them.*

In fact some interviewees from religious organisations consider that there is no need to provide financial information as they have sufficient accountability

Because it's [financial information] *very sensitive information. It just depends on how it's being managed, because a group of churches are accountable to a higher level [God] and it's [pause] our church, our money.*

These exemplars of accountability by stewardship are characterised by authority and discretion being vested in the local managers. This is encaptured by an interviewee who was told by a charity that this:

Is a private business [pause] it's none of your business, I'm not going to tell you anything about it. Once the money comes into our hands what we do with it it's our business and nobody else's.

That such a perspective of accountability may promote uncommercial, in financial reporting terms, and unconventional attitudes is not surprising given the reliance on volunteers possessing the necessary philanthropic qualities. The basis of trust in stewards is integrity not competence. But as one interviewee highlights this is not always the case:

But you're soliciting funds from the public. The public look at charities and they have this perception of an honest, trustworthy organisation. That's not always necessarily the case.

Some interviewees consider that the charity was "their" charity and any funds belonged to their cause:

We've poured tonnes of voluntary time into making this work, and we would be furious if another group came along …. but had very different politics and took what we consider that we've built up through all this time off in some direction we didn't agree with.

This view was also seen in another charity where an interviewee found:

They had a lot of personal ownership in it unfortunately. They'd been around for a wee while and it had got to the point in my opinion where they [pause] you know, they felt that they'd generated that money themselves; they had a real personal link to it. Um [pause] and they forgot the whole point of it is to assist [beneficiaries].

But they [the board] *had some bizarre things like* [they] *can effectively call a meeting and make a decision that overrides members. So I went along to an AGM one time and what had actually happened, a small group of X had got together before the AGM [pause] and set a motion that they wouldn't count proxy votes. So all these people turned up with proxy votes to be told that no, sorry, your votes won't count. Well they could get a number of people on to the Board that they wanted on to the Board. They could put through things at the AGM that they wanted to get through and they basically cooked the books.*

Thus the disadvantage of such independent stewardship is that the interests of all stakeholders might not necessarily be served and conflicts of interests are allowed to grow which leads to a need for a more stakeholder milieu of accountability.

Stakeholder perspectives

Charities engaged in a stakeholder perception of accountability included national organisations with regional subsidiaries. In one incorporated society the Regional centres are the members of the national body. As one interviewee said

> *The* (national body) *is run by a governance group and that governance group has one representative from each regional centre*.

In this case the key role of the national body is to obtain a government grant that can be distributed to the regional centres i.e. looking after their stakeholders.

In a religious national body an interviewee implemented strict governance that ensured monies were spent "c*onsistent with the objectives of the* (national body)". Controls ensured stakeholders had clear information:

> *To have that trust* (to spend money appropriately) *is good; to back that trust up with a system that compliments it*.

These controls also ensured that he was protected:

> *I also wanted to protect myself. Other Treasurers before me had been blamed or been accused of using money inappropriately.*

The interviewee did highlight the issue that a lot of religious organisations have with control:

> *But it has been a common saying within the Church, well God is our auditor. And so [pause] you know, how can you go wrong because this is God's money…..* [That] *is a convenient excuse.*

One interviewee considered their role was to provide understandable financial reports as expressed by the following:

> *I mean I'm really [pause] keen to try and make the reports [pause] easily understood by our key stakeholder group.*

One religious organisation has started the journey towards clearer financial reporting by moving from a stewardship "secret" view of financial information to a more open stakeholder perception:

> *I'd say the financial statements now make a meaningful story rather than just technically getting them compliant,* [according to accounting standards] *and is headed towards communicating information far better*.

However, the interviewee made the interesting statement with regards to the availability of financial information *"there's never been any demand*". This treasurer was changing the accounts to better reflect the stakeholder nature of the organisation's mission even though the stakeholders were not interested in seeing the financial reports.

This view was also seen in another religious organisation where an interviewee has changed the financial reporting because he "*wants more transparency*". When asked what the donors thought about the changes:

> [They] *would have no idea what has been done…The old school was that you don't need to tell them what you don't want them to know.*

The interviewee considered that "*because they* (the parishioners) *don't know, I feel more accountable and want to show them what they need to know*". He elaborates this further to say "*if you are expecting people to give you money, then you should be telling them how the money is being spent.* He considers that "*accounting is all about accountability, it's not about* *trust"* and there is a need for credibility "*I wanted to make sure that there are no questionable practices… true and fair basically."*

Another interviewee moved financial information from being available to only a few people to making it available to all relevant stakeholders:

> *The biggest problem within this charity was the lack of communication. If you don't communicate, you end up with a little clique knowing what's going on and therefore holding onto the power….. I was told that I would report via one particular member of the executive, and I said no. I'm going to send all of you a weekly report every week, and you're all going to know. We're not going to have any of that nonsense.*

An example that shows the tension between stakeholder and stewardship perspectives relates to a national body. In this case, there was a clash between the Chairman and the Treasurer who considers that the organisation's constitution purpose was to "*provide a service to members".* The Treasurer had a pragmatic view that all financial information needed to be justified to satisfy members (stakeholders), in this case regional associates, "*Accounting and reporting is a fact that must be supported by evidence*". However, this differed from the Chairman's view who considered the stewardship nature of the organisation and that the Board should not be interfering with operational matters such as financial information as "*it was considered to be operational and none of the Board's business*." Rather idealistic considering the previous Chief Executive had been sacked for not doing his job. In this case the tension between stakeholder and stewardship perspectives could not be resolved and the Treasurer with the stakeholder perspective resigned.

However, Messner (2009) criticises stakeholder theory for failing to specify how the different objectives of stakeholders should be "*traded off*" (p. 932). This is referred to by this interviewee:

> *Nobody ever can agree with each other, nobody was willing to delegate to anybody else, let's just all sit at the table because we're not good at making decisions anyway and we all have different objectives the point is to try and make the* [charity] *work.*

DISCUSSION

The main theme that emerged from the interview milieus of accountability perspectives is the lack of accessible and understandable financial reports in the agency and stewardship perspectives of accountability and the resultant importance of the stakeholder perspective of accountability in charities.

In France some charitable organisations seek to be secretive and such secrecy is recognised in the report of the European Foundation Centre (2007) which observes in its recommendations:

> *Strive for transparency in your decision-making and operations in your international philanthropy, but recognise that there may be circumstances in which it may be prudent to keep certain information confidential* (p. 17).

This suggestion is very much from a stewardship perspective that managers should exercise discretion coupled with the assumption that managers of charitable organisations are well meaning. Such an assumption is not shared by all. In fact, Heinrich's (2000) study of job training service providers finds services of for-profit providers superior for disadvantaged participants and neither non-profit nor for-profit providers are more effective in producing outcomes. Further, Marvel and Marvel (2007) point out that there seems to be an assumption that non-profit providers are more trustworthy and thus contracting governments monitor non-profits less when they are delivering the same programme as others. Such a lack of oversight and confidence in non-profits by government is observed further by Marvel and Marvel (2008).

Several interviewees highlighted the possessiveness they felt over "their" charity justifying this due to the fact that they have put so much time into the charity so they didn't want someone coming along and "taking" the charity from them. This has resulted in charities deliberating looking poor so as to not attract attention by, for example, capitalising specific sources of incomes into separate trusts which are not consolidated (Sinclair, Hooper & Lai, 2009). This supports Eisenberg's (2005) view regarding:

> *The arrogance of [charities] who regard their assets as 'our money'. That perception explains why the [charitable] community is plagued by problems of widespread – often large trustee fees, excessive compensation, self-dealing, conflicts of interest and the absence of transparency* (p. 10).

It was also recently seen in New Zealand in a recent television interview (Television New Zealand, 4 January 2010) regarding the "firing" of volunteers from the Cancer Society. The volunteers were fired after asking for a breakdown of funds from the "Relay of Life" event that they were involved in organising. The volunteers said that:

> *We are not suggesting any financial wrongdoing, but after decades of volunteering between them, they felt they had earnt the right to ask.*

The agency problem is one of asymmetric information that is donors only know what managers want them to know – hence opacity. Moreover, agency theory assumes humans are self-interested and prone to opportunism (Eisenhardt, 1989). The moral hazard for charities is that donors don't know what they don't know and cannot observe hidden actions. Donors cannot monitor the performance of charity managers and such restricted knowledge makes it possible for managers to pursue their own interests, which may take the form of doing the least work for the maximum pay, consuming excess perks or making themselves difficult to remove (Smith, McTier & Richmond Pope, 2009). There is a need to guard against self interests with "*human beings acting as purely economic agents*" (Messner, 2009).

An agency perspective of accountability, which seeks to maximise short term gains, serve the self-interest of the principal stakeholder while necessarily monitoring employees who are presumed to seek the maximum reward for the minimum output would be to deny the title of 'charity' and a contradiction in terms. In fact Ellwood and Newbury (2006) consider that this 'wealth creation' is incomprehensible in the public benefit context. However, Olson (2000) considered extending the definition of ownership to include psychological ownership where members of the board may feel a greater sense of ownership to the charity. This would cause them to act more like principals than agents. However, Jensen and Meckling (1976) consider that the problem of inducing 'agents' to behave as if they were maximising the 'principal's welfare can be a problem.

The drawback of an agency perception to accountability is, as Caldwell and Karri (2005) believe an accountability approach typified by an agency model is expensive especially for small charities and tends to focus on short term results, while what is needed is a system based on trust. This was supported by Heather Newell (Radio New Zealand, 2009a):

> *For the smaller organisations, I think that the amount of investment that might be required in asking them [charities] to be accountable vastly exceeds the amount of money that they want or need*.

This move towards a more "commercial" view has been around for a while as can be seen in Weisbrod's (1997) comment that:

> *Charities are doing things not customarily identified with the genteel approaches of benevolent organizations. Charities are bringing lawsuits for breach of contract against people who pledge donations but do not fulfil them.*

This supports Brown and Purushothama's (2005) view that a conflict exists between philanthropy and self interest. They cite the Australian Aid Council which accredits Australian aid programmes as being captured by financial specialists who seek from NGOs agency type accountability "*but in reality props up self-interest groups*" (p. 131). They suggest that given this type of financial milieu, it is difficult to divorce commercialism from humanitarianism – the Australian Aid Council imposes:

> *A corporate agenda whereby it is forced to oppose un-commercial philanthropic agencies whose compassion and altruism and good to humankind may outstrip those of their accredited counterparts* (p. 134).

The thrust of their argument is that by applying agency theory to NGOs the altruistic benefits of stewardship is lost.

The stewardship perspective of accountability is also problematic. In particular the failure of the stewardship model to communicate widely with all stakeholders is often driven by fear of being challenged and/or limitations of time and resources. There is always a darker side that of facilitating fraud but such events may happen in any type of organisation. What is more likely is that those in a position of discretionary stewardship may use funds in ways which could be controversial if all stakeholders were aware of such employment of resources. To conceal funds a variety of quasi-legal accounting techniques can be used hide resources (Hooper et al, 2008; Sinclair et al, 2009). In Europe there is a fear that some religious charities may find a secret way to channel money to terrorists (Breen, 2008).

The empirical and theoretical contributions of this paper highlight the different perspectives of accountability. An agency perspective is largely ruled out as it is suited to commercial operations emphasised by a focus on the "bottom line" i.e. surplus. Moreover, the practice of rewarding managers for short term achievements and penalising those whose short term performance is negative hardly matches the longer term perspective held by most charities on making a difference in the lives of their beneficiaries. With a staff of volunteers or low paid workers, many charities rely on the idealism of their staff or volunteers. The stakeholder perspective with its resulting idealism has worked well for charities tapping staff enthusiasm, belief in the cause and desire to do good works. Unfortunately, for many in charitable organisations, the resource and time demands of accountability often seem unnecessary distractions and this poses a problem.

To temper idealism with pragmatism by means of education is a way forward to resolve this issue by advancing the stakeholder perspective of accountability. Managers of charities need to be made aware that they have stakeholders who may want more transparency and accountability. The refrain, echoed by many of the managers interviewed, that stakeholders do not pay any attention to financials may be true of many but it remains for most managers a very convenient truth. As Trevor Garrett, Chief Executive Office of the NZ Charities Commission (Radio New Zealand, 2009b) stated on radio

> *"Many charities have never made information about themselves public, which is a pity, because there should be a relationship between the charity and the people giving the money. But as people start to look at those accounts, they're going to start to ask questions."*

Unfortunately educational approaches may not be sufficient to resolve the problem and there is a need for more legislation spelling out what the obligations of good financial reporting are in terms of discharging accountability from a stakeholder perspective. The absence of transparent financial information to discharge accountability makes the likelihood of ineffective actions by a charitable organisation become more probable. This is supported by Eisenberg (2008) who states

> *Non-profits are fighting hard against more regulation and scrutiny, but self-reform, however attractive to a self-indulgent charity community, is not an adequate substitute for tougher regulations and enforcement.*

So if the charity has weak accountability, management might have limited incentive to manage the charity's funds efficiently and effectively by ensuring they have made a positive difference in their beneficiaries' lives.

The focus on considering whether beneficiaries' needs are met is an importance facet of the stakeholder perspective of accountability. This is shown in the quote by Ken Berger, the Chief Executive Officer of Charity Navigator (http://www.charitynavigator.org) which, consider themselves America's premier independent charity evaluator who says:

> *"We must get past the notion of doing "good work" with no accountability. We must get past the idea that nonprofits are too complex or unique to be measured. The nonprofit sector must get its act together and make sure it is really helping provide meaningful change in communities and peoples' lives. It is life or death for many of those we serve whether we are effective or not."* (Berger, 2009)

Before more accountability is imposed more research is needed to examine the perspectives and experiences of those involved to ensure that accountability does not detract, but rather supports, the missions of charitable organisations. For as stakeholders, especially donors, become sued to accessing detailed information on the impact the charity is making donors will demand the same access and detail from others within the charitable sector which could result in a lowering of support for charities that do not discharge stakeholder accountability appropriately.

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