Exploring the Extent and Nature of Principal-Agent Theory in Charitable Organisations

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Declaration

This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

Signed: Tom Neal

Date: 18/02/19

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Abstract

The non-profit sector is seeing increased attention in academic accounting literature. Recent papers have sought to examine the relevance of principal-agent theory to the sector, in contrast to its more traditional, for-profit context. Here, this dialogue is continued with an examination of principal-agent theory in Scottish charitable organisations. Agency, stewardship and stakeholder theories, together with social entrepreneurship and entrepreneurial orientation are examined, in order to gain greater understanding of charitable organisations.

This study is comprised of two interview stages held with representatives from traditional charities. The first, unstructured stage, along with the literature review, serves to determine the key issues facing the sector. From this, four research questions are outlined. These research questions are considered in relation to the second, semi-structured interview stage. The developed research questions address the balancing of social and financial objectives, charity accountability, the extent and nature of social entrepreneurship and the usefulness of entrepreneurial thinking. The subsequent analysis takes four separate 'components' of principal-agent theory and social entrepreneurship, each corresponding to one of the four developed research questions.

The analysis from this research finds conflicting evidence relating to the relevance, or importance, of agency and stewardship towards social entrepreneurship. Key concepts of social entrepreneurship, including risk, innovation and personal ambition, are found to be strengths of agency orientated individuals. By contrast, blended value and a heightened sense of accountability are found to be strengths of stewardship orientated individuals. This study takes inspiration from this previous research in order to develop

a unique analytical framework that incorporates a number of existing concepts and theories. The conclusion that can be drawn from is that principal-agent theory can offer insight into the charity sector and can act as a facilitating framework through which we can examine the individuals and relationships that exist.

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Chapter 1: Introduction

1.1: Research Introduction and Background

With 167,972[1] charities operating across the UK as of March 2018, and an estimated annual income of £76 billion, the sector represents a significant component of the UK economy. Hyndman and McMahon (2010) describe it as being a proxy for the overall health of society, due to its provision of employment and public services. When times are good (wages rising, inflation and unemployment low etc.) people donate more and organisations can expect greater financial support from the government. When times are tough, people are less willing or able to donate and there is a greater demand for the services charities and social enterprises provide. However, their involvement in the economy is not at the optimal level in the market, with expenditure reflecting 'social (production) costs, not social (market) value' (Wadongo and Abdel-Kader, 2014). This makes assessment of their impact on society all the more difficult.

The traditional entrepreneurial model does not work well with non-profit organisations. Casson (1996) states that firms look to be profit maximisers. In the non-profit context, the social entrepreneur seeks to maximise *utility*, provided they can continue as a going concern and remain financially sustainable. For example, job creation or a better environmental impact could be positive externalities which create immeasurable social value for the community (Varian, 2010). A charity or social enterprise will embrace positive externalities created by their existence. This is one way

[1] https://www.gov.uk/government/publications/charity-register-statistics/recent-charity-register-statistics-charity-commission

we can distinguish the non-profit sector from its for-profit counterpart. However, both seek to accomplish short term and long term goals on behalf of their stakeholders. A social entrepreneur recognises a social problem and uses entrepreneurial practices to implement social change (Mair *et al*., 2006); whereas private entrepreneurs typically measure performance in terms of profit and return, social entrepreneurs calculate their success in terms of their impact on society and financial sustainability.

Although the roots of social entrepreneurship are deep, the topic has only relatively recently attracted academic interest. While accounting and accountability practices have been developed for the private and public sectors, established frameworks do not naturally extend to other types of organisation. For example, the principal-agent model has been comprehensively studied within a private sector context but has seen limited non-profit research. Steinberg (2010) argues that the model is not suited for non-profit organisations due to multiple stakeholders complicating the link between agents and principals. However, others have adapted the model by incorporating other, existing theories. For example, Puyvelde *et al*. (2011) include stakeholder theory and stewardship theory in order to make the model more relevant for the complex stakeholder relationships that exist in non-profits. Several other authors have applied either agency theory, stewardship theory or a combination of both to non-profit organisations (see: Bacq *et al*. (2015); Caers *et al*. (2006); Davis *et al*. (1997); Fama and Jensen (1983); Tosi *et al*. (2003)).

This study takes inspiration from this previous research in order to develop a unique analytical framework that incorporates a number of existing concepts and theories. It seeks to examine the relevance of entrepreneurial thinking in charitable organisations and its relationship with accountability and reporting practices, through a principal-agent model that incorporates stakeholder theory and social entrepreneurship. Taking the lead from a number of papers on these theories (see: Bacq *et al*. (2015); Bendickson *et al*. (2015); Caers *et al*. (2006); Puyvelde *et al*. (2011)), a new way is created of looking at non-profit organisations, their structures and the people involved. This is done through in-depth, qualitative research with representatives from traditional charities.

1.2: Research Objectives

The main discussion and analysis in this study seeks to address several research questions that concern social entrepreneurship, social impact reporting and charity accountability. These questions also form the framework for the study's analysis. The research questions are presented in Table 1.1.

The answers to these research questions are considered using several different existing theories. These theories are: agency, stewardship, stakeholder and social entrepreneurship. Taking the lead from previous research on non-profit principal-agent theory, the findings from this research are used to develop a principal-agent model for the charity sector. Using this range of theories, a better explanation for the points of interest detailed in Table 1.2 can be obtained. Furthermore, the 'entrepreneurial mind-sets' of non-profit sector participants, explained in Chapter 4, are studied. In order to do this, four 'components' are considered, including: blended value reporting; information asymmetry, approach to risk and innovation and management responsibilities. Each of these correspond to a research question, as shown in Table 1.2. In Chapter 8, the research questions are answered using these components, which were developed based on the literature review and the initial, unstructured interview stage. The four model components constitute the structure of the analysis.

Table 1.1: Research questions

Question Number	Question Title
One	How do agents/stewards balance their social objectives with financial demands?
Two	In what ways is accountability shown within the sector?
Three	To what extent is entrepreneurship evident within the sector?
Four	In what ways can entrepreneurial thinking benefit the social cause?

Table 1.2: Analysis structure and considerations

Research Question	Principal-Agent Model - Components
One	Blended value reporting
Two	Information asymmetry
Three	Approach to risk and innovation
Four	Management responsibilities

1.3: Research Design

As this study takes a largely exploratory approach, a qualitative methodology was adopted for the data collection. The research is made up face-to-face unstructured and semi-structured interviews with charity sector participants. This is followed by a theoretical discussion of the findings made and the detailing of a principal-agent model for the charity sector. Finally, a case study analysis of two interviewees, using this principal-agent model, is presented. Here their responses are considered in greater detail.

The first, unstructured interview stage was conducted with individuals who are connected to the charity sector but do not directly work for such an organisation. These respondents work for the Office of the Scottish Charity Regulator (OSCR) and a non-profit support organisation responsible for helping non-profits with management, reporting and marketing. The findings from this stage are considered within the context of prior literature, discussed in chapters 2, 3 and 4, and helped formulate the second stage of the research process. The questioning here was intentionally broad; following an agenda of the main topics of interest.

The second, semi-structured interview stage was conducted with a variety of people working for non-profit organisations at all levels. The questionnaire used for these interviews was developed based on both prior literature and the unstructured interview findings. The findings of these interviews are then analysed and considered in a theoretical discussion, in which an analytical framework is built based on these interviews. The framework is a principal-agent model which incorporates several theories, including agency, stewardship, stakeholder and social entrepreneurship. This framework is then used to discuss two in-depth case studies, which look at the responses of two participants in greater detail. Theory from literature and earlier parts of the study are used as the basis for the analysis in this final part of the research.

1.4: Research Contributions

This study aims to build on previous academic literature and help develop an analytical framework for non-profit accounting and governance research. In order to achieve this, several existing theories are incorporated, including: principal-agent theory, stakeholder theory and social entrepreneurship. This framework can contribute towards explaining the relationships that exist between non-profit management and the organisation's various stakeholders, as well as establishing who these stakeholders are. Thus, this study explores and examines the boundaries of agency theory, adopting alternative theories when appropriate for the discussion, including stewardship theory and stakeholder theory. Prior research explored by other studies is considered and built upon, particularly those concerning the relevance of agency and stewardship theories to the non-profit sector.

In addition, contributions are made to the longstanding debate over the definition of social entrepreneurship. Findings here contribute towards previous views and perspectives, in order to see how participants of the sector interpret its meaning relative to prior academic definitions. Furthermore, this study seeks to provide evidence of social entrepreneurship in practice. Qualitative data gathered here is used to examine the existence and nature of social entrepreneurship in the charity sector.

1.5: Thesis Organisation

This thesis is organised into nine separate chapters. Chapters 2, 3 and 4 collectively provide a critical literature review of non-profit research in social entrepreneurship, accounting and accountability. Each chapter concludes with a discussion on how the research question's emerged from the literature, in order to demonstrate a clear link between prior studies and this research. Chapters 5 explains the research methodology used in this study and justifies the approach taken. Chapters 6 presents and the unstructured interview stage findings and analyses them in relation to the literature review. Chapter 7 presents the semi structured interview stage. This is organised based upon the developed research questions. Chapter 8 analyses these findings and discusses illustrative two case studies based on the developed theory. Chapter 9 concludes the study and offers final thoughts on the research. In the next chapter, the critical literature review on social entrepreneurship is presented.

Chapter 2: Entrepreneurial Thinking and Charities

2.1: Introduction

This chapter explores the role of entrepreneurship in non-profit organisations. First, the term ‘social entrepreneurship’ is discussed, including the difficulties in determining what is meant by it. Its application within both the private and non-profit sectors are considered, including practical research on its existence within organisations. This is followed, in part 2.3, by a discussion of social enterprises, a relatively new type of organisation. Key differences between them and other non-profit entities are studied. Part 2.4 then looks at entrepreneurial orientation (EO) within a non-profit context. While the majority of EO research has aimed to analyse it in firms, a small number of papers have tried to determine how useful it can be within non-profit sector organisations in order to see whether key business traits can be successfully applied to non-profit strategy. The last part explores the disadvantages of adopting entrepreneurial thinking or social entrepreneurship in the non-profit sector.

2.2: Social Entrepreneurship

2.2.1: The Debate on its Definition

Despite increased attention in recent years (Hemingway, 2005), the term ‘social entrepreneurship’ remains undefinable (Choi and Majumdar, 2013). Several competing ideas exist for what it means, however, a consensus amongst writers and academics continues to elude. For example, Mair and Marti (2004) say that both ‘social’ and ‘entrepreneurship’ are ambiguous words, inevitably leading to difficulties in defining a combination of the two. Roberts and Woods (2006) state that the difficulty in labelling the phrase can be attributed to its relatively recent introduction in everyday language. Zahra *et al*. (2009) contend that the term encompasses economic and social outcomes, and that the problem lies in defining what is meant by the latter. Day and Jean-Denis (2016) suggest a lack of 'construct legitimacy' and 'poorly defined theoretical content' (p.66) are holding the field back, much in the way entrepreneurship was held back during its early development. These are only some of the reasons for why pinning down a definition has proved so difficult.

While some may see social entrepreneurs as being more interested in the practical impact of their actions rather than understanding the term's academic meaning, Dato-on and Kalakay (2016) argue that social entrepreneurs are 'thinkers and doers, as well as the users and contributors to social entrepreneurship research'. This view is also taken by Martin and Osberg (2015), who note that participants in the field are interested in 'intelligent trial, error and theory-building' (p.6). Acknowledging the importance of alternative entrepreneurship theories, a number of academic researchers, such as Shepherd (2015), have called for additional study in the field beyond a financial context. In light of this, academic research into social entrepreneurship's meaning has been consistently developed over the past twenty years.

Austin et al. (2006) describes how the concept of social entrepreneurship was still being developed and had yet to be fully considered or understood. Because of these difficulties, a significant amount of research has been carried out on social entrepreneurship; not only in its application within the commercial and non-profit sectors, but also in understanding its meaning, too. More recently, Choi and Majumdar

(2013) discuss a number of these competing ideas (see: Borschee and McClurg, 2003; Dees, 1998, 2003; Martin and Osberg, 2007; Nicholls, 2010; Seelos and Mair, 2005).

One of the earliest definitions of social entrepreneurship is provided by Dees (1998), who uses the following criteria as a starting point:

1. Adopting a mission to create and sustain social value (not just private value)
2. Recognizing and relentlessly pursuing new opportunities to serve that mission
3. Engaging in a process of continuous innovation, adaption, and learning
4. Acting boldly without being limited by resources currently in hand, and
5. Exhibiting heightened accountability to the constituencies served for the outcomes created

(Dees, 1998, p.4)

Describing this as an ideal definition, Dees (1998) states that it is not necessary to fulfil all five of these to be labelled a social entrepreneur. However, the closer a person is to meeting this criteria, the more appropriate the term becomes. The similarities with traditional entrepreneurship are evident; pursuing opportunities, education and innovation are important elements of establishing a new business. The only real distinction to be made is the aim to create social value, as opposed to solely pursuing private (financial) value. Therefore, according to Dees (1998), social entrepreneurs are fundamentally very similar to their traditional counterparts. Any differences between the two exist because of the context in which they operate (i.e. the non-profit vs. the private sector).

Others have criticised the perspective taken by Dees (1998). For example, Borschee and McClurg (2003) state that in order to fulfil the entrepreneurship part, the organisation in question must be generating earned income. In other words, the acceptance of grants or large donations does not allow an individual to describe themselves as a social entrepreneur. Even if good things are achieved with the funding, the organisation is not ‘sustainable or self-sufficient’ and would be ‘innovative, not entrepreneurial’ (Borschee and McClurg, 2003, p.3). The authors take issue with the criteria provided by Dees (1998), arguing that it is not enough on its own. They describe the absence of earned income from the definition to be ‘conceptually flawed’ and ‘psychologically crippling’ (Borschee and McClurg, 2003, p.4). A traditional entrepreneur would be expected to create a sustainable business that is not dependent upon capital injections; therefore, social entrepreneurship should be no different. Subsequently, it could be argued that detractors of Dees (1998) essentially hold the same view; that the two types of entrepreneurship are fundamentally the same in terms of income.

In 2003, Dees responded to his critics in a further article. Here, he reinforced his view that social entrepreneurship and earned income were not inextricably linked, feeling that it focuses too much on inputs (i.e. resources needed to operate) and not enough on social outcomes. Dees (2003) goes on to say that a fixation on income risks equating profits with social performance, which, in his view, can never be done. A social entrepreneur should be judged on *what* they achieve (outcomes) and not *how* they have achieved it (inputs). In other words, the source of the income is irrelevant when judging an individual’s contribution to social value. As Galera and Borzaga (2009, p.211) point out, not all authors agree (Dees amongst them) that ‘the carrying out of economic activity in a continuous and stable manner’ is required for the social entrepreneurship label. A more recent commentary by Cantaragiu and Hadad (2017) describes the early definition given by Dees (1998) as being ‘inclusive’, in contrast to the ‘business’ point of view taken by Borschee and McClurg (2003).

Borschee and McClurg (2003) and Dees (1998, 2003) represent two polarising views on social entrepreneurship, and alone are enough to demonstrate why the term is so difficult to define. However, many other contributions have also been made to the debate. Perhaps the most simple and straightforward definition has been given as '…entrepreneurial activity with an embedded social purpose' (Austin *et al.*, 2006, p.1). Using this broad definition, the term can be applied to the pursuit of social value creation in any sector. It need not only relate to non-profit organisations, as 'social purpose' could apply to individuals working in private organisations, too. Roberts and Woods (2005) refer to it as the '…application of entrepreneurship in the social sphere' (p.46). This differs slightly from the definition provided by Austin *et al*. (2006), instead keeping the focus on the non-profit sector. More broadly, Chell (2007, p.18) defines entrepreneurship as 'recognising and pursuing opportunities with regard to the alienable and inalienable resources currently controlled with a view to value creation'. This allows scope for financial *and* social value, negating the use of the word 'social'. The term entrepreneurship here is applicable to both economic and social activities.

Martin and Osberg (2007) first attempt to define 'entrepreneurship' and highlight a notable point with regards to it; it is only through success that individuals find themselves being labelled entrepreneurs. Failure i.e. investing in a new business which subsequently goes bankrupt, does not entitle a person to describe his or herself as an 'entrepreneur'. Adding the word 'social' would imply the same; the failure to achieve social objectives would deny that individual the opportunity to label themselves as a social entrepreneur. Therefore, the non-profit's aims are twofold; to achieve some sort of social goal and maintain long term financial stability.

Martin and Osberg (2007), like Dees (1998), also attempt to break down social entrepreneurship in order to understand it. They provide three components which could be used to measure how closely an individual suits the term:

1. Identifying a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit of its own.
2. Identifying an opportunity in this unjust equilibrium, developing a social value proposition, bringing to bear inspiration, creativity, direct action, courage, and fortitude, thereby challenging the stable state's hegemony.
3. Forging a new, stable equilibrium that releases trapped potential or alleviates the suffering of the targeted group, and through imitation and the creation of a stable ecosystem around the new equilibrium ensuring a better future for the targeted group and even society at large.

(Martin and Osberg, 2007, p.35)

The point made by Martin and Osberg (2007) that social entrepreneurs exist to solve some sort of social inequality, is an example of a solution to market failure. This is a theory also considered by Austin *et al*. (2006). Market forces, and by extension traditional entrepreneurs, will not intervene as there is no financial incentive to do so. A social entrepreneur would however see this opportunity to create social value, much in the same way that a private sector entrepreneur would see a market gap as an opportunity to create economic value. According to Haugh and Talwar (2016), social change is key to understanding the term's meaning.

Another notable point is that Martin and Osberg (2007) do not mention economic value creation within their definition. The focus appears to be entirely on the social purpose. This perspective is distinct from Dees (1998), who does include economic value. However, both agree on the focus on outcomes, not the financial inputs required to achieve them. Furthermore, Martin and Osberg (2007) do not see the similarities between entrepreneurship and social entrepreneurship being merely financial, arguing that money is not the sole motivation behind every entrepreneur's ambitions (for example, they may wish to be self-employed). However, both types of organisation have economic responsibilities. It may not be the primary objective, but financial stability is crucial for any organisation's long term survival, regardless of why it exists:

> 'Non-profit entrepreneurs are utility maximizers within a financial constraint.' (Auteri, 2003, p.181).

Seelos and Mair (2005) state that the challenge with understanding social entrepreneurship is tackling the 'social' part, and interpreting what is meant by it. Similarly, Lortie and Cox (2018) state that the social part is what 'differentiates and most clearly delineates social entrepreneurship as a unique sub-field of traditional entrepreneurship (p.2). The authors say that few dispute the definition of entrepreneurship (though Mair and Marti (2004) have described the term as also being ambiguous); it is the addition of 'social' which creates the controversy. Their definition of social entrepreneurship is as follows:

> 'Social entrepreneurship creates new models for the provision of products and services that cater directly to basic human needs that remain unsatisfied by current economic or social institutions.' (Seelos and Mair, 2005, p.243-244)

This description shares much in common with business entrepreneurship, as any new enterprise is there to fill a market gap not addressed by existing organisations. This is the point about market failure discussed earlier. An entrepreneur will take advantage of an opportunity, a gap, to create value. For the social entrepreneur, the process itself is identical; an opportunity to create value is observed and seized upon. The distinction lies in the nature of the outcome achieved. Any goal to create economic value is secondary and exists only to allow the organisation to continue operating as a going concern (Seelos and Mair, 2005). As Dees (1998) states: 'Wealth is just a means to an end for social entrepreneurs' (p.3). Social achievements need not be the preserve of social organisations, however. Reynolds *et al*. (2002) acknowledge that traditional enterprise provides a social benefit in the form of job creation. Therefore, an overlap exists for both economic and social value creation, the difference lies in which commercial and non-profit organisations seek to prioritise.

Roberts and Woods (2005) offer a definition they describe as bringing together academic and practitioner perspectives:

> 'Social entrepreneurship is the construction, evaluation and pursuit of opportunities for transformative social change carried out by visionary, passionately dedicated individuals.' (Roberts and Woods, 2005, p.49)

Here, the authors contend that the term social entrepreneurship need not only apply to the non-profit sector. The development of social accounting and the double/triple bottom line has helped reduce the distinction between sectors. Social entrepreneurship could also be applicable to commercial enterprises who adopt practises that are not financially motivated (a point also made by Austin *et al*. (2006)). However, not everyone agrees with this, for example, Zahra *et al*. (2009) argue that this falls outside the scope of social entrepreneurship. The authors contend that commercial enterprises which are engaged in non-economic activities are not the same as non-profits, who must balance social and financial targets. The pursuit of social objectives by firms cannot be equated with the tackling of financial constraints by non-profits. Firms are not dependent upon the success of their social and environmental goals, and will not suffer in any meaningful way should they fail. The blurring of the two sectors will be looked at in Chapter 3, in conjunction with 'blended value accounting'.

More recently, Sastre-Castillo et al. (2015) contends that there are two main views on social entrepreneurship; idealistic and pragmatic. The former focuses on the need for social value creation, using risk and innovation to their benefit in order to achieve this (Peredo & McClean 2006). The pragmatic version of social entrepreneurship contends that the pursuit of social objectives is seen as a means of obtaining revenue. In other words, there is nothing inherently special about social entrepreneurs relative to their traditional counterparts. The 'social' component derives from how they enrich themselves, not what they achieve. Sastre-Castillo et al. (2015) state that most studying the field favour the former viewpoint, the idealistic perception, due to evidence that social entrepreneurs often have a genuine interest in the social cause beyond their own personal ambitions to make a profit. However, it demonstrates the continued differences in opinion on the term's meaning.

Santos (2012) takes issue with earlier studies which sought to distinguish between social and economic value. These earlier papers, discussed in this section have typically described social entrepreneurship about being the pursuit of social value, with a financial constraint, in contrast to traditional entrepreneurs who pursue economic or financial value. Santos (2012) argues that this distinction is unhelpful, arguing, for example, that "all economic value creation is inherently social in the sense that actions that create economic value also improve society's welfare through a better allocation of resources" (p.337). Furthermore, Santos (2012) contends that the social value label "creates methodological difficulties for a positive theory" and is therefore not easy to test, in contrast to economic value which can, and does, have a monetary worth associated with it:

> "I thus reject the dichotomy between economic and social outcomes. It is more effective for theory development to focus on a generic concept of value, defined in terms of the increase in the utility of society's members. This is consistent with the treatment of the concept of value in economic theory, for which social welfare is defined by the aggregation of individual utility." (Santos, 2012, p.337).

One of the benefits of this generalisation of value is that it is in line with the concept of 'blended value' (Santos, 2012). Blended value, the mixing of social and financial value, is considered in Chapter 3.

These competing contributions have formed the basis for the discussion on social entrepreneurship. Though these attempts to define the term may appear trivial, they are a testament to how difficult and confusing social entrepreneurship can be, and potentially hinder research on its practical applications within the non-profit sector. This has led to Choi and Majumdar (2013) describing it as a ''contested concept' and, using theory introduced in Gallie (1956), provide evidence for this claim. Contested concepts depend upon seven key criteria: appraisiveness, internal complexity, various describability, openness, aggressive and defensive uses, original exemplar and progressive competition (Gallie, 1956). Choi and Majumdar (2013) conclude that social entrepreneurship meets these criteria, explaining in detail why the concept fulfils each point. The authors state that this is the reason behind the difficulty in providing a universal definition. Based on the existence of several sub concepts i.e. 'social value creation, the social entrepreneur, the social entrepreneurial organization, market orientation and social innovation' (Choi and Majumdar, 2013, p.10), the authors conclude that social entrepreneurship can also be described as a 'cluster concept'. The phrase embodies all five of these terms and does not require equal sharing of them; it is perfectly reasonable to refer to social entrepreneurship when discussing any of these sub concepts individually.

Research remains 'young and fragmented' (Gawell, 2012, p.1) however, leaving scope for much to be studied. Lortie and Cox (2018) see parallels with the early development of traditional entrepreneurship theory and note that earlier studies have found that ‘social entrepreneurs are not dissimilar from commercial entrepreneurs’ (p.2). due to shared traits which exist between the two. However, there is further potential for the field, with Day and Jean-Denis (2016) stating:

> ‘If the social entrepreneurship field is to be successful, there needs to be integration with other areas of study, advancement in theory development and improved empirical testing of new theories.’ (Day and Jean-Denis, 2016, p.66)

The authors contend that the field of social entrepreneurship depends on its combination with other areas of research as well as development of the theory itself.

2.2.2: Social Entrepreneurship in Practice

According to Wilson (2008), the increasing popularity of social entrepreneurship can be attributed to a number of different reasons. These include a wish to see change in existing systems (i.e. frustration with government) and a search for meaning in people’s work lives. As has been discussed, defining social entrepreneurship has been the focus of the majority of academic research (Hoogendoorn *et al*., 2011). The popularity of labelling it has not been matched by empirical research on its existence, however (Morris *et al*., 2007; Nicolls, 2009; Short *et al*., 2009). For example, Santos (2012) states: ‘Social entrepreneurship has profound implications in the economic system: creating new industries, validating new business models, and allocating resources to neglected societal problems’ (p. 335).

In fact, according to Dacin *et al*. (2011), it is difficult for academics to inform others why it might be worth considering or adopting unless its attributes can be defined. Subsequently, there is very limited data on social entrepreneurship, particularly quantitative data. Nevertheless, this has not discouraged the proposal of potential research avenues; for example, one such avenue for practical research, suggested by Dacin *et al*. (2011), is discovering how social entrepreneurs meet and interact with one another. Do they build relationships and trade ideas for the benefit of their work?

One of the few studies to examine social entrepreneurship in practice (albeit with secondary data) was conducted by Hoogendoorn *et al*. (2011). Using data gathered by the European Commission on entrepreneurship which, for the first time, considered social entrepreneurship in 2009/10, the authors seek to examine the probability of being a social entrepreneur compared with a traditional entrepreneur. To do this, the writers examine three possible factors based upon the data sample, which consists of approximately 26,000 questionnaire responses from 36 countries (predominately European countries, but also the US, China and several others.).

The first of these factors examines whether social entrepreneurs can acquire the same level of financial support and start-up information as their commercial counterparts. This was found to not be the case, with social entrepreneurs typically struggling to match the support received by others. Consequently, it was found that they struggle to survive the early stages of running their organisation (for traditional entrepreneurs, one in five see their ventures fail within the first 12 months, see: Fritsch *et al*. (2006)). The second factor examined how tolerant for risk social entrepreneurs are compared with others. The authors began with the assumption that they view risk differently from commercial entrepreneurs for a number of reasons. For example, most will not stake their own personal capital and instead feared damage to their reputation. This fear causes social entrepreneurs to be *more* risk averse than their commercial counterparts, despite a lack of personal financial risk. This could also be explained by the possibility that they fear failing the social cause, and the resulting impact on individuals they seek to aid. Lastly, a study of the demographics finds differences which exist between the two groups. Social entrepreneurs are typically more likely to be female, as well as either particularly young or old. This contrasts with traditional entrepreneurs, who are overwhelmingly male and usually 30-50 years of age (Hoogendoorn *et al*., 2011). The Third Sector Research Centre (TSRC), based in the UK, also found evidence for this, stating that women are '…under-represented as leaders of private sector social enterprise…' and '…more equally represented…' in third sector organisations (Third Sector Research Centre, 2013, p.34). Similarly, Chell et al. (2014) found that women are more likely to be social entrepreneurs than traditional entrepreneurs. Hoogendoorn et al. (2011) conclude with potential avenues for future research, including an examination of how social enterprises consider their social and environmental goals, innovation and the earning of income.

Another practical study by Stephan *et al*. (2014) concludes with the view that it is important to 'investigate contextual drivers specific to distinct types of entrepreneurship [as described by (Zahra and Wright, 2011)] including theoretical models specific to SE' (p.17). For example:

> 'It could be that by controlling for other types of entrepreneurship by motive, some of the past contradictory results in research on cultural values can be sorted out: for instance, individualism may be primarily linked to independence-motivated entrepreneurship, whereas collectivism may be linked to the prevalence of family-owned firms.' (Stephan *et al*., 2014, p.17)

The authors recognise the importance of understanding that entrepreneurial behaviour can different underpinnings, meaning this must be accounted for when studying the concept in practice. Furthermore, the authors argue that a 'resource-based view' is required, as too much research relies on understanding motivations and not enough on understanding what constraints impact a social entrepreneur's behaviour. They contend that resources should play a more central role and not simply be seen as a 'side issue'.

Ghalwash *et al*. (2017) use their study to examine what motivates social entrepreneurs to begin their activities in an emerging economy. Taking a qualitative approach, the authors seek to understand the 'characteristics and backgrounds of social entrepreneurs, particular in relation to what motivates them to start new social ventures' (p.268). They contend that although there is much discussion on social entrepreneurship's meaning, prior research has neglected to understand the motivations of social entrepreneurs themselves, despite the growing polarity of empirical studies. Ghalwash *et al*. (2017) seek to answer two research questions, namely: 'What are the characteristics of social entrepreneurs?' and 'What are their motivations to start a social venture?' (p.273). The authors argue that compassion and persistence constitutes the primary characteristics of social entrepreneurs, while dissatisfaction with existing solutions represents one of their main motivators:

> 'In particular, our findings suggest that entrepreneurial perseverance and compassion contribute strongly to the efficacious pursuit of social entrepreneurship. We identified both personal experience of entrepreneurs and the existence of unsatisfied social needs as drivers for starting social ventures.' (Ghalwash *et al*., 2017, p.290)

2.3: Social Enterprise

Hoping to reduce reliance on the welfare state, the third sector has been seen by governments as an opportunity to shift social responsibilities (Austin *et al*., 2006). Social enterprises are an attractive alternative to government expenditure. During times of public sector cuts, social enterprise provides the opportunity for more sustainable funding of social problems (Dart, 2004) and help plug any gaps missed by public bodies

(Nicholls, 2006). For example, the UK government has encouraged NHS workers and community groups to establish their own health related social enterprises (Millar and Hall, 2012). As Dart (2004) notes, however, social enterprises are *not* the same as typical non-profit organisations. But they will combine features traditionally found in such entities, to varying degrees, including the pursuit of a social mission and economic performance measurement (Young, 2008).

However, much like social entrepreneurship, social enterprise has been described as a contested concept (Teasdale, 2011). In fact, according to Galera and Borzaga (2009), the two terms are used interchangeably by some authors. When the term 'social enterprise' was first introduced, it represented many different types of organisations that already existed, rather than applying to a new organisation structure (Simmons, 2008). Dart (2004) states that its usage has removed the distinction between profit and non-profit entities. Similarly, Dees (1998) imagines a sliding scale, with the philanthropic at one end and the commercial at the other, allowing any individual social enterprise to be placed upon it depending on its objectives (though Pearce (2003) argues that they operate more like businesses than public bodies).

This has blurred the distinction between the two types of organisation. In the US, the pursuit of a social mission is not even required to qualify as a social enterprise and there is no agreement amongst EU countries as to what constitutes a social enterprise (Galera and Borzaga, 2009). Lyon and Sepulveda (2009) argue that this confusion makes it difficult to conclude the scale and scope of social enterprises. They state that this makes it impossible to determine their impact on society. In the UK, the number of social enterprises varies between 16,000 and 281,000 depending on how they are counted and classified (Third Sector Research Centre, 2013).

Wilson (2008) describes how social entrepreneurs will seek to operate in any context, not necessarily just in social enterprises. They may establish themselves in traditional charities or even in the private and public sectors. The author discusses the distinction:

> 'The difference between social entrepreneurship and social enterprise, therefore, is that the former is about the driven individual, whilst the latter is about the organisational form. Social entrepreneurship is about what people do; social enterprise is about (some of the) structures they choose to get it done.' (Wilson, 2008, p.31)

Subsequently, it is difficult to definitively state what a social enterprise actually is (Bull, 2008; Dees, 1998). Arthur *et al*. (2006) discuss the wielding together of the two words, stating that in the past 'social' and 'enterprise' were contradictory terms. This is no longer true; in fact, successfully adopting business practices now automatically translates into the assumption that the social goals are a success, too (Arthur *et al*., 2006). According to Galera and Borzaga (2009), a social enterprise must incorporate 'entrepreneurial activities' in their model, therefore excluding the majority of non-profit sector organisations. In their paper, the authors provide three important features which are required of social enterprises:

1. the social goal pursued;
2. the non-profit distribution constraint; and
3. the assignment of ownership rights and control power to stakeholders other than investors coupled with an open and participatory governance model.

(Galera and Borzaga, 2009, p.216)

The first is self-explanatory; the organisation must exist for some social purpose and not be purely motivated by profit. The second point concerns how an organisation's surplus is made use of i.e. the importance of appropriately using the organisation's resources and market position. This ensures the absence of exploitive behaviour and keeps the beneficiaries in mind while operations are conducted. The third point concerns the role of stakeholders, and the relative importance of particular groups connected to the social enterprise. This breakdown has much in common with the social entrepreneurship definition provided by Dees (1998).

However, problems associated with a definition of social enterprise have not discouraged research. Bull (2008) discusses reasons put forth by academics for why the term has grown in popularity. The first, as previously mentioned, is that as the state shrinks in size, alternative organisations are required to fulfil social needs (Mulgan, 2006; Nicholls, 2006). This creates a market, in a similar sense to the private sector, which can be addressed by non-profit sector organisations. Instead of providing goods and services to fill a gap in the market and generate profit, social enterprises can look for *social* market gaps and target funding there. This would result in the creation of social value.

Furthermore, there has been a change in culture which emphasises personal responsibility (Bull, 2008; Kuratko, 2005). This ties in with the shrinking of the state, as the focus is shifted from the public sector to social enterprises. In fact, it is the objective of the UK government to ensure social enterprises behave like good businesses (Office of the Third Sector, 2006, p.72). Also, a change in funding sources has been influential, as the sector gradually moves away from grants (Goerke, 2003; Pearce, 2003). Non-profit sector organisations are finding they need to be increasingly competitive if they are to acquire the money they need. The rise in contracts (as a funding source) has also forced these organisations to think differently. Similarly, Stecker (2014) articulates that 'the application social entrepreneurial principles, including social enterprise activities, can improve the sustainability of the business model of nonprofits' (p.349). Not only is it perhaps a necessity for non-profits to think differently, it can be hugely beneficial for them to do so.

Lastly, Dart (2004) has suggested that the advent of double bottom line accounting has contributed to the rise of social enterprises, offering a way to evaluate social performance more formally. Social accounting, as it is otherwise known, is one particular tool used by organisations to discharge accountability (Gray *et al*., 1996). The measurement of social value is itself not a new idea (Owen *et al*., 2000) but is certainly more popular now than in previous decades. Doherty *et al*., (2014) state that the boundaries dividing non-profit successes and profit making are shrinking over time, thus, new accounting techniques are required in order to address this. A wish to appear more transparent has encouraged social enterprises to adopt social accounting, however, some authors have noted (see: Bull, 2007; Bull and Crompton, 2006) that the motivations for appearing more accountable are based on funding requirements. Social enterprises make use of social accounting and performance measurement to help impress potential donors.

According to Diochon and Anderson (2009), social enterprise literature has tended to focus on individuals i.e. social entrepreneurs. This is despite it being established by some early literature (Miller, 1983) that other factors are important too, including strategy and the environment in which the entity operates. One way of determining whether an organisation is a social enterprise, as opposed to simply being an enterprise, is its use of language. According to Smallbone *et al*. (2001), the term 'surplus', instead of 'profit', for example, is a key way of distinguishing between the two. A private entity would not be inclined to describe their profits as a surplus, whereas a social enterprise would. A surplus, though good news for the organisation, will be put back into the social cause as it cannot be taken away to be distributed (e.g. like profits for shareholders in the form of a dividend).

2.4: Entrepreneurial Orientation and Charities

Despite the interest in defining social entrepreneurship, the topic has seen limited academic attention with regards to its application (Morris *et al*., 2007; Nicolls, 2009; Short *et al*., 2009). The impact of entrepreneurial thinking on non-profit sector organisations deserves closer scrutiny. Zahra *et al*. (2009) state that due to government cuts in spending, entrepreneurial activities are required to help fill the funding gap. The typical practises employed by non-profit organisations deny them from obtaining the greatest possible income. Dees (1998) imagines social entrepreneurs to be offering a unique kind of leadership within the third sector. They bring a tolerance for risk, proactiveness and innovation (Sullivan Mort *et al*., 2003). Without them, overall donations could be much lower, thereby in turn reducing the social impact these organisations can make.

Entrepreneurial orientation is a concept used to determine whether a firm is experimental or conservative in their approach to strategy (Morris *et al*., 2011). Based on three criteria; innovativeness, proactiveness and risk taking, it is possible to determine how 'ground breaking' the firm is, and whether their operators are behaving in an entrepreneurial manner. Innovation is the use of new information, perhaps taken from theory and then applied to business operations (Eisenhart and Martin, 2000; Miller, 1983). Proactiveness is the firm's ability to anticipate what people need or want, and be ready to provide this before their competitors can (Lumpkin and Dess, 1996;

Miller, 1983). Risk taking relates to the firm's readiness to accept new projects which could lead to significant losses (Lumpkin and Dess, 1996; Miller, 1983). According to Miller (1983), all three of these must be considered together when assessing a firm's level of entrepreneurship. More recently, Hughes *et al*. (2015) state:

> 'EO can be defined as the nature of the decision-making mindset, behaviors, and processes underpinning the firm's strategy creation practice, competitive posture, and management philosophy and thus encapsulates the entrepreneurial tendencies of the firm.' (Hughes *et al*., 2015, p.119)

It is also the case that entrepreneurial orientation represents the ability of organisations to spot and take advantage of opportunities to create value (Bouncken *et al*., 2016). Not meeting the criteria outline above, concerning risk, innovation and proactiveness, makes this difficult to achieve.

Entrepreneurial orientation can also be considered within the non-profit sector (Morris *et al*. (2011) state that this is what led to the development of social entrepreneurship theory in academic literature). While the concept was originally designed to apply to profit making organisations, it can be adapted to suit a different context if required. Key elements of it, for example the adoption of a positioning strategy, can be applied to non-profit organisations (Balta *et al*., 2012). Entrepreneurial orientation has been shown to benefit a firm's performance in a number of studies (see: Davis *et al*., 1991; Wiklund, 1999; Zahra *et al*., 1999), however, its application within the non-profit sector has not been extensively looked at. Non-profits have much more complicated stakeholder relationships (as will be discussed in a later section), requiring them to treat innovation, proactiveness and risk taking very differently:

> 'Given these unique motivations, processed and outcomes, the nature of entrepreneurship as a process becomes more complex and multifaceted in the non-profit context. Linkages between acting entrepreneurially, serving the core recipients of the non-profit's services or message, satisfying the expectations of donors and other stakeholders, achieving the organizational mission and measures of both financial and nonfinancial performance have either not been established, or if they exist, can be relatively complicated.' (Morris *et al.*, 2011, p.953)

Nevertheless, it has been argued by Morris *et al*. (2007) that the absence of a profit incentive does not deny these organisations the opportunity to think in an entrepreneurial manner. In fact, it might actually be beneficial for them to do so, with academics offering three main reasons. First, it can raise income and/or improve efficiency, thereby making the organisation more financially sustainable. Second, it offers greater perspective with regards to the demands of the organisation, and where it fits in a social problem larger than they are. Third, the organisation might more readily predict changes beyond their control, which offer the chance to create social value (Badelt, 1997; Dees, 1998; Morris *et al*., 2011; Pearce *et al*., 2009; Zahra *et al*., 2009). Entrepreneurial thinking need not only be used to create financial value for non-profit entities; it has potential for social value, too.

However, in a study of entrepreneurial orientation and market orientation in the US non-profit sector, Morris *et al*. (2007) found that the former did not have a positive impact on financial performance, whereas the latter did. Financial performance measures, such as revenues, expenses, assets and donations, did not benefit from the adoption of entrepreneurial thinking. The use of market orientation (when directed towards donors) *did* translate into better performance for non-profits. This is perhaps unsurprising, as targeting donors should translate into more funding:

> 'Specifically, [market orientation] would seem to be predicated on a philosophy that serving clients is enhanced by serving donors, and serving donors is enhanced by serving clients. Where this duality is present, firms are more entrepreneurial and they perform better. Yet, simply serving clients better is not enough by itself to enhance financial performance. And it is possible that [entrepreneurial orientation] does not directly affect financial performance because the [non-profit organisation's] innovative efforts are directed more toward clients.' (Morris *et al*., 2007, p.33)

By targeting benefactors, non-profit organisations can potentially create financial value. No evidence was found which suggested such a link existed for entrepreneurial orientation. Morris *et al*. (2007) explain that while this approach did not necessarily translate into better financial results, they speculate that it could still potentially be useful for improving social performance. Nevertheless, the creation of financial value through market orientation is undoubtedly good for a charitable organisation, and can be turned into social value if appropriately used.

Miles *et al*. (2013) found that the adoption of an entrepreneurial orientation can actually be harmful to the economic performance of a social enterprise (Morris *et al*. (2007) found no apparent relationship). Innovation, strongly encouraged for profit-making firms (based on research which has shown it to improve performance, see: Rauch *et al*. (2009)), could in fact be damaging. The adoption of new ideas and theory, invaluable for firms, does not necessarily translate into better performance, financial or social, for non-profits. However, Beekman (2012) highlights innovation as being particularly important for non-profits if they wish to be sustainable. Unfortunately, research on whether such organisations should become more innovative has been limited, despite attention within the field of entrepreneurship (Balta *et al*., 2012).

Despite this though, non-profit sector organisations can potentially benefit through other means. While firms cannot gain financially from the creation of positive externalities, a non-profit may well, through their activities, benefit others in an unintended way (Goodin, 2003). Due to the altruistic nature of such an enterprise, the effect can be passed on freely because the organisation exists to create social value. Profit making firms may see this as a missed opportunity, owing to the free rider problem associated with non-excludable goods. However, for a social enterprise, it would be an indirect social outcome. Within the context of social entrepreneurship, Santos (2012) states that such positive externalities can be given a direct role in the economy by 'internalising' them within the system. Therefore, we can capture such information and formalise it, specifically under the domain of social entrepreneurship. Indeed, the author goes so far as to describe the theory as having the potential to act as a 'second invisible hand', in contrast to the traditional invisible hand of the market.

> '…social entrepreneurship can be interpreted as the second invisible hand of the economic system, this one based on others-interest rather than self-interest. By pursuing their specific others-interest and addressing opportunities for value creation in a distributed way, social entrepreneurs drive the economy closer to an efficient outcome by systematically identifying neglected positive externalities and developing mechanisms to incorporate these into the economic system.' (Santos, 2012, p.44)

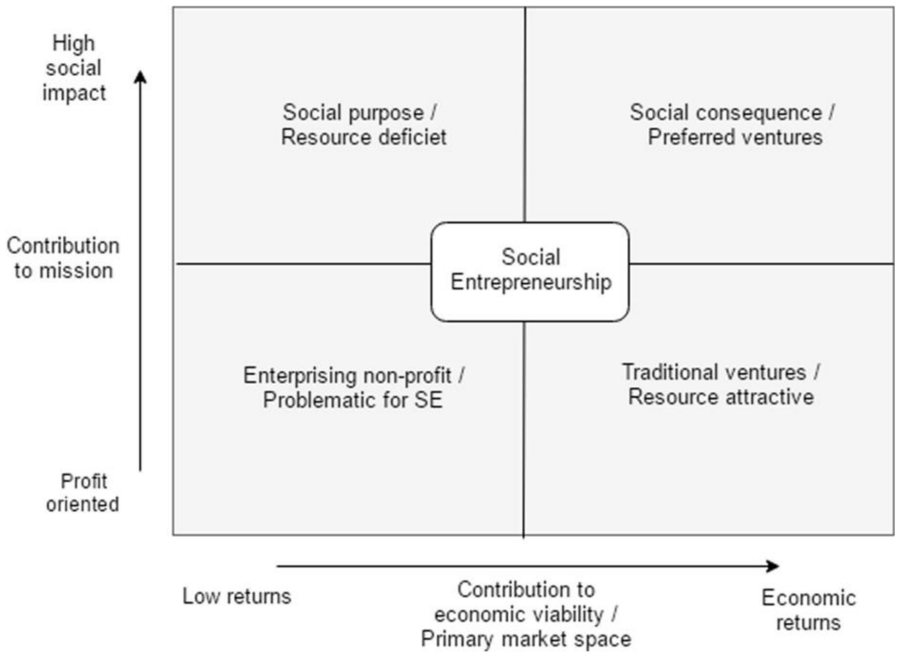
Charities are not necessarily constrained by a need to solely pursue economic or financial gain, but can benefit society more broadly through their actions and this is social value creation.

2.5: Disadvantages of Adopting Entrepreneurial Thinking

As mentioned before, adopting a more business-like approach can be detrimental to social causes. Polonsky (2003) argues that there is a risk only the best marketers amongst charitable organisations will receive funding (be it through government grants or individual donations), possibly at the expense of the most in need. Furthermore, charities might pursue funding for causes they feel are easier to sell to potential donors, instead of prioritising what they feel should be tackled first. For example, Polonsky (2003) discusses how charitable causes relating to children are easier to market than issues which tend to affect older generations e.g. prostate or liver cancer. This may lead to funding gaps for important causes, or even risk seeing them ignored altogether. Balta *et al*. (2012) state that the UK third sector is now much more commercialised, with non-profits running the risk of forgetting their core, social purpose. Similarly, Madill *et al*. (2010) state that commercial marketing strategies are a necessity for financial sustainability. This puts non-profits in an awkward position if they are seeking growth within the sector (Auteri, 2003).

Furthermore, Haugh and Kitson (2007) state that non-profit sector organisations risk sacrificing their values by pursuing certain sources of income. They risk 'mission drift' (McBrearty, 2007) when focusing on funding instead of the social cause. Although it is crucial for non-profits to consider their financial situation, it cannot be prioritised over the core mission. According to Thompson and Williams (2014), however, if third sector organisations want to attract more funding, they cannot remain a third sector organisation culturally, and must borrow from the private sector. Competing for funding, whether it is in the form of grants, contracts or donations, inevitably forces the organisation to function differently than it otherwise might. Thus, a hybrid form of governance is required in order to manage both social and financial commitments (Bruneel *et al.*, 2016). However, doing so creates an ongoing threat of mission drift that social entrepreneurs must be aware of, which risks them surrendering the social cause in favour of improved financial performance (Cornforth, 2014; Ebrahim *et al*., 2014). It is a delicate balance that must be maintained in the long term (Battilana *et al*., 2015, Doherty *et al*., 2014), which may only be solved by treating the two different activities, social and financial, as separate and distinct issues to be negotiated (Battilana *et al.*, 2015). Figure 2.1, taken from Gandhi and Raina (2018), demonstrates this difficulty by showing how a social venture's mission contribution relates to its economic viability. Achieving the 'Social consequence/Preferred ventures' quadrant, perhaps the ambition of a social entrepreneur, is challenging as it means successfully balancing resources and a social purpose.

Figure 2.1: Types of ventures (Gandhi and Raina, 2018, p.7)



Secondly, as previous mentioned, is the difficulty in comparing social objectives. An entrepreneurial way of thinking, easily considered in a profit making context, is difficult to apply to social targets as everyone perceives them differently (Polonsky, 2003). A single organisation might have multiple social objectives that are difficult to rank based on importance. As will be discussed in the next chapter, the measurement of social performance depends upon subjective opinion (Morris *et al*., 2007). Furthermore, opportunities to increase income may arise which cannot be translated into social wealth (Zahra *et al*., 2009). These chances may be very tempting to those who label themselves social entrepreneurs; however, their pursuit would not further the cause they seek to aid. This has raised questions about the ethics of social entrepreneurship and whether it is right for non-profits to adopt such practises at all (Zahra *et al*., 2009).

McBrearty (2007) states that social entrepreneurship can only be appropriately considered where the organisation's output consists of some tradable product or service. However, the non-profit sector exists due to the prevalence of market failure, and looks to meet needs that market forces cannot (or will not) satisfy (Haugh and Kitson, 2007). Therefore such a product or service is unlikely to exist.

Another issue is that one of the three components of entrepreneurial orientation, risk taking, would have to be treated very differently in non-profit organisations. Management who decide to take big risks with donations may appear reckless. Not only would money be at risk but the charity's reputation, too. Risk taking, typically perceived to be a positive trait in the commercial sector, would not necessarily be interpreted as such within a non-profit context. Chell (2007) describes the conflict between entrepreneurship and social causes as appearing to be a 'culture clash' and questions the possibility of merging the two together. Entrepreneurship is synonymous with economic success i.e. wealth creation; it does not lend itself well to other types of objectives. Similarly, there is no conceptual framework which explains why social entrepreneurship would be a good way at tackling social problems (Austin *et al.*, 2006; Mair and Marti, 2006; Mort *et al.*, 2003).

Lastly, Morris *et al*. (2011) cite a number of studies which have examined entrepreneurial thinking in non-profit organisations. They are highly critical of the approaches taken, feeling that these studies do not account for the complex stakeholder relationships held by non-profits. Furthermore, the diversity within the sector demands a more complex framework through which to examine the existence of entrepreneurial orientation in non-profit organisations. For the commercial sector, serving customers well will usually lead to better financial performance. The same may not apply to the non-profit sector, as serving beneficiaries is not necessarily linked to donations (Morris *et al.*, 2007). In addition, as discussed before, Miles *et al*. (2013) found no evidence that charities benefited financially through the adoption of entrepreneurial practices. Though this is not evidence against improving *social* performance, the two are arguably inextricably linked and there is little reason to believe it would be enhanced either.

2.6: Summary

In the first chapter of this literature review, entrepreneurship and its role within the charity sector was addressed. This first part involved a look at social entrepreneurship, an offshoot of the traditional concept, and the difficulties in defining it. Attempts at studying it practically were also discussed, though it was found that few studies have yet taken place on the practical implications of social entrepreneurship theory. Part 2.3

then sought to examine social enterprise, a newly developed organisation structure found within the non-profit sector. Similarities and differences with social entrepreneurship were considered. This was followed by an analysis of entrepreneurial orientation within a non-profit sector context. It was found that so far, there is little indication that this type of strategy can be beneficial to non-profit organisations in terms of funding and social value. However, again, studies on entrepreneurial orientation within a non-profit sector context have been limited; both in terms of their scope and the number conducted. The last part, 2.5, looked to examine the limitations in adopting an entrepreneurial approach. Several potential pitfalls were identified, including a risk of 'mission drift' where non-profits neglect their primary purpose. Overall, it is clear that there are many challenges when entrepreneurship is considered within the non-profit sector, but it continues to provoke interest within this context.

This first part of the literature review aimed to better understand the development of social entrepreneurship theory over the past twenty years. From its conceptualisation and early development from authors such as Borschee and McClurg (2003) and Dees (1998), through to more recent discussions from Day and Jean-Denis (2016), Lortie and Cox (2018) and Santos (2012) on its potential for playing a positive role in the economy, the theory has been frequently discussed and debated. As a consequence, this thesis does not seek to add to this abstract discussion on social entrepreneurship's meaning but instead aims to better understand its practical role in charitable organisations. Two research questions, first stated in Chapter 1, emerged in part from the literature review on entrepreneurship within the charity sector. These are: "To what extent is entrepreneurship evident within the sector?" and "In what ways can entrepreneurial thinking benefit the social cause?".

The first question developed through a need to better understand how entrepreneurship is perceived within the sector itself, from individuals working within non-profit organisations. The majority of prior literature addresses this from the view of sector observers, and not sector participants. The second question seeks to build on the first, by exploring the role entrepreneurship has to play in charitable organisations. This question can be addressed irrespective of what the first question finds, as it can be answered whether entrepreneurship is strongly evident or not within the sector. Its potential role can be explored, again, by asking sector participants. In the next chapter, accounting related literature concerning the charity sector is critically reviewed.

Chapter 3: Accounting for Charities

3.1: Introduction

In this chapter, charity reporting practices are addressed. This will be discussed in two major parts; non-financial reporting and the Statement of Recommended Practice (SORP). In part 3.2, how non-profits choose to report their social performance is considered. This begins with a look at how such reporting can be measured and how it differs from its financial counterpart. Moving on from this, a more comprehensive approach is discussed, which looks to address both financial and non-financial information simultaneously. The different components of both types of information are also considered and how they are analysed and evaluated. In part 3.3, the reporting requirements of non-profits are looked at, primarily by studying the SORP. A history of it, from the 1980s to the present day, is discussed in detail in order to see how it has developed over time. The different stakeholder groups who have contributed to its evolution are also considered. In addition, criticisms and areas for improvement are looked at and whether these are likely to be addressed in the future.

3.2: Social Impact Reporting

3.2.1: Measuring and Evaluating Social Performance

Cordery and Sinclair (2013) and Hall (2014) state that the rising influence of third sector organisations has encouraged interest in how they choose to measure their performance. A popular source for this information is the traditional financial statements, published annually (Palmer *et al.*, 2001; Connolly and Hyndman, 2004).

However, Morgan (2013) states that there are '…serious limitations to the use of financial data in isolation' (p.296), explaining that the information provided in financial statements are fit for purpose; they meet the needs of those with a financial interest. Analysing these statements for a difference purpose (i.e. social performance) would be meaningless. Therefore, alternative reporting approaches would need to be considered for non-financial information. Polonsky *et al*. (2016) state that although non-profits operate within a competitive environment, their research has demonstrated that the sector seeks collaboration over confrontation, allowing scope to pursue social issues, as well as their measurement, innovatively.

For firms, performance is determined by value creation for the firm's owners (Nicholls, 2009). For non-profit sector organisations, performance measurement is much more difficult. Though accounting has proven to be the most popular method for performance reporting, there is evidence to suggest that donors do not find financial information particularly useful (Connolly *et al*., 2013a; Huang and Hooper, 2011). Reports detailing social achievements were described as being much more useful for decision making purposes. Furthermore, though individuals involved with a charity may see for themselves what is being achieved, social reporting allows for greater detail and can be used for 'improving internal management and obtaining funds' (Grieco *et al*., 2015, p.1174). However, financial reporting continues to be important and cannot be completely ignored by non-profit organisations, if details on funding are to be communicated to those who provide it (Jegers, 2010).

According to Connolly and Hyndman (2013) and Jetty and Beattie (2009), non-financial performance reporting within the non-profit sector is receiving greater attention. This can take the form of narrative discussion, or non-financial quantitative information.

While traditional accounting, useful for discharging financial accountability, continues to be important for non-profits, these accounts are '…likely only to be of secondary importance' (Connolly and Hyndman, 2013, p.260). The authors go on to say:

> 'It could be argued that the accountability discharged in the form of traditional financial statements largely provides evidence that funds have not been misappropriated. In contrast, accountability in relation to one's actions, outcomes and responsibilities cannot be captured in such reports.' (Connolly and Hyndman, 2013, p.260)

Financial reports may prove to donors that funding has been used properly, but they cannot offer insight into what the charity is trying to achieve. Furthermore, judging non-profits based on criteria more relevant to other sectors risks overlooking what distinguishes them (Wainwright, 2002). The users of private sector reports will typically have a range of information sources to turn to when they seek details of how the organisation is performing. By contrast, the users of non-profit reports will be limited to annual reports and annual reviews (Jetty and Beattie, 2009).

One of the main benefits of increased disclosures is that it helps reduce information asymmetry (Jetty and Beattie, 2009). This may be to ensure stakeholders know as much as (or close to) what management know concerning the organisation's situation, or even to balance the knowledge amongst individual stakeholders themselves. For example, large donors may be more knowledgeable about a charity's operations by virtue of their funding clout. In their paper, Jetty an Beattie (2009) seek to investigate *why* charities report information they are not required to do so, as opposeed to *what* they disclose. One of the key reasons found in their study for disclosing was 'to create a sense of empathy for the organisation' (p.16). Furthermore, the clout held by some stakeholders was described as being a key reason for providing information, thereby 'extending the applicability of these for-profit theories into the not-for-profit literature' (p.16). In other words, some of the reasons for providing disclosures are the same for charities as they are for firms.

Charity reporting practises can also be considered in relation to 'blended value accounting', a concept first introduced by Emerson (2003). The term is based upon the premise that all organisations, whether profit or not-for-profit, create both financial and social value merely by existing. Additionally, striving for financial value does not have to come at the expense of social value, and vice versa (Emerson, 2003). Quantitative financial reporting can be combined with the more qualitative nature of social reporting and, if imagined on a spectrum, allows the complexity of all organisations to be shown, regardless of their primary objective (Nicholls, 2009). When using blended value accounting, the *purpose* of the organisation is irrelevant; what matters is how they operate. Fundamentally, both private and non-profit sector organisations are subject to the same real world challenges and obstacles.

Emerson (2003) introduces the concept of blended value accounting because there is no longer a clear distinction between profit making and charitable organisations. For example, the offering of capital to a new charity may come with conditions. The donor may expect the funding back in full, possibly anticipating a return of some kind (at or below the prevailing market rate). This kind of 'donation' perhaps has more in common with traditional business start-ups. Capital is vital to any new entity's plans; however, the financier expects to be repaid their investment. Similarly, firms provide employment for the local community, thereby creating social value alongside their primary, financial objectives. As such, it is impossible to create a clear dividing line between profit and non-profit making organisations, therefore requiring an approach which 'blends' the two together (Emerson, 2003). This ties in with the issue of measuring the social performance of non-profit organisations. Though social performance has typically been assessed using qualitative indicators, recent attempts have sought to quantify it instead (Manetti, 2014). Social return on investment (SROI) is an example of blended value accounting. Social return on investment (SROI) is an example of blended value accounting. Arvidson *et al*. (2013) state that SROI has played a significant part in recent years in how charities measure and convey their performance. However, its limitations as a tool for performance measurement remain unchanged; the subjective nature of outputs SROI attempts to capture. Subsequently, SROI has yet to see widespread adoption in the sector.

According to Polonsky and Grau (2008) and Gordon *et al*. (2009), there is currently no way of appraising the social value of charities. One reason for this is the difficulty in establishing an ownership link (Cordery and Sinclair, 2013). Commercial performance can be assessed based on shareholder value. It is easy to determine if a firm has performed well as this will be reflected in the wealth attributed to the owners of the company (Munir *et al*., 2011; 2013; Nicholls, 2009). If the owners are financially better off, it follows that the firm must be successful. Non-profits do not have such a relationship. Benefactors are rarely the owners of the organisation they fund, and do not personally stand to gain from their contribution (Cordery and Sinclair, 2013). A second reason given for not attempting to measure social performance is because of cost. Attempts to quantify it are likely to be very expensive, relative to financial reporting (Cordery, 2013; Pendlebury *et al*., 1994). Furthermore, non-profits will focus on measuring what they deem to be feasible, rather than what they think *should* be measured (Connolly and Hyndman, 2004; Pendlebury *et al*., 1994). Between cost and the ownership link problem, social performance may indefinitely be difficult to calculate.

On a similar note, Arvidson and Lyon (2013) found non-profit organisations may choose to be selective in what they publicise, despite funder expectations. Though the authors found, in their study of UK organisations, that most were willing to provide information on demand from benefactors, accepting this 'level of control', some would use 'their discretion in deciding what to measure, how to measure and what to report' (p.869). However, the authors also found that these organisations may, on their own accord, choose to publish information for their benefits, separate from accountability purposes. They do this 'in order to gain legitimacy, status and comparative advantage' (p.884). Non-profit organisations may incorporate social reporting into their strategy, using it to appease funders but without forfeiting their independence (Arvidson and Lyon, 2013).

In their paper, Polonsky and Grau (2008) argue for a need to examine social achievements, pointing out that it is not enough to evaluate charities based on financial performance. Connolly and Hyndman (2004) contend that, in the UK, non-profits must defend their presence in the third sector. A similar expectation is now placed upon organisations in the US (Zappala and Lyons, 2009). A comprehensive measurement of performance is required to equip management with evidence to deny accusations of ineffectiveness. Traditionally, social performance would be measured by the impact on beneficiaries i.e. the charities target group, perhaps coupled with some form of social accounting (with the aim of quantifying this performance) (Richmond *et al*., 2003). However, this risks overlooking the impact upon other stakeholder groups that aren't the primary target of the charity (Polonsky and Grau, 2008).

If firms are to be judged based on their performance in social and environmental matters, in addition to their primary financial concerns, it is not unreasonable to expect charities to be assessed in a similar way (Polonsky and Grau, 2008). Furthermore, as the number of charities continues to rise, determining who to provide funding for is becoming increasingly difficult for potential benefactors (Hooper *et al*., 2008). Social reporting can influence perceptions of what purpose a third sector organisation serves (Lyon and Arvidson, 2011). A comprehensive evaluation, which measures both financial and social performance, may be the best way for a charity to prove it can offer the greatest social value through its operations. The reporting of performance helps highlight what the organisation has achieved, thereby allowing for more knowledgeable discussions (Connolly and Hyndman, 2004). In other words:

> 'Social impact reporting does not just invite for increase accountability and transparency, but can be used to gain and exert power in negotiations between stakeholders.' (Lyon and Arvidson, 2011, p.1)

Stakeholders, and management themselves, will have a greater understanding of the organisation if greater detail is reported. Capturing financial and social information can be beneficial to all concerned. Grieco *et al*. (2014) cite Social Impact Assessment (SIA) as a way of achieving this. However, despite growing interest in the subject of performance measurement, as discussed, Kroeger and Weber (2014) contend that academic research on the subject remains weak and is ripe for development.

3.2.2: Adopting a Comprehensive Approach?

According to Costa and Pesci (2016), the debate concerning social impact reporting is becoming increasingly relevant in Europe. The authors state that this is being driven by an expectation from donors that we they will be informed of how their financial support has helped the social cause. Though there is interest amongst donors for social performance measurement (Lyon and Arvidson, 2011), there is currently no definitive way for third sector organisations to carry this out. Charities create a unique challenge with regards to reporting their activities. Finding a way to balance the needs of different stakeholders is extremely difficult, not least because of the costs involved. However, an approach which welds together social and financial performance information could provide a comprehensive evaluation of a charities performance for the year. Polonsky and Grau (2008) address a number of key issues regarding non-profit organisation performance measurement. They advocate the adoption of a 'multidimensional' approach and discuss four important steps for doing so:

> 'First, criteria to evaluate social value could be used by charity managers to improve their service delivery and identify opportunities for improvements in outputs.' (Polonsky and Grau, 2008, p.133)

The authors first suggest that it is necessary to establish guidelines for charities that assess their social contribution to society. This would permit management to determine what has been achieved over the past twelve months and help them find opportunities to improve.

> 'Second, such a measure could help demonstrate to donors the relative social effectiveness of organizations (as opposed to efficiency only) and begin to illustrate donor return on investment. It can be argued that managing a charity well does not necessarily translate into acceptable social value in regard to its constituents (the poorhouse in *Oliver Twist* might have been efficient but did not necessarily reflect quality care for its residents).'

Here, Polonsky and Grau (2008) discuss how it is not enough for a charity to demonstrate how *efficient* it is, as this provides no indication as to how *effective* it is in achieving its social objectives. While benefactors might look at key financial information, for instance, the percentage of funds spent on administration, it might be unfair to judge the charity solely on this. An organisation which spends a higher than average value on administration may in fact be very effective in achieving its social goals (Cordery and Sinclair, 2013).

> 'Third, Cunningham and Ricks (2004) argue that evaluation criteria should improve donor confidence and increase the amount of total giving.'

Not only would it make it easier for management to determine what they have achieved, but it would also allow stakeholders to do so, too. Donors in particular would value the opportunity to assess a charity's success based on social outcomes, rather than solely looking at financial performance. This might, in turn, encourage benefactors to donate more. Lyon and Arvidson (2011) describe impact measurement as being a 'socially entrepreneurial process', which can be used to acquire much needed resources.

> 'Fourth, a measure of social value also would assist in guarding against "less marketable" but socially valuable causes being underfunded and more "popular" but less socially valuable causes getting disproportional attention and donations.'

This final point, concerning the issue of some charities being less marketable than others, is a particularly important one. Some charitable causes are much more difficult to 'sell' to potential donors, perhaps because they address a particularly uncomfortable or sensitive issue (Polonsky, 2003). This was discussed when looking at the role of entrepreneurship in the non-profit sector. By taken into account each of these four points, a comprehensive measurement of social value could be made.

3.2.3: Measuring Inputs and Outputs

Though the annual report is important for informing stakeholders of the organisation's activities, existing regulations only relate to accounting techniques that were specifically designed for profit orientated firms (O'Brien and Tooley, 2013). Currently, there is no appropriate way to measure social performance by charitable organisations (Ryan *et al*., 2010). O'Brien and Tooley (2013) discuss the importance of this issue, highlighting the fact that some details do not fit the traditional accounting mould. For example, volunteers, vital to the existence of most charities, cannot be accounted for in the typical way. They receive no pay, yet they will help bring in funding and contribute to the social cause. Their exclusion from reports '…implies that volunteers have zero impact on the operating capability of the [not-for-profit] organisation' (O'Brien and Tooley, 2013, p.289). Not only does this risk making volunteers feel undervalued for their efforts, the wrongful recording of resources can also contribute to poor economic decision making by the entity (Brown, 1999). If charities are unable to accurately record what resources and assets they have, it may make planning for the future more difficult. Brown (1999) discusses the difficulty in determining what volunteers contribute to the non-profit sector, and states that their time, if assigned a dollar value, may equal donations or financial assets. Volunteers are silent in financial reporting, despite their importance to the performance of most non-profit organisations.

Financial reporting on inputs has provoked some interest in non-profit sector accounting manipulation. Non-profits can suffer from fraudulent behaviour much like any type of organisation. Trussel (2003) states that there exists an incentive for management to alter financial statements if it presents the organisation in a more favourable light. Large donors may be drawn to non-profits which appear to operate efficiently; therefore, they can expect their money to be well spent. Key accounting ratios are one way of appealing to potential benefactors when competing for funds. However, these ratios can be manipulated by management. According to Jegers (2010), there has been limited research on the relationship between donations and accounting manipulation, despite the significance of the link between the two.

Hedley *et al*. (2010) found that 90% of large UK charities reported their *outputs*, against only 41% who reported their *outcomes* (the former being classified by the authors as ‘quantification of activities, services, products delivered’ while the latter was described as ‘description of changes brought about and evidence supporting this’ (p.2)). In fact, of the six categories considered by Hedley *et al*. (2010), the reporting of outcomes was the weakest across the sample. The most common issue was a lack of evidence to support claims made concerning outcomes. For example, though the ways beneficiaries had been aided was often stated, little to no detail was provided in what exactly had been done. Where evidence was offered, it was typically inadequate or not provided consistently, with some outcomes being supported while others were not. The authors’ sample represented some of the largest charities by income, therefore, amongst the most able to provide good quality social reporting.

3.2.4: Difficulties and Limitations in Adopting a Non-Financial Approach

In an ideal world, charitable organisations would report social performance alongside financial information, thus offering a much fuller picture or their operations to donors and other stakeholders. However, a number of obstacles stand in the way. Indeed, most available performance measuring methods for non-profit organisations are constrained by at least one limiting factor (Nason *et al*., 2017). These factors prevent the development of non-financial reporting from accelerating in the future and are not easily overcome. Perhaps the most obvious is the cost associated with obtaining this information (Cordery, 2013; Pendelbury *et al*., 1994). The provision of any data, financial or social, will lead to the organisation incurring an additional cost. This might be too much to bear for smaller organisations, which would prefer to focus such costs on achieving the social mission, rather than the reporting of it. Spending time and money on reporting can be seen as a drain on much needed resources (Wainwright, 2002). Richardson (2001) also describes a different type of cost associated with too many disclosures; the risk of litigation. This applies to both profit and non-profit organisations. If a charity chooses to provide as much information as possible, even with the best of intentions, doing so may carry the future risk of allegations being made against the organisation.

In addition, staff might require a particular skillset to provide these reports (Cnaan and Kang, 2010). This is thought to be a major limitation of social return on investment (Emerson and Cabaj, 2000). This would further burden the organisation with additional expenses. Tracey and Phillips (2007) state that managing a double bottom line requires certain expertise, which not all organisations may possess. Against a backdrop of more challenging social needs, a fall in funding and increased regulation, non-profit sector organisations might struggle to meet such accountability needs (Morris *et al.*, 2007). Hall (2014) discusses how performance reporting expense requirements will depend on the chosen method and the skillset of existing personnel. For example, it would be easier for staff with a background in quantitative data or statistics to provide a SORI report. Alternatively, a more narrative approach would be easier to produce by staff with '…knowledge of forms of qualitative inquiry and skills in communication, interpersonal interactions and mediation between groups with different interests/values.' (Hall, 2014, p.29). Existing skillsets may have a strong impact on what type of performance reports an organisation chooses to produce (Hall, 2014).

Second, as has been discussed earlier, is the difficulty in measuring social performance at all. Hyndman (1991) found that this was a key reason why charity organisations choose not to do so. The difficulty arises when multifaceted goals are considered that cannot be prioritised or ranked (Cordery and Sinclair, 2013). Although external stakeholders may find social impact reporting more useful than financial disclosures (Britton, 2008), it is simply too difficult to place an appropriate value on such performance. In addition, attempts at measurement can cause the organisation to change its priorities, if it feels it can satisfy a particular stakeholder group with reports (Wainwright, 2002). Some activities might be dropped altogether if it is felt that they cannot be properly measured or assessed (Thompson and Williams, 2014). This group may not be the one most in need, but be the easiest to serve. Nason *et al*. (2017) state, within the context of firms, and behavioural theory, this problem is 'due to a lack of clear, reliable, and easily accessible referents' (p.8). Here the authors contend that social performance is much more difficult to judge than financial performance and firms are reliant on stakeholders to serve as 'social performance referents'. This is likely to be similar for charitable organisations.

Creating social value is important, but if non-profits become too focused on particular measures of it, particularly at a time when new types of non-profit organisations are emerging, then this may have a detrimental effect on performance (Lautermann, 2013). According to Emerson and Cabaj (2000), one of the main criticisms of social return on investment is that it cannot be applied in all charities or situations (amongst groups who exist outside the mainstream e.g. the chronically homeless). However, measurement difficulties should not necessarily be a reason for avoiding attempts altogether. Kramer (2005) states that consideration of social value creation, relative to the organisation's intention, can help give a clear indication of what to do next. It is only through measurement that the organisation can determine whether it has taken the right path or needs to reconsider based on performance and new information.

> ‘A project may be considered successful even if it does not meet its original goal however, as both parties exhibit a ready willingness to change direction as events unfold.’ (p.13)

However, Snibbe (2006) argues that the nature of measurement and reporting are misaligned from most organisations achievements. The author argues that annual, standardised reporting fails to capture wider economic or social changes, whether the organisation is describing its financial or non-financial performance.

Thirdly, Lyon and Arvidson (2011) found that non-profit sector staff can be resistant to the idea of measuring non-financial performance, even where senior management are supportive of introducing it. The need to appeal to donors in this way, an external stakeholder group, is seen to be unnecessary. Cordery *et al*. (2013) agrees with this sentiment, and found a reluctance to study the performance of volunteers in this way. Some of those involved with charities were uncomfortable with the idea of performance being judged like this. This was particularly the case with volunteers who give up their time for free and may be discouraged by the idea of formal performance reporting.

Finally, Aimers and Walker (2008) and Zappala and Lyons (2009) discuss how the timeline of financial reporting is ill-suited for long term social achievement. Non-profit organisations may aim to accomplish a goal over several years. The groundwork for such a project would require a large amount of planning, however, there would be little to report during the early days. Organisations might be discouraged by the prospect of reporting their achievements during the initial few years if donations hinged upon them (Aimers and Walker, 2008).

Given these difficulties, it is perhaps clear why organisations might be discouraged from reporting social performance and instead favour traditional financial methods. The reporting of ‘soft outcomes’ also complicates matters:

> ‘The final goal, or “hard outcome” might be for example, getting unemployed people into work. While this might be the ultimate goal, it is not necessarily a feasible one in all cases and may not be achievable in the short-term. There may be a whole range of reasons why a person us unemployed: they may lack interview skills, motivation, punctuality or specific job skills, or they may have physical illness. There are therefore many separate areas to address and the process of achieving the end result – employment – may not be straightforward.’ (Wainwright, 2002, p.7)

The mission, employment in this scenario, would take years to fully address. In the meantime, however, several other small targets would be established that lead to this mission, but these are ultimately not what the organisation strives for.

3.3: The Statement of Recommended Practice

3.3.1: History of the Statement of Recommended Practice

Despite efforts to improve transparency in charity accounting, past evidence has suggested that the financial reporting practises of charities has suffered from some severe limitations (see: Connolly and Hyndman, 2000; Hyndman, 1990; Williams and Palmer, 1998). In their study of charities based in New Zealand, Hooper *et al*. (2008) draw attention to a number of issues:

> ‘…we recommend firstly that funds be identified as either restricted or unrestricted. Second, all assets acquired be capitalised and depreciated. Third, charities should adopt a modified accrual accounting basis so that donations are only recognised when received as cash. Finally, some standardisation of overhead allocation should be established to apply to all revenues.’ (Hooper *et al*., 2008, p.81)

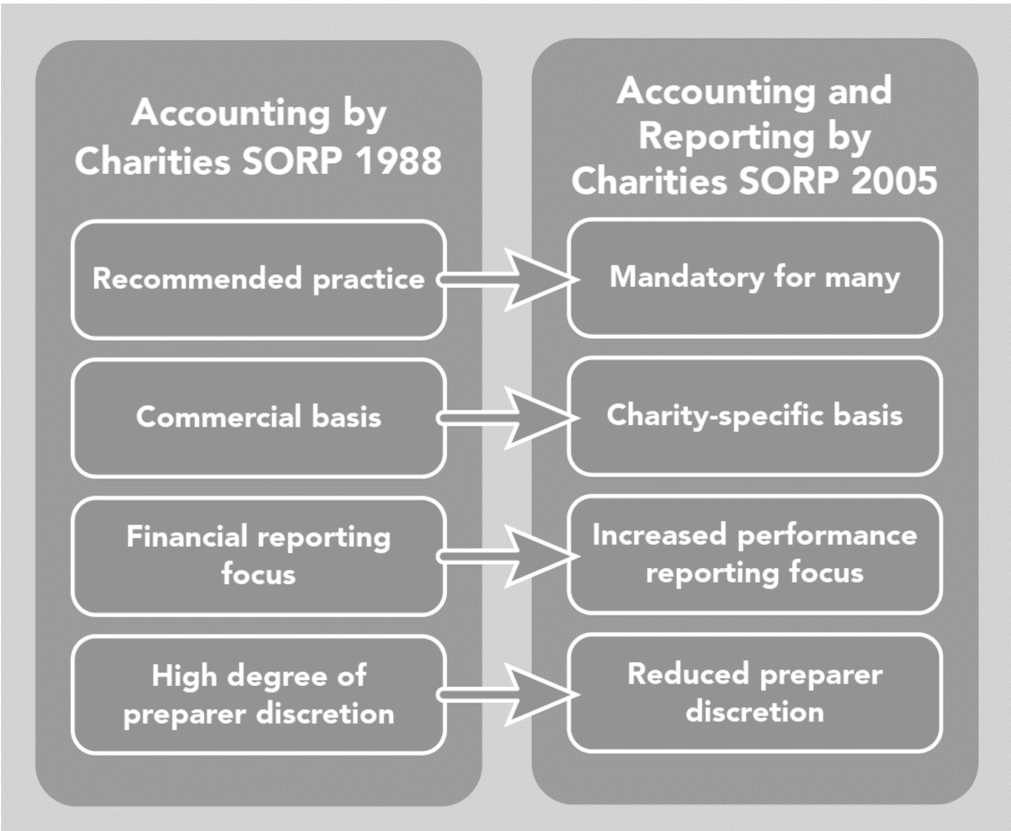
These points have been found to be applicable to charities not only in New Zealand but around the world. Palmer *et al*. (2001) state that even charity experts (i.e. auditors) were unaware if UK charities complied with the relevant reporting regulations. This has led to significant developments in how UK based charities are expected to report their financial performance.

Charity reporting in the UK has undergone a number of changes over the years, primarily due to the development of the SORP. The origins of the SORP can be traced back to Bird and Morgan-Jones (1981), who first drew attention to the financial reporting of charitable organisations. Funded by the Chartered Accountants in England and Wales (ICAEW), their report studied the accounting practices of the UK's one hundred largest charities. They drew attention to a number of weaknesses in financial reporting, including; inconsistency in the treatment of capital and income, the use of 'fund accounting' and a lack of clarity over what accounting policies are being used. Furthermore, it was found that charities regularly sought to understate their revenue figure in order to attract funding. Ultimately, they argued that the financial statements were not providing a 'true and fair view' of these organisations, a fundamental accounting concept. Bird and Morgan-Jones (1981) paved the way for future developments in this field.

This subsequently led to four revisions; first in 1995, then later in 2000, 2005 and 2015. Significantly, the 1995 revision required large charities (income over £100,000 per year) in England and Wales to follow the guidelines laid down by the SORP, as well as a mandatory audit. By 2006, the same applied to large Scottish charities (Hyndman and McMahon, 2010). In addition, the 1995 SORP encouraged charities to report on performance i.e. what the charity has achieved in terms of its aims. This went above and beyond what Bird and Morgan-Jones (1981) had suggested in their report, which focused solely on financial reporting (Hyndman and McMahon, 2010). SORP 2000 saw no fundamental changes made to the standards, instead focusing on minor changes designed to provide better guidance to preparers (Connolly *et al*., 2013a).

The 2005 SORP, however, saw much bigger changes concerning non-financial disclosures. More information than ever before was recommended, including details on administration and governance and greater explanations of what the charity's future plans were (Connolly *et al*., 2013a). This focus on actual objectives, non-financial in nature, represented a significant change in what charities should report to their stakeholders. Connolly *et al*. (2013a) state that by 2005, the SORP did not look anything like its most early iteration in 1988.

Figure 3.1: Evolution of the charity SORP, 1988-2005 (Connolly *et al*., 2013a, p.17)



A significant change introduced in SORP 2005 is discussed by Connolly *et al*. (2013b). This iteration of the SORP sought to improve transparency for costs in the financial statements. Before 2005, costs were allocated under four headings; direct charitable expenditure, fundraising, support and administration. SORP 2005 instead had administration and support costs allocated to activity-base, namely; fundraising, charitable expenditure and governance. In their paper the authors sought to examine how charities responded to the changes made, examining whether there was a difference in how expenditure was reported. Their findings suggest that the effect has been the opposite of SORP 2005's intent. Charities now find it easier to mask their expenditures under the new recommendations. 'Good' ratios can be promoted, while 'bad' ratios can be disguised. The authors conclude that this could be bad for stakeholders, though not equally so; large benefactors may be able to access more information concerning costs than other groups. Connolly *et al*. (2013b) demonstrate that although the trend for the SORP has been towards greater transparency and better accountability over the years, not all the changes made have necessarily achieved this.

According to Hyndman and McMahon (2010) the trend has been towards a more 'prescriptive' set of recommendations. With each iteration of the SORP, in 1995, 2000, 2005 and 2015, the scope for interpretation and judgment has diminished, as charity reporting becomes increasingly standardised and mature. This has led to greater explanation as to how financial reports should be presented, and what information they should contain. The result is greater consistency across the non-profit sector's reporting practices. Currently, the SORP applies to charities in general across the UK, except for where a more detailed SORP applies e.g. in the higher education sector and registered social landlords (Connolly *et al*., 2013a). Figure 3.1, provided by Connolly *et al*. (2013a), demonstrates how SORP developed between 1988 and 2005.

The SORP has evolved from being merely recommendations to being compulsory for the majority of organisations. The title SORP itself is the only part *not* to have changed; despite being mandatory for larger organisations they continue to be referred to as 'Recommended Practices'. However, Connolly *et al*. (2013a) draw attention to several other developments in their diagram. The SORP is now more tailored to suit the needs of charitable organisations than in the past, performance reporting is given greater emphasis and the recommendations are more prescriptive. A range of information could be found in SORP 2005 that was never before considered. For example, disclosures on the role of volunteers and an explanation on what the charity had achieved over the past year, unthinkable in 1988, were now part of the SORP.

3.3.2: Drawbacks and Criticisms

Though the adoption of mandatory reporting standards for charities is generally perceived to be a good thing, it has been criticised for several potential negative effects. For example, the vast majority of charities in the UK are small, many of which are run informally. Charity standards bring with them extra costs, both direct and indirect (Breen, 2013; Cordery, 2013; Pendlebury *et al*., 1994). A small charity may have only one person they can delegate to the production of financial statements. Such costs are regressive; smaller charities will be hit harder by them than larger ones (McGregor Lowndes and Ryan, 2009). Furthermore, there is an opportunity cost associated with high quality reporting, as time spent by an individual on such reports is time taken away from the charity's social purpose. Breen (2013) states that such disclosures, while costly and time consuming to produce, may in fact not have their intended effect; to improve accountability. Part of this stems from the absence of a particular audience for such information. If charities were to instantly increase their disclosures, whether financial or otherwise, there is no immediate reaction to be analysed as to whether this information was relevant or useful. Jetty and Beattie (2009) suggest that there is a risk of too much information being made available, making the SORP longer than is necessary.

A common criticism levelled against the SORP has been that despite its stated goal of improving comparability, this continues to be an on-going challenge. However, Breen (2013) argues that issues with consistency are not necessarily the fault of the SORP itself, but instead that of its application by charities, as well as regulators charged with ensuring it is appropriately used. From this point of view, the SORP itself is appropriate for the sector. What is required is a better understanding amongst charities as to how it should be utilised. On a similar theme, Connolly *et al*. (2013b) criticise changes made in SORP 2005 that were intended to improve transparency. The authors state that less information is now visible, and that this has come at the expense of external stakeholders. The inability to calculate conversion ratios, discussed previously, prevents benefactors from determining how much of their donation is spent on administration. Though ratios should not be the only reason donors choose one non-profit over another, it denies them the opportunity to use this information when making their investment decision.

Furthermore, there is a difficulty in deciding who these reports are actually addressing (Breen, 2013). This is also a criticism levelled against non-financial disclosures, too. Unlike for-profit organisations, who communicate to their shareholders, charities do not have a ready audience for their financial data. Without a stakeholder group to focus on, it is difficult for charities to produce formal reports that provide the relevant information. Disclosures, though useful, may not satisfy accountability needs on their own (Breen, 2013).

Lastly, though the SORP has helped improve accountability, this has been primarily financial in nature. The purpose of the SORP is to help stakeholders understand how the charity has performed. This encourages non-financial disclosures, which are, as discussed earlier, important for satisfying the information needs of different groups. Financial accountability is important; it ensures that funding has been used appropriately and that the charity is not overspending (Connolly and Hyndman, 2013). However, not all stakeholders are interested in this information, instead preferring social performance reports of some kind (Hyndman, 1991; Kitcullen *et al.*, 2007). A sub-committee formed by the Charity Commission discussed a number of recommendations for future SORP iterations. Hyndman and McMahon (2010) describe three of the most important. First, an aim to explain the charity's primary objectives for the financial year and a description of the strategies used to achieve these objectives. Second, the proper use of both qualitative and quantitative information to properly present what has been achieved. Third, to give enough information to help understand the role of volunteers in charitable organisations. These suggestions are designed to make the SORP more relevant to the sector (although Breen (2013) notes that SORP 2005 had a greater focus on non-financial performance and governance reporting than previous iterations). Jetty and Beattie (2009) found that regulations were useful to the preparers of information, as it offered them a form of guidance. However, the annual report was seen, due to its significance, as a potential barrier to better quality reporting. The information typically found in an annual report is not always useful to stakeholders, but it is nonetheless required from charities. Mandated disclosures that did not serve stakeholders in any meaningful sense were seen as a problem.

3.3.3: The SORP and Accountability

The benefits of good financial disclosures are numerous. Breen (2013) discusses these from a general point of view, without specific mention of the SORP. For example, as has been the case with widespread adoption of IFRS, financial reporting should allow for comparability between organisations, so that readers can analyse a charity's performance relative to its peers. It should also improve internal governance, as charities will work hard to improve this if they are being monitored in some way. Lastly, it is important for detecting fraud amongst charities, or inefficiencies with regards to administration. These are important points for a charity to consider if it wants to be accountable to its external stakeholders.

Gray *et al*. (2006) state that the annual report is a very important document, which is the primary way by which entities report their activities. For charities, the document should be no different. The SORP states that a charity's annual report should exist to inform readers of the organisation's performance, financially or otherwise (Connolly and Hyndman, 2013). This report exists to inform all stakeholders, both internal and external, of all relevant details concerning how the charity is being run. It is therefore important for accountability purposes.

Hyndman and McMahon (2010) discuss how the SORP has, over the years, been shaped by considerations of accountability, based on the views of stakeholder groups. They provide the following diagram to demonstrate the impact different groups have had upon the SORP's development:

Figure 3.2: Stakeholder Groups and the SORP (Hyndman and McMahon, 2010, p.461)

Each of these groups has, in their own way, shaped the SORP's development over the years. For example, the accounting profession was instrumental in the early days of the SORP, when it was first introduced. As mentioned above, the original report in 1981 was funded and published by the ICAEW. The Accounting Standards Board (ASB), while no longer involved with the preparation of the SORP, continues to play a major role in its committee (Hyndman and McMahon, 2010). Auditors, another part of the accounting profession, have regularly offered their views on the current state of the SORP and its future. Therefore, Hyndman and McMahon (2010) describe the accounting profession as being:

> '…a highly salient stakeholder; it has exercised power, first as the SORP-setter and then as the SORP-approver; it is perceived as highly legitimate by virtue of its role as standard setter; and the urgency of the need to change accounting and reporting practice in charities is evidenced in its drive to improve and renew the SORP.' (p.462)

Taken as a whole, the profession encompasses a range of groups who may not appear at first to be relevant to the charity sector. This may explain one of the criticisms levelled against the SORP over the years; that it is too commercial. Its earliest format can be traced back to financial reporting in the private sector, with a number of changes being made to make it more relevant to charities. However, the development of the SORP over the years has aimed, in part, to remedy this, and the accounting profession has played a crucial role in this.

Hyndman (1990) discusses how resource providers, who are often regarded as the primary users of charity reporting (financial or otherwise), would usually seek information on how efficient the charity was they were donating to. They wanted to know what the charity was spending on administration relative to income. This was far from the only type of information they sought, however. For example, amongst the things that were highlighted as being the most important, benefactors pointed to details on the objectives of the charity, current and future, and what the issue was being tackled. Significantly, the least important issues for benefactors concerned financial statements in general i.e. an audited balance sheet. For them, this simply was not as important as knowing about the charity's short and long term strategies. Hyndman (1991) takes this further, investigating whether the existence of a 'relevance gap', a difference in what donors expected and what preparers provided in statements, was down to a lack of awareness amongst the preparers of charity reports. The author concludes that this was not the case; accountability was simply not being served by those with the information.

More recent research has investigated the relationship between organisation size and disclosures. As discussed by Connolly and Dhanani (2006), larger charities will provide much more information, in the same way larger firms typically provide more detailed CSR reports. Organisations that are in the public eye will have more expected of them.

The gradual trend in general across accounting standards, evidenced by the adoption of IFRS across the globe, has been to allow greater comparability. If organisations adopt the same set of standards, then the users of financial statements can more easily determine the strengths and weaknesses of organisations relative to each other. This will typically only work where standards are firmly adopted, as opposed to merely being recommendations (as used to be the case with the SORP). One of the aims of the Charity Commission for England and Wales (CCEW) is to reduce variance in financial reporting within the charity sector (Breen, 2013). While described as 'recommended practice', full compliance is expected and any deviations from the SORP must be explained in full.

3.4: Summary

In this chapter, two major aspects of charity sector accounting where considered; social impact disclosures and financial reporting standards. In part 3.2, how non-profits account for their social objectives was discussed in detail. This first involved a look at the different approaches organisations can take to present and share this information with external stakeholders. A more comprehensive approach, which brings together both financial and non-financial information, was also examined. It was found that prior studies have addressed the issue of non-financial reporting in a number of ways, with most supportive of its development. The limitations of non-financial information were then analysed, with issues such as cost and subjectivity limiting progress within the sector. Prior research suggests these limitations will not be eliminated in the short term but can be mitigated under the right circumstances. In part 3.3, the second major topic looked at what the SORP is. This began with a look at its history, showing how it has developed over time from its origins in the 1980s. Developments over the years, and its current state, were also outlined. It was shown that the SORP has substantially developed over the years, relative to its guideline format when it was first introduced. The SORP now consists of mandatory requirements, bringing them in line with for-profit reporting. The problems associated with the SORP were also discussed in detail. Finally, the development of the SORP was considered in relation to accountability. How it has improved over the years and who it looks to be accountable too were examined.

The literature discussed in this chapter sought to better understand both financial and non-financial reporting in charitable organisations, with a particular focus on the latter. The first research question: "How do agents/stewards balance their social objectives with financial demands?" emerged from an interest in understanding how organisations attempt to manage these. The "financial demands can be twofold; a requirement to be financially sustainable and a need to satisfy financial reporting requirements as expected from the SORP. Similarly, "social objectives" can refer to what the organisation is attempting to achieve through its existence but also its reporting of it, when constrained by available resources that need to prioritise regulatory requirements for financial reporting.

This research question emerged, in part, from the discussion of the SORP's development over time and its developing reporting requirements. The literature review found that the SORP, despite its substantial development, is still the subject of debate as to whether further reporting requirements are needed in the future. This debate has a particular emphasis on social reporting, as it is generally agreed that the SORP provides comprehensive coverage of financial reporting following its many iterations over the years. However, developments to the SORP relating to non-financial information, for example, the reporting of objectives and a mission statement, may yet be introduced in the future. Therefore, this thesis seeks to understand how charities see the existing requirements expected of them and how they would feel about developments which place greater expectations on them in future. In the next chapter, literature on accountability and related theories is critically reviewed.

Chapter 4: Accountability, Stakeholder Theory and Charities

4.1: Introduction

In this chapter, the concept of accountability and stakeholder theory are considered in relation to charities. This begins with a discussion of what accountability is, from a general point of view, and the difficulty in finding a fundamental definition for it. Competing theories on the term are explored. In part 4.3, accountability is discussed within an accounting context, due to the two being inextricably linked. Here, stakeholder theory and its origins are also considered, as well as the different forms accountability can take. This is followed by a look at the benefits and limitations of the concept of accountability, as described by academic literature. Here, the key similarities and differences with the commercial sector are discussed in order to determine how relevant both accountability and stakeholder theory are to charitable organisations. Part 4.5 looks at accountability within the charity sector itself, primarily from an accounting point of view. This is addressed in two parts. First, the stakeholders of non-profits are looked at, in order to determine who they are accountable to. Second, the measurement of non-profit accountability is explored; in order to determine whether accountability is being properly addressed by organisations. The final two parts of this chapter, 4.6 and 4.7, review the use of agency and stewardship theories within a non-profit context. These constitute a unique way of looking at charity accountability and are used extensively for the research analysis.

4.2: Defining Accountability

Much like social entrepreneurship, accountability has proven to be a difficult concept to characterise. Sinclair (1995) states that while there is universal agreement on a *need* for accountability, a definition for the term remains elusive. It is a 'multifaceted concept fraught with ambiguity' (Salamon, 2002, p.524) which means different things to different people. Pinning down a definitive meaning has prompted almost as much research as its use or existence in organisations. Bowen *et al.* (2007) describes it as '…a broad concept that can be used to describe a wide array of phenomena' (p.406). In their article, the authors cite a definition given by Hall *et al*. (2003):

> 'Accountability refers to a real or perceived likelihood that the actions, decisions, or behaviors of an individual, group, or organization will be evaluated by some salient audience, and that there exists the potential for the individual, group, or organization to receive either rewards or sanctions based on this expected evaluation.' (Hall *et al*., 2003, p.33)

Here, accountability is dependent upon the existence of an authority, which has the power to pass judgement on those giving the account. Therefore, though we would assume the person or organisation that is accountable to be powerful, this definition awards authority and influence to its stakeholders, too. Hall *et al*. (2003) also argue that these stakeholders have the ability to reward or punish the entity, based on their performance.

Some earlier definitions have offered a different perspective from Hall *et al*. (2003). Cousins and Sikka (1993) describe accountability as being 'socially constructed' and would not exist without people to give meaning to it. Sinclair (1995) describes it as a connection between people, whereby one of the two must take responsibility for their activities. The author makes no mention of the authority held by either group; there need only be a link which exists between the two. Following this idea, Goodin (2003) offers a three part definition: 'Accountability is *of* some agent *to* some other agent *for* some state of affairs' (p.361). This can be applied to any type of organisation, within any context. Similarly, Ebrahim (2005) describes accountability as being about relationships. These definitions offer a subtle difference from the one given by Hall *et al*. (2003). Sinclair (1995), Goodin (2003) and Ebrahim (2005) make no mention of the influence held by stakeholders, or the ability to punish bad behaviour. There need only be a connection between the two. Placing this within the context of the non-profit sector, not all stakeholder groups may be in a position to hold a non-profit organisation to account. For example, the beneficiaries themselves may be powerless, thereby excluding them from the definition provided by Hall *et al*. (2003).

These definitions describe accountability in its most simple, abstract form. However, it can be considered within a number of different contexts:

> 'In theoretical research, accountability has discipline-specific meanings, for example, auditors discuss accountability as if it is a financial or numerical matter, political scientists view accountability as a political imperative and legal scholars as a constitutional arrangement, while philosophers treat accountability as a subset of ethics.' (Sinclair, 1995, p.221)

The concept, while generally understood to mean being responsible to another, means different things in different disciplines. Sinclair (1995) describes accountability as having a 'chameleon quality'; it changes and evolves. It is dependent upon factors such as ideology and language, concepts which are not considered to be static in nature. Therefore, though Sinclair (1995) offers a basic, fundamental definition of what accountability is (a connection between people and/or organisations) its existence within any particular context is subject to continual development. One particular context, used first by Edwards and Hulme (1996), is the principal-agent theory. Gailmard (2012) states that principal-agent theory has become a popular approach for understanding public accountability, and offers an example of its use within a political context (elected officials being the agents that represent the voters i.e. principals). Modern democracy depends on the ability to hold the government of the day to account for its actions. Accountability has, over time, developed a more detailed and complex meaning (Ospina *et al*., 2002).

While some of the details may differ, some general ideas of what accountability is appear to be universal. The entity (or individual) in question is answerable to one or more groups for the impact their operations may have. Where academics and others appear to disagree is the extent to which an entity can be held accountable. A single organisation might have a dozen different stakeholder groups affected by their existence, from shareholders to the local community. It is therefore inextricably linked to accounting, which is a means of conveying information about an organisation's operations, be it public, private, or not-for-profit. At a basic level, this is the principal/agent relationship.

4.3: Accountability within an Accounting Context

The issue of accountability can be broken down into different forms. For example, the concept can either be applied internally or externally. An internal analysis of accountability would consist of looking at the hierarchy within the company, examining the relationships between employees and management. An external analysis would involve looking at how the company interacts with its various stakeholders. According to Brennan and Solomon (2008), the focus within accountability literature has usually been on corporate governance and agency theory, and less so on stakeholder theory.

Another way of distinguishing between different forms of accountability is considered by O'Dwyer and Unerman (2008), who describe 'hierarchical' and 'holistic' forms. Hierarchical accountability has a much more short term focus. Stakeholders who provide funding or who are required for strategic purposes are given priority. Preference is given to the most powerful stakeholders. Holistic accountability has a much more long term focus, with 'downwards' accountability given greater priority. This includes stakeholders who do not hold any real influence over the entity.

The most popular form within accounting literature is corporate accountability, that is, the relationship between firms and their stakeholders. This encompasses a wide variety of groups, including shareholders, debtors, employees, the government, local communities and even future generations (Messner, 2009). An early discussion is provided by Benston (1982), who states that it at least in part stems from the need for equality and justice. It is a way of protecting groups or individuals from corporations without government intervention, instead relying on the goodwill of private entities.

There are other perspectives on this topic, for example:

> '…the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible.' (Gray, 1996, p.38)

Based on this definition, accountability, within an accounting context, need not be limited to financial information about the firm. While shareholders are primarily interested in this information e.g. profits and dividend payments, other stakeholder groups may expect social or environmental disclosures from the entity. The government and the community may wish to know what the firm's impact has have been on local employment or pollution levels, for example (a non-profit perspective will be considered later in the chapter). Bowen *et al*. (2007) state that the distinction between this and corporate social responsibility (CSR) is that the latter tends to involve a more top down approach, where senior management make decisions on what additional disclosures to make. On the other hand, corporate accountability can exist at any level within the organisation.

External accountability is closely linked to stakeholder theory, a concept introduced by Freeman (1984). This idea states that anyone the entity comes into contact with is potentially significant, and that the firm must carefully balance the requirements of each group. Stakeholder theory has formed the basis for much of modern day CSR. This theory can be applied not only to profit making entities but to non-profit sector organisations, too. Phillips (2003) takes this further, distinguishing between normatively legitimate stakeholders (the entity is morally obligated to them) and derivatively legitimate stakeholders (their role as a stakeholder stems from being able to influence the entity).

An alternative way of splitting the concept is to consider instrumental stakeholder theory, which assumes a competitive advantage can be obtained by satisfying influential stakeholders, and (again) normative stakeholder theory, where a moral obligation lies. Both of these acknowledge the difficulty in handling multiple groups at one time, and the problems associated with prioritising one constituency over another (Voss *et al*., 2005). For firms, the position is perhaps clearer; commercial advantage must be the first aim. Further stakeholder demands should be met after the potential to increase wealth has been exhausted. For non-profit organisations, the stakeholder relationships are inherently more complex. Pfeffer and Salancik (1978) state that organisations must learn what groups to support, and which they should instead ignore. Stakeholder theory has proven to be a very popular framework for charity reporting, due to its strong links with the notion of accountability (Connolly and Hyndman, 2013).

4.4: The Benefits and Limitations of Accountability

The advantages and disadvantages of accountability have been widely debated. Roberts (1991) argues for its importance in maintaining a sense of purpose. Without the possibility of being held to account by others, an organisation may forget its aims, be they ‘primary’ goals (i.e. to make and increase profits) or ‘secondary’ (environmental or social targets, included for corporate social responsibility purposes). Being accountable to stakeholders keeps the principal/agent relationship alive; management continue to strive towards increasing value for the company’s owners, and not for themselves. If no accountability mechanisms existed that allowed shareholders to verify the truthfulness of what companies told them, wrongful or illegal behaviour could (potentially) be more widespread. Furthermore, the very existence of accountability mechanisms can be beneficial, much in the same way an audit gives an organisation credibility over its financial statements.

Sinclair (1995) describes it as being the price paid for being powerful, that accountability is a necessary part of living in a democratic society. It is required to keep the most influential bodies, be they private, public or not-for-profit, from exploiting those unable to challenge such authority. Performance reporting is a key way of doing this, ensuring that the organisation acts in the interest of all stakeholders (Edwards and Hulme, 1995). For non-profits, the existence of accountability mechanisms ensures that management use resources efficiently and effectively (Connolly and Hyndman, 2013).

Although generally considered to be a good thing, Messner (2009) questions whether more accountability is always desirable. This goes against the position held by many within the accounting literature (a point acknowledged by the author). While Messner (2009) agrees with the need for greater accountability in many areas, the author feels that there are limits to what can be expected of organisations or individuals. The following example is provided:

> '…there are cases in which multiple accountabilities act upon a manager or organization. If different stakeholders raise conflicting demands, then this requires the accountable self to speak in ''several languages at the same time". While a person's failure to meet some of the demands may be regarded as unethical, expecting that person to measure up to multiple and conflicting accountabilities is itself ethically questionable.' (Messner, 2009, p.919)

Here, Messner (2009) argues that it would be unrealistic to meet the demands of each and every single stakeholder group an organisation comes into contact with. Some of these expectations may even conflict, making it not only undesirable but impossible to fulfil every duty to account. The author describes this as an 'ethical gap'; where the organisation cannot meet the needs of its stakeholders despite a willingness to do so. It would be unfair to penalise such an organisation for failing to meet these high standards. For example, shareholders of a company expect financial value creation, but the means by which this could be achieved may conflict with the government (e.g. the adoption of tax avoidance methods) or employees (offering lower wages, worse working conditions).

It is also very difficult to measure accountability due to its subjective nature. Attempts have been made to calculate accountability (see: Connolly and Dhanani, 2012, discussed later in the chapter) within non-profit organisations in order to quantify it. Though it may be possible to evaluate accountability within a firm based on an economic link between shareholders and management, Gray *et al.* (2006) argue that the complexity of non-profits makes such a process virtually impossible. They state:

> 'Matters such as trust, emotion, conscience, social contacts, mutuality etc. all enter into the relationship and to reduce such complexity to monotonic performance measures is to demean the complexity of the relationship.'
> (Gray *et al.*, 2006, p.335)

This highlights the subjective nature of accountability. Not only is it a difficult concept to define, it is also very hard to quantify it. Therefore, though it is possible to state that one non-profit is more accountable to its stakeholders than another, it is impossible to substantiate this with objective information. Accountability can only ever be based upon the opinions of individuals or groups who are connected to the organisation in some way. The factors discussed by Gray *et al.* (2006), trust, emotion, conscience etc. are inevitably subjective; therefore, it follows that accountability must also be so.

The limitations of accountability are also considered by Butler (2005), who argues that it is impossible to give an account of oneself (the author considers this from a general perspective rather than looking specifically at organisations and their stakeholders). People are prone to missing details, or tell them from a particular perspective that risks bending the truth. Additional limitations include unavailable information and constraint on resources (Gray, 2002; Maurer, 1996). Even if there is a will to share such information with stakeholders, it does not necessarily mean that the organisation can do so. In their study of social accounting used by social enterprises, Gibbon and Affleck (2008) found that the associated costs would need to be reduced if widespread adoption is to be made. The alternative would be to ask donors for additional funding to finance these reports.

4.5: Accountability and Charities

4.5.1: Who are Non-Profit Organisations Accountable to?

It has been argued that there is greater need for accountability within the non-profit sector (see: Cordery and Baskerville, 2007; Ebrahim, 2003; O'Brien and Tooley, 2013; O'Dwyer and Unerman, 2008). Non-profit organisations have a wide variety of stakeholder groups to consider when conducting their everyday operations. Though they aim to assist one particular group, the beneficiaries of their chosen cause, many more will take an interest in how the organisation is run. Public sector organisations are not only accountable to those they serve directly e.g. patients in a hospital, but also to society at large (Behn, 2001). Taxpayers have an interest in how public money is spent on healthcare, whether they receive care or not themselves. This demonstrates that an accountability link exists between the two, even though it is not necessarily a direct link. Taxpayers, as well as patients, require reports of some kind concerning a hospital's performance. Much in the same way, expectations might be placed on charities indirectly. The following quote explains the role of accountability within charities:

> 'While accountability, in its widest sense, is more than accounting, no matter how widely accounting is defined, accounting is clearly linked to the concept of accountability. Appropriate accounting and reporting (i.e. the provision of information that meets the needs of stakeholders) are necessary to maintain and build confidence in the charity sector as a basis for promoting both charitable giving and charitable activity.' (Connolly and Hyndman, 2013, p.260)

Though accountability continues to be an elusive concept, it is an important way for non-profits to achieve legitimacy amongst external groups (Ospina *et al*., 2002). Like its commercial counterpart, non-profit sector accountability concerns the organisation's relationship with its stakeholders (Lee, 2004). However, there are two key differences. First, the relationship between non-profits and its stakeholders is much more complex due to the nature of their operations. Second, it has been suggested that though such mechanisms exist within the sector, they are much weaker than those found in firms or government (Brody, 2002; Herzlinger, 1996). The reason for this is the difficulty in determining *who* non-profits are accountable to. Firms are accountable to shareholders, while governments are to voters. There is no single, distinct group which can be linked to third sector organisations in this way (Goodin, 2003). Therefore, the sector cannot be described as homogenous; the stakeholder relationships will vary greatly between organisations. However, in the majority of cases, community relations are important if the organisation wishes to maintain legitimacy (Ospina *et al*., 2002).

They are similar to profit making firms in a number of ways, for example, employed strategies must, to some extent, be kept secret. In other ways they must operate like public sector organisations, ensuring equality and fairness. O'Brien and Tooley (2013) describe management as being stewards of the resources they use to provide a social benefit. But, as Ospina *et al*. (2002) state:

> '…traditional definitions of accountability – focused on financial health, internal controls, and regulatory compliance – do not fully capture an organization's performance' (p.8).

This is perhaps particularly relevant for charitable organisations. Merely providing financial information is not necessarily beneficial to most non-profit, stakeholder groups. The authors go on to say:

> 'Traditional definitions of accountability prescribe standards for disclosure on information (usually financial) and minimum standards of behaviour (adherence to regulations), but these definitions do not provide managers or stakeholders with a measure of how well an organization is achieving its mission and goals or the consequences of poor performance or organizational failure.' (p.8)

The purpose of the organisation, to fulfil some sort of social goal, is of greater importance to most stakeholders than financial reporting.

A number of research papers have focused on understanding accountability within the charity sector. In their study of UK charity accounting, Connolly *et al*. (2013c) ask several questions about accountability during round table discussions. For example, one question asked was: '*Who are the key stakeholders of charity annual reports and accounts?*'. A clear consensus was found that funders were the main stakeholder groups because '…their altruism created a special relationship of accountability' (Connolly *et al*., 2013c, p.63). However, the reason for this greater accountability being given to them is different from that of shareholders (their private sector equivalent). One respondent states that because benefactors provide funds without the expectation of a financial return, their need for accountability is the greatest. However, shareholders are said to be in need of better accountability from firms for the opposite reason; they *require* a return on their investment. A similar study by Connolly *et al*. (2013c) found very similar results; that donors were the most important stakeholder group. In this study, 38% of respondents (which were made up of auditors, beneficiaries, donors and officials) described funders as being the main group to whom charities were accountable. Hyndman (1990) also draws attention to funders as being particularly important, because the long-term survival of the charity depends on their donations.

Despite a general consensus on funders being important, each group in the study highlighted a different stakeholder who also deserved recognition. Auditors, for example, drew attention to regulators. Funders believed beneficiaries, the people for whom the charity exists, were fundamentally important. Academics highlighted beneficiaries too, as well as the general public. The subjective nature of accountability inevitably leads to these differences of opinion. These different perspectives suggest virtually all stakeholders are owed an account of some kind, though expectations of the charity are likely to vary from group to group.

Morris *et al*. (2007) state that the two most important stakeholder groups for a non-profit are the beneficiaries and the benefactors. The former, people or otherwise, are the reason that the organisation exists in the first place. Donors are the people who ensure the organisation exists at all by funding it. However, conflicts will exist between the two where difference of opinion lies, and it may be difficult to satisfy the feelings of both (Connolly *et al*., 2013; Morris *et al*., 2007). Additional stakeholder groups only magnify the difficulty of being accountable.

A question asked by Lee (2004) is whether the general public should be considered a stakeholder of charitable organisations. In most stakeholder models for private entities, the public at large (or at least the local community) are considered to be external stakeholders. Lee (2004) cites Bryson (1995), who defines a stakeholder as 'any person, group, or organisation that can place a claim on an organization's attention, resources, or output or is affected by that output' (Bryson, 1995, p.27). The final part of this quote implies that the general public, or at least the local community in which the charity operates, are owed a duty of account. 1990s data from Brody and Cordes (1999) shows that US charities were subsidised by approximately $165.8 billion per year. Lee (2004) argues that this makes charities accountable to the general public, or at least to taxpayers. However, this need not be viewed negatively. Building a relationship with the public can also help to mitigate the damage done by bad publicity encountered at any point during the charity's life. Furthermore, viewing the public as an external stakeholder also allows the possibility to eventually turn them into supporters of the charity (Lee, 2004).

4.5.2: Stakeholders and Social Performance Measurement

The literature in the previous section considers the different stakeholders a non-profit organisation might have, and their relative importance to such an organisation. More recently, Nason *et al*. (2017) argue that accountability, for social performance, is dependent on feedback from stakeholder groups. The authors state that without this feedback, it is impossible to determine social performance in the way financial performance can be assessed through reviewing annual statements. Organisations 'lack referrents for the increasingly important criterion of social performance' (p.8), instead depending on stakeholders to respond appropriately to their decisions and actions relating to social value creation. This gives stakeholders incredible influence over an organisation's choices with regards to social performance, if we are to take the point of view from Nason *et al*. (2017) that the their satisfaction is the best measurement for social achievements.

Furthermore, this highlights the need for an active relationship between an organisation and its stakeholders. A passive relationship, with the charity conveying its social impact without stakeholder feedback, would not work. Social performance can only be judged where stakeholders respond with their views on what the organisation is doing for the social cause (Nason *et al*., 2017). This requires stakeholders to be interested enough in the cause to pass on their feedback; disengaged or oblivious stakeholder groups will not be able to fulfil this 'referrent' role.

4.5.3: Measuring Accountability

One particular approach to interpreting charity accountability is taken by Connolly and Dhanani (2012), who break it down into four sub categories; strategic, financial, fiduciary and procedural. Strategic accountability considers the charity's broader objectives i.e. their primary social goals. The disclosures provided here are the 'organizational intentions, that is, their vision and mission; actions that is, their activities and programs to fulfil the intentions; and results' (Connolly and Dhanani, 2012, p.1145). This is often considered the most important aspect of the charity's activities, as it represents the principal aim of its operations within the sector. Financial accountability encompasses all monetary issues, from fundraising to the reporting of annual results. This is highly important, as the charity can only hope to operate as a going concern if it continues to at least break even in the long run. Fiduciary accountability concerns corporate governance issues, and whether the charity is being run in an efficient and effective manner. Lastly, procedural accountability considers the ethical side of the charity's operations, and *how* the charity is being run. By considering the four elements of accountability in a framework (as Connolly and Dhanani (2012) attempt to do) it is possible to create a comprehensive analysis of accountability within a charitable organisation.

The sample used by Connolly and Dhanani (2012) consists of annual reports and annual reviews (67 and 48, respectively) provided by UK based charities. Among their conclusions, the authors thought that accountability discharged through publications was provided to give a positive image of the charity, rather than to fulfil a moral purpose. They described this as being in line with the positive model of stakeholder theory. Connolly and Dhanani (2012) state that this puts the motivations behind charity disclosures the same as private and public entities, '…attempts to legitimize organizations' actions and strategies and the need to create a positive image' (Connolly and Dhanani, 2012, p.1160). Furthermore:

> 'The results are nevertheless paradoxical when considered against the role that charities have played as agents of change to influence the corporate social and environmental accountability agenda. As watch dogs of the activities of these sectors, and as advocates for the less privileged, some [non-profit organisations] have lobbied to make corporate social reporting a mandatory, audited and transparent process. It is possible that despite their attempts to make such organizations more ethical and equitable in their practices, consistent with Davison (2007), [non-profit organisations] have themselves adopted a pragmatic business practices in response to the corporate-like pressures that they are increasingly exposed to.' (Connolly and Dhanani, 2012, p.1160)

Here, the authors feel that profit and non-profit entities have influenced each other in recent years. While some non-profits have sought to make corporations more ethical, they have at the same time found themselves adopting commercial strategies i.e. entrepreneurial thinking. Non-profit organisations feel compelled to promote themselves positively through their annual reports (there is evidence to suggest non-profits are increasingly using the annual report to advertise their forthcoming plans as well as their past performance, see: Beattie and Jones (2000, 2008); Beattie *et al*., (2008)) rather than utilising these documents purely to discharge accountability.

Two studies, separated by 23 years, have sought to examine the importance of particular ways charities can discharge accountability by ranking them. Both Hyndman (1990) and Connolly *et al*. (2013a), in their respective studies, asked a number of external stakeholder groups how important financial and non-financial information in an annual report is to them when analysing a charities' performance. For example, auditors, beneficiaries, donors and charity officials were asked to rank the importance of, amongst others; the balance sheet, cash flow statements, measures of efficiency, details of administration costs, budget data and current and future objectives. A general consensus, in both studies, was that it was important for charities to provide some sort of measures of their output (discussed in an earlier section). All but one of the four stakeholder groups ranked this the most important information (with officials ranking it the second most important) in the study conducted by Connolly *et al*. (2013c). Hyndman (1990) found similar results, though measures of output were ranked highly but not the most important; the statement of goals was described as such. Generally however, some sort of output measurement is important to auditors, beneficiaries, donors and charity officers.

Amongst the least important information for accountability purposes was the statement of cash flows. This was even the case amongst auditors, who ranked it the least important in both studies. Audited financial statements were found to be unimportant in general, with the statement of financial activities (SOFA) and the balance sheet ranking very low. With regards to discharging accountability, financial statements are typically not as important as the provision of non-financial disclosures, unless it concerns efficiency or administration costs (Connolly *et al*., 2013c; Hyndman, 1990). Connolly *et al*. (2013c) state that the conclusions drawn from the analysis made by Hyndman (1990) still hold today, and have changed little since this initial study.

The principal-agent approach to accountability can also be considered in relation to the non-profit sector (Steinberg, 2010). Donors, the principal, give their money to charities, the agent, in the hope of achieving a particular social goal. A 'middle man' is required because the donors are unable to provide this social benefit themselves. For example, they may not have the relevant contacts, or provide a donation too small to be helpful on its own. Therefore, a third party must exist to combine all donations and perform the social benefit on their behalf; however, their existence creates the need for accountability (Steinberg, 2010).

Gray *et al*. (2006) discuss how accountability can be formal or informal in nature. Larger non-profit organisations may require more formal systems through which to discharge accountability appropriately to stakeholders. Formal can be defined as the providing of information through announcements and annual reports. By contrast, smaller non-profits may have no need for such systems, instead preferring to discharge accountability indirectly. Similarly, not all stakeholders may require formal accountability, instead relying upon word of mouth or even the assumption that the organisation is behaving correctly (Gray *et al*., 2006). A relationship between a non-profit and stakeholders built on trust can simplify accountability requirements, thus allowing for a more informal process to thrive (Costa and Pesci, 2016).

4.5.4: Multiple-Constituency Theory

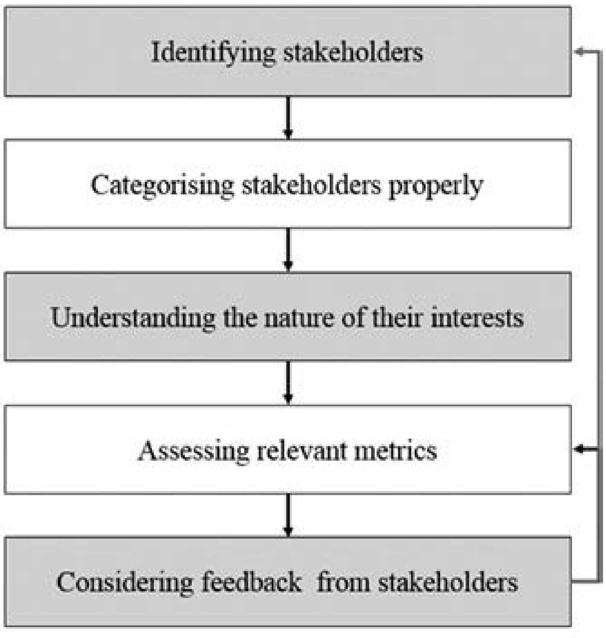
According to Costa and Pesci (2016), four approaches have been developed in order to address multiple-constituency theory; a concept that addresses the need of organisations to satisfy multiple stakeholder demands concurrently. Costa and Pesci (2016) argue that these four approaches were created in order to answer two different questions, namely: 'Who wants what?' and 'What are the implications of the satisfaction of one demand on other demands?'. Table 4.1 shows the different approaches that can be taken towards multiple-constituency theory.

Table 4.1: Multiple-constituency theory approaches

Approach	Description
Relativistic	Evaluation of the organisation's performance depends upon various judgments coming from stakeholders connected to it (Connolly *et al.*, 1980).
Power	Different stakeholders have different degrees of power with the most powerful determining the organisation's performance (Pennings and Goodman, 1977).
Social justice	'Weaker' stakeholders cannot be overlooked in favour of more influential groups (Keeley, 1978).
Evolutionary	Acknowledges that stakeholder requirements can change over time – what is effective now may not be so in the near or distance future (Zammuto, 1982).

The 'relativistic' approach argues that an organisation's success will depend on the relative views of different stakeholder groups the organisation owes an account to (Connolly *et al*., 1980). We cannot say with any certainty who those stakeholders are or how important they are. The 'power' approach holds that some stakeholders will hold greater influence over the organisation than others and that a well performing organisation will satisfy these stakeholder demands first and foremost (Pennings and Goodman, 1977). Within the context of the non-profit sector, this could mean ensuring funders are happy at the expense of volunteers or the general public. The 'social justice' approach is a reversal of the power approach, in that all stakeholders, irrespective of their ability to influence the organisation, should be treated equally (Keely, 1978). According to Keely (1978), the aim is to avoid stakeholder regret amongst those overlooked in favour of more influential groups. Lastly, the 'evolutionary' approach articulates that time is an important consideration when assessing organisational performance (Zammuto, 1982). The needs and expectations of stakeholders may change, therefore, in order to assess organisation effectiveness, the context in which they operate must be considered. The conclusion from multiple-constituency theory is that no single approach can hope to appease all stakeholders fairly as their requirements will vary too significantly (Costa and Pesci, 2016).

Figure 4.1: Multiple-constituencies approach according to Costa and Pesci (2016)



Note: The phases that engaged the stakeholders are highlighted in grey

Figure 4.1 is reproduced from Costa and Pesci (2016) and outlines the author's views on how multiple-constituency theory could be reconciled with the non-profit sector, particular in the case of social enterprise type organisations. They described five separate steps: 1) Identifying stakeholders; 2) Categorising stakeholders properly; 3) Understanding the nature of their interests; 4) Assessing relevant metrics; 5) Considering feedback from stakeholders.

The first step, identifying stakeholders, involves determining who is affected by an organisation's existence. Chan *et al.* (2015) identifies a major challenge here; some stakeholders may belong to two or more stakeholder 'groups'. The second step, categorising stakeholders properly, means understanding the relative importance of different stakeholder groups and understanding their key differences, namely, their influence over the organisation. The third step, understanding the nature of their interests, involves interpreting not only what they need (or claim to need) but also what needs to be told for accountability purposes (Sadownik, 2013). The fourth step, assessing relevant metrics, refers to the measurement of stakeholder social impact in relation to their needs, as identified in the third step. The fifth and final step, considering feedback from stakeholders, is reflective of the prior four steps. It involves asking stakeholders for their views on this process in order to maintain a long term process of active engagement between them and the organisation. Costa and Pesci (2016) conclude by saying that there is no such thing as a 'gold standard' for measurement that incorporates all information for all stakeholders. Instead, the process should be to interpret what is needed via the five stage process outlined above and ensuring stakeholders are constantly engaged throughout.

4.6: Non-Profits, Accountability and Principal-Agent Theory

As Fama and Jensen (1983) discuss, it is possible to describe a manager and owner relationship in a non-profit context. Though usually considered from a for-profit perspective, principal-agent theory can be equally relevant to other types of organisations. However, this relationship is undoubtedly more complex when considered in the charity sector. Some authors have pointed out that it is unclear who the principal actually is (see: Anheier, 2005; Brody, 1996; Miller, 2002; Ostrower and Stone, 2006). No particular group stands out as serving the role filled by shareholders in the for-profit set up. This has prompted some authors to consider principal-agent theory differently in non-profits; for example, by incorporating stakeholder theory into the framework.

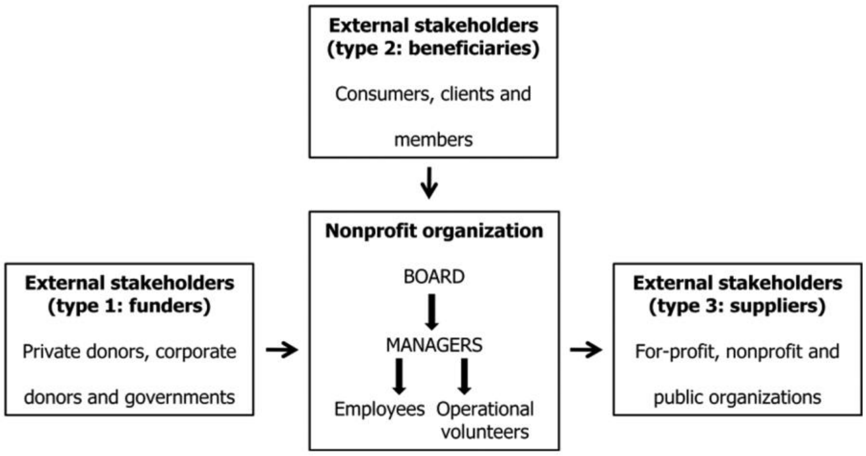
Not everyone is convinced by a principal-agent approach. Steinberg (2010) feels that multiple principals, with different objectives, deny principal-agent theory from being of any real use as an accountability mechanism. One proposed solution, made by Steinberg (2010) and Puyvelde *et al*. (2011), is to incorporate other theory frameworks. Puyvelde *et al*. (2011) suggest both stakeholder and stewardship theory as a way of tackling the complex nature of non-profits and separate stakeholders into different categories based on their relationship to the organisation. The authors describe three distinct external groups in their paper, namely funders, beneficiaries and suppliers. Each of these can, in their own way, be described as having a principal-agent relationship with the relevant organisation, even where no contract exists.

For example, Puyvelde *et al*. (2011) describe how 'operational volunteers', those who work on the ground as opposed to unpaid board members, can be described as having a principal-agent relationship. This is despite there not being a formal agreement (i.e. an employment contract) between these individuals and the non-profit organisation. Instead, there exists a 'psychological contract' (Puyvelde *et al*., 2011, p.435) that permits a principal-agent relationship. This relationship does not exist between the non-profit organisation and its rivals or other external stakeholders because there is no contractual agreement (formal or otherwise) which exists between them. Decision making is not transferred between groups in any of these scenarios (Puyvelde *et al*., 2011). These relationships are shown in Figure 4.2.

Table 4.2: Stakeholders of a non-profit organisation according to Puyvelde *et al*. (2011)

Stakeholder type	Description
Interface stakeholders	
Board members	The board of directors is the governing body of the nonprofit organization.
Internal stakeholders	
Managers	Management of the nonprofit organization.
Employees	Other paid staff of the nonprofit organization.
Operational volunteers	Volunteers who are directly involved in the provision of goods and services offered by the nonprofit organization.
External stakeholders	
Funders	Individuals or organizations that donate to the nonprofit organization and governments or government agencies that give subsidies to the organization.
Beneficiaries	Consumers, clients, or members of the nonprofit organization.
Suppliers/contractors	For-profit, nonprofit, or governmental organizations that provide goods or services to the nonprofit organization.
Competitors	For-profit, nonprofit, or governmental organizations that compete with the nonprofit organization in the same market or industry.
Organizational partners	For-profit, nonprofit, or governmental organizations that collaborate with the nonprofit organization.
Others	Other external stakeholders such as the media, community groups, and persons or groups who are affected by externalities produced by the nonprofit organization.

Figure 4.2: Principal-agent relationships as imagined by Puyvelde *et al.* (2011)



Principal-agent theory in the non-profit sector can be taken further. Puyvelde *et al.* (2011) discuss how large benefactors are often on the board of the non-profit they sponsor. The authors also cite a US study, Callen *et al.* (2003), which found that there was a statistical relationship between benefactors being involved in an organisation and indicators of efficiency. The presence of large benefactors on the board led to these organisations spending less on administration costs, when compared with rivals within the sector. The paper concludes with the view that stakeholder theory is highly important when discussing principal-agent theory within non-profits, due to multiple stakeholders playing a role. To complicate matters further, Bendickson *et al.* (2015) argue that the recent development of social entrepreneurship has itself created new principal-agent relationships. This is because the sectors that make up the economy, while previously well defined, are becoming increasingly blurred. The 'dual bottom line' has taken social entrepreneurs 'from principal to agent to benefactor' (Bendickson *et al.*, 2015). This makes it difficult to even determine who the principal or agent is in a non-profit context.

4.7: Social Entrepreneurship, Agency and Stewardship Theories

Agency and stewardship theories are frequently studied together (Bacq *et al*., 2012). According to Tosi *et al*. (2003), those in organisations with decision making powers are more likely to pursue profit maximisation under an agency model rather than a stewardship one. Bacq *et al*. (2012) state that the contrast between an agency mind-set and a stewardship mind-set can be put down to the personal ambitions of the individual; however, given the context in which social entrepreneurs operate, these can be both financial and social in nature. The for-profit assumption is that the agent will pursue personal financial interests. Wiseman *et al*. (2012) take the view that this assumption can be modified for the non-profit context, allowing for the pursuit of social objectives too. The main point concerning the principal-agent problem, which is the two have competing interests that do not necessarily fully align, can still hold true. Both principal and agent have their own opinions on what is best for the organisation and the social cause itself (Wiseman *et al*., 2012). An 'agency mind-set' would be demonstrated by an individual who is sole focused on either financial or social value creation by the organisation (Bacq *et al*., 2012). Therefore, the pursuit of social objectives is, according to Bacq *et al*. (2012), to be associated with agency theory.

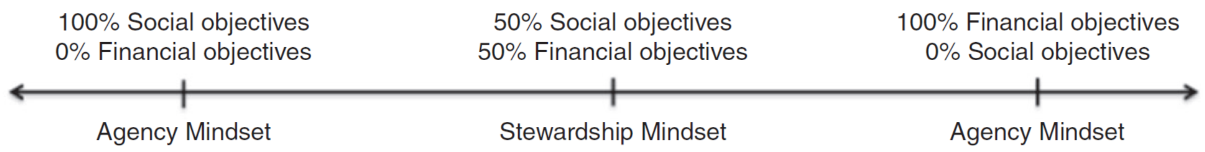
This contrasts with a 'stewardships mind-set', which would see the individual attempt to strike a balance between both social and financial objectives (Bacq *et al*., 2012). The targeting of non-financial objectives has previously been associated with stewardship theory (Corbetta and Salvato, 2004; Eddleston and Kellermanns, 2007). Furthermore, they would be more interested in pursuing the objectives of the organisation, or principals, rather than what they personally view to be best for it; socially or financially. Davis *et al*. (2007) state an individual with a stewardship mind-set is 'not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals' (p. 21). It has been posited that all social entrepreneurs have a stewardship mind-set (see: Low, 2006; Short *et al*., 2009). Its core theoretical definition pairs well with social entrepreneurship:

> 'The assumptions of stewardship theory are that long-term contractual relations are developed based on trust, reputation, collective goals, and involvement where alignment is an outcome that results from relational reciprocity' (Van Slyke, 2007, p.164).

However, Bacq *et al*. (2012) disagree with this view, arguing it is only the case where they fully accept both the financial and social objectives of the organisation i.e. a blended value approach. Bacq *et al*. (2012) also examine how mind-sets develop over time. The authors determine, although not conclusively, that social entrepreneurs trend towards a stewardship mind-set, yet start with a more agency leaning mind-set.

A key point by Bacq *et al*. (2015) is that social entrepreneurs with an 'agency-orientated mind-set' regard organisational objectives to be singular; whether that means pursuing solely social or financial goals. On the other hand, social entrepreneurs who possess a 'stewardship-orientated mind-set' are more willing to pursue a blend of social and financial goals and do not believe them to be mutually exclusive. What is interesting to note is that the agency mind set does not mean financial objectives are necessarily what the agent aims for; it could instead be to achieve a social impact. They are, however, much less willing to diversify their objectives than the individual or organisation with a stewardship culture. Their representation of this is show in Figure 4.3.

Figure 4.3: Conceptual model imagined by Bacq *et al*. (2015, p.320)



Wiseman *et al*. (2012) argue the case for a social theory of agency and criticise those who deny its relevance outside of for-profit organisations. They point out that commonly discussed issues concerning agency theory, such as board monitoring and information asymmetry, are equally relevant to other types of organisations because the same (or similar) systems exist. The authors cite Doney *et al*. (1998), who make use of cultural dimensions in their attempt to 'socialise' agency theory. For example, they introduce concepts such as approach to risk, power distance and individualism v collectivism. By doing so, the authors argue this improves upon the explanatory power of agency theory when it is considered in alternative, less traditional contexts. Furthermore, Wiseman *et al*. (2012) contend that the 'economists' reductionist view of individual behaviour' (p.217) being entirely motivated by self-interest is an 'oversimplification of reality' which ignores a broad range of issues. Though agents and principals may have different goals, this need not create agency costs for the principals (Wiseman *et al*., 2012). However, Wiseman *et al*. (2012) also state:

> '…the principal may never know the full extent to which interest divergence, convergence, and opportunism are present at a particular moment in a dynamic principal–agent relationship. This is a neutral, a moral universal statement applicable to delegation in any institutional context and which holds true even if both parties firmly believe that they act appropriately, honourably, and in good faith.'

The existence of information asymmetry or goal misalignment is always a possibility, with the principal perhaps never finding out this is the case. This can happen even in situations where both the agent and principal believe themselves to be operating in a just and proper way.

4.8: Summary

In this chapter, the subject of accountability was considered. Competing definitions were first discussed, demonstrating the difficulty in labelling this elusive concept. This was first considered from a general point of view. Part 4.3 sought to examine accountability within an accounting context instead, and how the two are linked. This was followed by an examination of what is good and bad about accountability, again from a general, abstract point of view. Next, the role of accountability within non-profit organisations was analysed. Perceptions of who accountability was owed to, in terms of stakeholder groups, was addressed. Here it was shown how subjective the concept is, with different studies coming to different conclusions on who the important stakeholders are for a non-profit organisation. The typical conclusion to emerge from prior studies was that the relative importance of a stakeholder group depended on the position and perspective of the individual asked. The views of Nason *et al*. (2017) were also considered, who argue that stakeholder feedback is vital for social impact assessment. Secondly, how accountability can be measured, or even assessed, was also studied. Attempts at measuring the concept have proven to be very difficult due to accountability's subjective nature. The final two parts of this chapter looked at the use of the principal-agent model in a non-profit context and the use of other existing theories being applied to a non-traditional environment. Here, prior literature on agency and stewardship theory within a non-profit context was discussed, with examples of successful applications of the theories within the sector presented.

In summary, this chapter sought to better comprehend the use of accountability by charitable organisations. Accountability is a broad term, encompassing a wide array of important issues for charities to consider, including stakeholder relationships and information provision. Based, in part, on this prior literature, the research question: "In what ways is accountability shown within the sector?" emerged as being important for charitable organisations. There are a variety of ways such organisations can choose to be accountable to their stakeholders and the sector requires a different approach from what might be found in other sectors. The research question does not simply refer to the mechanisms employed but also to the stakeholders themselves, in order to better understand why charity stakeholders have different accountability needs. Furthermore, reference is made in particular to Nason *et al*. (2017), in order to see how their views on social performance measurement relate to the findings from this study. By asking this question, it is hoped that much can be learned about the issues discussed in prior literature, however, this time from the perspective of charity's themselves, rather than academics or benefactors. In the next chapter, the research methodology is outlined.

Chapter 5: Research Methodology

5.1: Introduction

The previous chapters provided a literature review of social entrepreneurship, charity accounting and accountability. In this chapter, the methodology of the research study is explained. This begins by describing the research design. This section addresses the research objectives, the research questions and explains why interviews are an appropriate method for answering them. Part 5.3 details the actual data collection and how each stage was conducted. This includes a breakdown of the respondents interviewed and how their interviews were conducted. Part 5.4 then explains how the data analysis is handled, including data coding and how the results are presented. Part 5.5 discusses the limitations of this research and how they were handled. Part 5.6 provides a discussion of research philosophy; first, by looking at traditional accounting philosophy and second, by looking at alternative perspectives. This is followed by a look at qualitative research, including its merits and its use in the accounting discipline.

5.2: Research Design

5.2.1: Research Objectives and Aims

This study looks to answer several key research questions concerning non-profit governance, accountability and entrepreneurship. The research questions presented in this section address the key issues raised and discussed in the literature review, whilst looking to answer calls made by previous researchers (namely: Brinberg (2009);

Connolly and Hyndman (2000); Connolly and Hyndman (2001); Purvelde *et al*. (2011); Steinberg (2010)). In total there are four research questions, presented in Table 5.1.

Question One asks how non-profits address the dual bottom line i.e. maintaining long term financial stability while creating social value. It is a difficult balance all charity organisations need to consider, as the social value they create is constrained by resources available to them to create that value. Question Two asks how non-profit organisations discharge accountability in a crowded and competitive sector. Has this changed over the years? Have they adapted to changes in society and technology? Question Three seeks to observe the extent and nature of entrepreneurship in the non-profit sector. This is examined by asking respondents how they view this concept and how relevant they think it is to non-profit organisations Question Four follows on from this by looking at whether entrepreneurship can serve a non-profit's social purpose. For example, can an entrepreneurial attitude be useful or detrimental in the pursuit of social value?

Table 5.1: Research questions addressed in this study

Question Number	Question Title
1	How do agents/stewards balance their social objectives with financial demands?
2	In what ways is accountability shown within the sector?
3	To what extent is entrepreneurship evident within the sector?
4	In what ways can entrepreneurial thinking benefit the social cause?

5.2.2: Justification for Interviews as a Research Method

The research data in this study is drawn from interviews, both unstructured and semi-structured in format. There are a number of reasons why this approach is suitable for the research undertaken. Here, these reasons are briefly outlined in order to explain why this method was chosen over others. Interviews, as a method for collecting qualitative data, are one of the most popular approaches used by social science researchers (Saunders *et al*., 2009). Rowley (2012) offers a reason for this:

> 'Interviews are generally used in conducting qualitative research, in which the researcher is interested in collecting "facts", or gaining insights into or understanding of opinions, attitudes, experiences, processes, behaviours, or predictions.' (p.261)

Rowley (2012) states that not only can interviews be useful for acquiring facts, but also for discovering less objective information such as opinions and behaviours. A research interview is a conversation between the researcher and the interviewee (Kvale and Brinkmann, 2008). The subsequent data analysis and discussion stage can similarly be described as a conversation, between the researcher and the reader (Kvale and Brinkmann, 2008). Rowley (2012) explains why this conversation, or narrative, makes them superior to questionnaires as a method for collecting data:

> '…where it is possible to identify some people who are in key positions to understand a situation, such as, say, the managers responsible for implementing a corporate social responsibility policy in a specific brand of a retail chain, interviews might not only be preferable to questionnaires because they provide more details and insights, but also because the key informants are unlikely to take time to fill in questionnaires.' (p.262)

Here, Rowley (2012) argues that the use of interviews as a research method offers the opportunity to acquire much more detailed information than a simple questionnaire would allow. Furthermore, the author also states that an interview is harder to ignore than a questionnaire, thereby improving the 'response rate' for the researcher.

There are other reasons for using interviews. Saunders *et al*. (2009) state that they help the researcher ensure validity and consistency concerning their research questions. Furthermore, interviews have been described as being suitable for collecting data that requires confidentiality, as respondent quotes and remarks can be anonymised during the findings and discussion stages (Hussey and Hussey, 1997). Confidential data can be difficult to obtain by other research methods, therefore, interviews are typically the best approach in such situations (Hussey and Hussey, 1997).

Interviews can be classified in different ways. Healey (1991) makes a distinction between non-standardised and standardised interviews, while Saunders (2009) compares the differences between structured, semi-structured and unstructured interviews. Within accounting, semi-structured interviews have proven to be particularly popular due to their strength in studying qualitative aspects of the discipline in a firm but flexible way (Hussey and Hussey, 1997). This method gives order to the interview but permits deviations and variety during the course of the questioning. This is the approach taken for the second interview stage, where some structure was required (with questions based on literature and the unstructured stage) but scope was allowed for further discussion.

An important consideration is how the interviews are conducted. Douglas (1985) argues that the approach taken impacts the resulting data enormously:

> 'I realized quite early in this adventure that interviews, conventionally conducted, were meaningless. Conditioned clichés were certain to come. The question-and-answer technique may be of some value in determining favoured detergents, toothpaste and deodorants, but not in the discovery of men and women.' (Douglas, 1985, p.7)

The problem suggested here is more likely to emerge in closed interviews that do not permit open discussion. Interviews which ask simple questions are of little research value. Instead, the researcher should seek to make more substantial enquiries of their respondents. The benefit of this is a richer analysis during the discussion stage. Within the context of this study, this was the approach taken throughout. A closed questioning approach was avoided; instead, respondents were asked questions which permitted wider discussion.

In response to a point made by Vaivio (2008), that qualitative methods require significant time in the field to improve validity and reliability, Lillis (2008) argues that this need not be the case:

> 'As discussed above, many questions do not warrant deeper study within organizations. Data from one to two hour interviews are still qualitative, and can still offer a wealth of insight into constrained and focused questions of interest.' (p.243)

Semi-structured interviews can benefit from being a happy medium between structured interviews, which may not allow open-ended discussion, and unstructured interviews, which lack focus or direction (Berg, 2007). The researcher may wish to address particular topics but the interview will not be so rigid as to deny the opportunity to explore new questions as they arise through discussion. Furthermore, this research method can be good for establishing an accurate and comprehensive assessment of a subject's knowledge (Bryman and Bell, 2003; Saunders *et al*., 2009).

5.3: Research Approach

5.3.1: Stage One - Literature Analysis and Theory Development

Before conducting the interviews, the stage is set for the analysis. Tying the analysis back to the underlying theory is an essential component of a qualitative study. Lillis (2008) argues that it is too often overlooked by qualitative researchers:

> 'Researchers invest in good upfront theory, collect interesting data, but then fail to make the difficult but essential "generalizations to theory" in the end. Connecting empirical observations back to the theory that motivated the study is an essential research task. It is important qualitative researchers think very deeply about the meaning of generalizing to theory, about the connection between their study and extant theory, and about the theoretical contributions of the study.' (Lillis, 2008, p.244)

Although qualitative researchers may be good at obtaining worthwhile data, the final connection to theory is sometimes forgotten. Lillis (2008) suspects researchers view qualitative research as being about creating a narrative, not theory building:

> 'This is acknowledged to be one of the persistent weaknesses of qualitative studies, and a step that is poorly understood. Qualitative research is not about storytelling. It is still about the use of, and contributions back to, theory.' (p.244)

Lillis (2008) states qualitative studies should contribute towards their adopted theories and not simply use them. Although the acquisition of good quality data is important, data that is worth examining, it is not enough on its own to justify a thesis or academic paper. In order to fulfil this requirement, this study aims not only to adopt and develop previous principal-agent theories, but to also consistently use it and refer back to it regularly.

This study makes regular reference to the literature review developed in chapters 2, 3 and 4. This is done in order to demonstrate where this study fits into the wider academic picture and allows comparisons to be made with the findings here, in relation to findings made in other studies. In addition, chapter 8, which presents the main analysis, develops an analytical framework based on both prior literature and this study's findings. The aim throughout this thesis is to not only present new findings and research but to demonstrate how it ties into the non-profit field as a whole.

5.3.2: Stage Two - Unstructured Interviews

This study follows a call for charity sector research by Connolly and Hyndman (2000, p.98) who propose using 'qualitative research, possibly utilizing interviews', a call reiterated by the authors the following year in Connolly and Hyndman (2001). A similar call was made by Brinberg (2009), who suggests practical qualitative research to inform management accounting theory. The interviews in this study were conducted in two parts, with the interviews in the first part carried out using an unstructured format. With unstructured interviews, the intention is typically to have the interviewee discuss a theme instead of specific issues (Bryman, 2001). Furthermore, the researcher may drastically change their questioning as the discussion develops, depending on what the respondent refers to or has knowledge of (Bryman, 2001). This means that the questioning for this stage of the research was intentionally broad, with respondents asked for their views on social and financial reporting, stakeholders and social entrepreneurship. Though follow up questions were occasionally asked, if probing on a specific issue appeared to be beneficial, there were no set questions used for the interviews.

To ensure respondents remained as candid as possible and avoid concern over sensitivities of the discussion, interviewees were assured that their answers would remain anonymous. This was made clear before each interview took place. As such, statements quoted or referred to are coded to allow readers to distinguish between individual interviewees. Tables 5.2 and 5.3 present the unstructured and semi-structured interviewees, respectively. The tables assign a code to each respondent, thus preserving anonymity, which will be used for reference purposes throughout the discussion. Interviewees in this table are ordered chronologically i.e. by the dates of the interviews. All interviews were held at the respondent's place of work, with each typically lasting between one and two hours.

The unstructured interview stage comprises of five interviews held during February and March 2015. Silverman (2010) states that the first question a researcher must ask themselves is who to interview. That is, they must determine who is able to provide information that serves the research questions raised. Silverman (2010) calls this 'purposive sampling'; respondents are chosen based on what is to be asked. With this in mind, the unstructured interviews were held with individuals connected to non-profit organisations but who do not directly work for them. Two work for a non-profit support organisation while the remaining three work for the Office of the Scottish Charity Regulator (OSCR), the Scottish Charity regulator. Table 5.2 contains their information.

The two stage interview format served two purposes. First, the unstructured interview phase served to determine what the important issues were from the point of view of the respondents. Discussion would begin intentionally broad in scope to allow respondents to offer a view on what should be enquired about. For example, on the topic of entrepreneurship within a not-for-profit context, interviewees commonly discussed it in relation to funding and its acquirement. Related to funding was the issue of sustainability and ensuring the long term survival of the organisation. Both funding and sustainability were commonly mentioned and, therefore, played a significant role in the semi-structured interview phase that followed. In other words, the unstructured interviews directly impacted what was later ask, and in turn discovered, during the second, larger phase of interviews held. The second reason for adopting the format used was to avoid the narrower focus of questions used in semi-structured interviews which were not relevant to the respondents. For example, questions are asked in those interviews concerning the reporting practices of the respondent's organisation, and whether they believed that their organisation would be described as entrepreneurial. These questions would not necessarily be relevant to the respondents in the earlier part of the study.

5.3.3: Stage Three - Semi-Structured Interviews

Semi-structured interviews, as a research method, can be used in many different ways depending on the circumstances. For example, the number of questions and their form (open-ended, closed) may vary both before the interview begins and as it progresses (Rowley, 2012). Additionally, , a semi-structured interview '…allows for probing of views and opinions where it is desirable for respondents to expand on their answers…' which is '…vital when a phenomenological approach is being taken where the objective is to explore subjective meanings that respondents ascribe to concepts or events…' (Gray, 2009, p.373). This contrasts with a structured interview format, where data is sometimes gathered for the purpose of quantitative analysis, using the exact same questions for each respondent (Gray, 2009, p.373). Semi-structured interviews permit variation in what is asked.

For this study, the semi-structured interview stage comprises of twenty interviews held from March to July 2015. The respondents were made up of individuals working at all levels within charitable organisations with most holding a financial position or background. They are made up of: four chief executives, two finance directors, two accountants, a fundraiser, two board members, a manager, two finance officers and six volunteers working in a variety of administrative and practical roles. The twenty respondents come from fifteen different charitable organisations. Some of these organisations operate nationally, either across Scotland or the UK, while others operate on a more local level, serving a specific city or part of the country. As with the previous interview stage, interviews typically lasted between one and two hours in length. Five interviewees were interviewed twice; first with the agenda used for the unstructured interviews and then the semi-structured questionnaire.

The questionnaire addresses a number of topics over the course of 27 questions. However, the intention was not to cover everything but to make selections based on respondent's knowledge and available time. For example, if the respondent was a volunteer and had limited knowledge of charity financial statements, then the focus of the questioning was shifted elsewhere in order to keep the discussion active. Lillis (2008) argues that this is a key strength of interviews and of qualitative research in general. It is possible to gather multiple perspectives by targeting the questioning based on respondent knowledge and experience.

Appendix B contains the questionnaire template that was used for the semi-structured interviews. It comprises of four separate sections, labelled A, B, C, and D that are, respectively: 'You and Your Organisation', 'Social Entrepreneurship and Fundraising', 'Financial and Non-Financial Reporting' and 'Accountability and Stakeholders'. Section A asks basic questions concerning the respondent's personal status and their organisation. Section B asks the respondent how they view the key entrepreneurial concepts of risk and innovation and whether they think personally, or their organisation, is entrepreneurial. Their approach to funding is also asked about, as this is related to entrepreneurship. Section C asks questions concerning reporting practices, both in terms of financial and non-financial information. Section D enquiries about accountability, particularly the salience of different stakeholder groups.

After the interviews were completed, notes were transcribed to ensure all information was included. This was typically done on the same day the interview was held. Kvale and Brinkmann (2008) recommend producing a transcript summary after completing an interview transcription, as this allows long, detailed statements to be more easily referred to later when examining what key points were made. A transcription summary was produced for each interview in this study as it allowed the main issues raised in each to be quickly examined. Similarly, Saunders *et al*. (2012) suggest keeping a reflective diary in which the researcher describes the research process from their own perspective, both during and in-between interviews. Finlay (2002) argues that this is now an essential part of the qualitative research process. For example, by keep track of how they handled the data collection and analysis, the researcher can learn from their mistakes and take this understanding with them to subsequent studies. During the course of this study, brief notes were made concerning the context and conduct of each interview, allowing mistakes or shortcomings to be improved upon during later data collection.

5.3.4: Stage Four – Case Study Analysis

A case study aims to explore a particular research area '…within its context, or within a number of real-life contexts' (Saunders *et al*., 2012, p.179). According to Yin (2009), the distinction between what is being studied and its context is not necessarily clear when using case studies. This can be a good thing, however, as an approach it is the complete opposite of an experimental strategy where context variables may impact the research's validity (Saunders *et al*., 2012). With a case study, such context is a potential strength and not a weakness. Furthermore, it can be a very time consuming yet data rich approach to evidence gathering (Eisenhardt and Graebner, 2007). It allows the researcher to answer 'why?' questions, not just 'what?' and 'how?' questions, in a way other methods do not (Saunders *et al*., 2012). Saunders *et al*. (2012) recommend case studies in conjunction with other methods '…in order to ensure that the data [is] telling you what you think [it is] telling you' (p.179).

According to Yin (2009) case study analysis requires the researcher to 'compose' and not simply write. By this, the author refers to the researcher's ability to discuss their findings through both textual and non-textual forms. A case study is not about 'storytelling'; instead, a better comparison would be to related non-fiction (Yin, 2009). Additionally, the case study strategy adopted by the researcher can be either a single case or a multiple case strategy (Yin, 2009). Though a single case study can be easier to manage for the researcher, multiple cases can make for a more interesting and developed research design. However, the aim of multiple case studies should not solely be concerned with the presenting of more evidence; the researcher must justify the need to discuss two, three or more cases when the first already addresses their questions and objectives (Saunders *et al*., 2012). Case study strategies can also be separated based on whether they are ‘holistic’ or ‘embedded’. With the former the research will study a single entity e.g. an organisation (Yin, 2009). With the latter, the research will entail more than one area of analysis, even if the study is conducted in the same place (Yin, 2009). For example, though the same organisation may be studied, the studying of multiple departments within that organisation would make it an embedded case (Saunders *et al*., 2012; Yin, 2009).

In this study, two case studies are presented. These are discussed at the end of the analysis, after the theoretical discussion in Chapter 8. This means that a multiple case study approach has been adopted. Furthermore, as the two individuals represent different organisations and positions, though both exist within the charity sector, an embedded approach is used. The placement of the cases studies after the main theoretical analysis is also deliberate as prior discussion is used as a framework for this part of the study. The two individuals looked at were represented during the semi-structured interview stage, too. The focus of the case studies is to present their responses in greater detail, as these respondents were interviewed for longer or multiple times during the data gathering stage.

Table 5.2: Unstructured interview respondents

Count	Label	Date	Job Title	Gender	Years In Sector	Years At Org.
1	US1	06/02/15	Senior Development Advisor	M	10	5
2	US2	06/02/15	Development Advisor	M	40	4
3	US3	10/02/15	Accountant	F	4	4
4	US4	03/03/15	Head of Enforcement	F	13	8
5	US5	20/03/15	Head of Engagement	F	15	2

Table 5.3: Semi-structured interview respondents

Count	Label	Date	Job Title	Gender	Years In Sector	Years At Org.
6	SS1	30/03/15	Chief Executive	M	25	4
7	SS2	31/03/15	Finance Director	M	20	10
8	SS3	01/04/15	Accountant	F	9	9
9	SS4	01/04/15	Accountant	F	9	2
10	SS5	02/04/15	Finance Director	M	13	13
11	SS6	06/04/15	Chief Executive	M	4	4
12	SS7	06/04/15	Board Member	M	4	4
13	SS8	07/04/15	Head of Fundraising	F	20	6
14	SS9	09/04/15	Volunteer	M	2	2
15	SS10	17/04/15	Chief Executive	M	2	2
16	SS11	22/04/15	Adviser/Volunteer	M	2	1
17	SS12	23/04/15	Manager/Volunteer	F	30	30
18	SS13	04/05/15	Treasurer/Volunteer	M	2	2
19	SS14	11/05/15	Chief Executive	M	29	10
20	SS15	27/05/15	Manager	F	10	10
21	SS16	15/06/15	Finance Officer	M	6	6
22	SS17	22/06/15	Finance Secretary	F	16	2
23	SS18	06/07/15	Content Producer	M	6	6
24	SS19	09/07/15	Adviser/Volunteer	F	3	3
25	SS20	10/07/15	Board Chairman	F	8	8

5.4: Data Analysis

5.4.1: Choosing Coding Categories

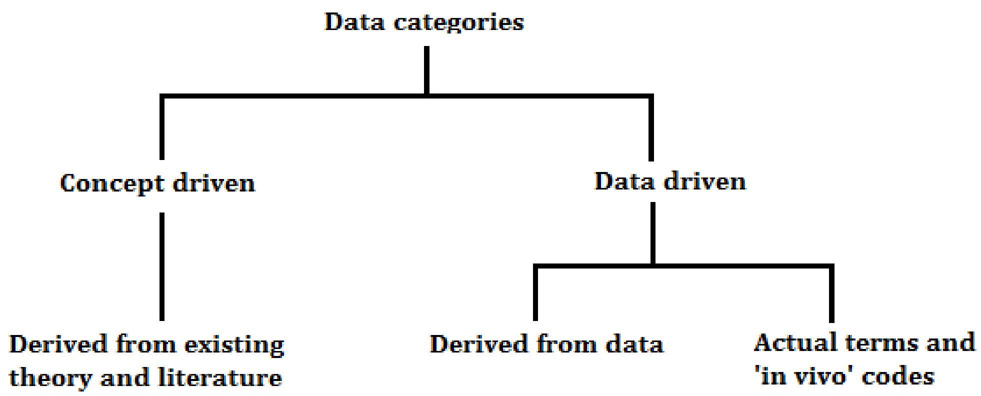
Coding first requires creating categories from which sections of the original data (in this case, interview transcripts) can be assigned to. These categories are given an appropriate name, otherwise known as a label or code. This initial stage forms the basis of how the researcher will organise and analyse their collected data (Saunders *et al*., 2012). How these categories are identified is an entirely subjective process and will depend heavily on the chosen research questions. Dey (1993) states that a different researcher, using the same data, may decide to code their results in a completely different way.

According to Strauss and Corbin (1998), there are three ways category codes can be derived: terms created by the researcher during the data analysis; terms introduced by research participant's i.e. 'in vivo' codes; terms that already exist in earlier theory and literature. Figure 5.1, taken from Saunders *et al*. (2012), shows how these code categories are derived. If Grounded Theory is being used for the analysis, Strauss and Corbin (1998) argue against the use of codes derived from previous literature as the researcher risks applying an outdated interpretation to their newly discovered data.

Categories must also have an internal aspect and an external aspect (Dey, 1993). The former concerns the category's meaning in relation to the data it is attached to, the latter concerns the category's relation to other categories. During the early stages of coding, particularly if the study is inductive, the researcher may find that their categories are very descriptive. However, categories will later emerge which are deeper and more analytical (Corbin and Strauss, 2008; King, 2012). Units of data must then be assigned to codes based on their content. A unit of data can be several words, a sentence, several sentences or a paragraph (Saunders *et al*., 2012). The creation of categories and the reorganising of original data is the first part of qualitative data analysis (Dey, 1993; Yin, 2009). Over time, new subcategories may develop alongside or supplant existing categories (Dey, 1993).

If a connection between categories is apparent, the researcher can develop testable propositions to see if this is the case. Saunders *et al*. (2012) state that this is different from testing a statistical hypothesis in quantitative analysis. When conducting such a test, the researcher must be careful not to draw the wrong conclusion. While a connection may exist between two variables, it is equally possible that another, unobserved variable is responsible (Dey, 1993). Furthermore the researcher must be mindful of negative cases which contradict their conclusions. Rather than being seen as a weakness in the data, Saunders *et al*. (2012) contend that qualitative researchers should embrace negative cases as '…they will help to refine your explanations and direct the selection of further cases to collect and analyse data' (p.562). Their inclusion will also help to ensure the researcher avoids accusations of only including data which fits their narrative; that they deliberately excluded data which contradicts it (Kvale and Brinkman, 2009).

Figure 5.1: Types of category and codes, reproduced from Saunders *et al.* (2012)



5.4.2: Coding the Data

According to Rowley (2012), coding interview data is an important early step if the researcher wishes to keep track of their data. The coding process has been used for a very long time (Kelle, 1997) and is perhaps the most popular way to approach qualitative research (Glaser and Laudel, 2013). Originally designed as a technique for grounded theory methodology (Glaser and Strauss, 1967), it has since spread across qualitative research in general. Today, it is a highly recommended approach for research (see: Boeije (2010); Coffey and Atkinson (1996); Miles and Huberman (1994); Patton (2002)). Some qualitative researchers choose to use computing software to analyse their data. Irvine and Gaffikin (2006) posit that this may be a contradiction; as software is associated with quantitative data. However, this has not stopped the approach being popular with qualitative researchers looking to sort and arrange their data. Whether software is used or not, the process of coding the data serves two important purposes: it reminds the researcher of what has been said; and it helps structure the data into meaningful parts (Shaw, 1999).

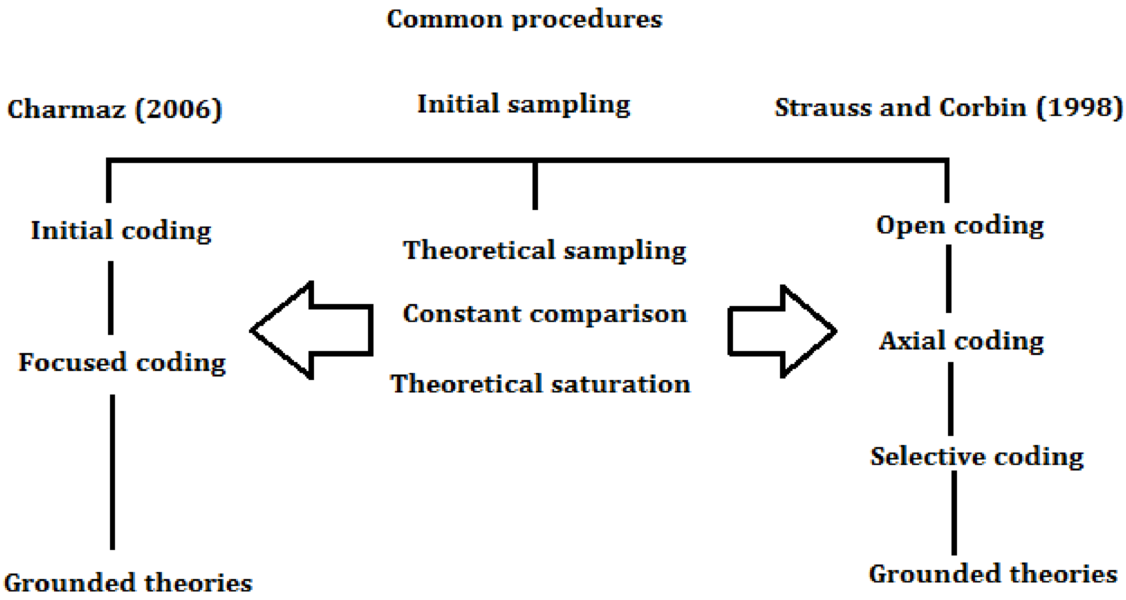
Miles and Huberman (1994) suggest that a researcher should have some form of coding in mind before they begin. Similarly, Neuendorf (2002) argues that a significant period of time should be spent exploring possible options before settling on a final coding strategy. The literature review should assist in establishing a coding strategy. Charmaz (2003) states that a qualitative researcher must consider a number of questions about the data they seek to code:

> 'What is going on? What are people doing? What is the person saying? What do these actions and statements take for granted? How do structure and context serve to support, maintain, impede or change these actions and statements?' (Charmaz, 2003, p.94-95)

Table 5.4 is adapted from a number of authors (see: Bogdan and Biklen (1992); Gibbs (2006); Mason (1996); Strauss (1987)). It presents several qualitative data elements that can be coded and also offers examples of each. The principal of coding is that the data is indexed (Miles and Huberman, 1994). The codes are each linked to segments of text within the data. The researcher can choose to index themes or index content and the codes can be based on the prior literature review or be formulated from the data itself (Glaser and Laudel, 2013). Regardless of the approach taken, coding is 'the process of putting tags, names or labels against pieces of the data' (Punch, 1988, p.204).

Where Grounded Theory is being used, coding can follow one of two principle approaches. These are shown in Figure 5.2 and can be discerned by their structure. The approach outlined by Strauss and Corbin (1998) is more rigid, whereas the approach discussed by Charmaz (2006) permits more flexibility. Figure 5.2 also shows how, irrespective of the approach to coding taken, the aim should be to achieve theoretical saturation (Saunders *et al*., 2012). This is accomplished through theoretical sampling until new data stops emerging that relate to categories. In other words, established categories are fully developed and relationships between them are well understood (Saunders *et al*., 2012).

Figure 5.2: Comparing approaches to grounded theory method (Saunders *et al*., 2012)



Concerning the analysis of interview data, there are a number of issues the researcher needs to be aware of. For example, Kvale and Brinkman (2009) argue that quotations should only be used selectively and should not be relied upon too heavily for the main analysis. Direct quotations should be used to support, not replace, written content. Where quotes are used, they should be brief, relevant and significant enough to merit their inclusion. Furthermore, care must be taken to ensure anonymity is preserved where direct quotes are used (Saunders *et al*., 2012). Kvale and Brinkmann (2008) also state that when analysing interview data, it is important to include contextual information. By this, the authors mean it is not only the words spoken that are of value; the tone and the body language of the interviewee should be considered, too. This is a particularly important issue to be considered when interviews are recorded and later transcribed. If not done by the interviewer themselves, vital contextual information may be overlooked in favour what was said, not how it was said (Kvale and Brinkmann, 2008; Saunders *et al*., 2012).

For this study, the first coding step involved establishing categories based on the research questions. This initial coding stage can be used to group interview responses in a rudimentary way. According to Maxwell (2005), categories can be either ‘substantive’ or ‘theoretical’ in their basis. The former refers to data that concerns respondent’s personal beliefs and opinions, whereas the latter relates to more abstract theory. Theoretical categories will typically be based on the researcher’s chosen adopted theories i.e. social entrepreneurship, stakeholder theory and principal-agent theory. This then led to the development Table 5.5, which describes how the research questions form the ‘codes’, their underlying theories which are described under ‘Source’ and how these were measured. Therefore, coding categories used in this study take a ‘theoretical’ approach. A researcher ‘will focus relatively more on substantive coding when discovering codes within the data, and more on theoretical coding when theoretically sorting and integrating his memos’ (Glaser, 1978, p. 56).

Table 5.4: Information that can be coded

Number	What Can Be Coded	Example
1	Behaviours, specific acts	Seeking reassurance, bragging
2	Events – short once in a lifetime events or things people have done that are often told as a story.	Wedding day, leaving home, starting first job
3	Activities – these are of a longer duration, involve other people within a particular setting	Attending a night course, conservation work
4	Strategies, practice or tactics	Staying late at work to get promotion
5	States – general conditions experienced by people or found in organisations	Hopelessness, settling for someone who is not really suitable
6	Meanings – A wide range of phenomena at the core of much qualitative analysis e.g. what symbols do people use to understand their situation? What names do they use for objects, events, persons, roles, setting and equipment?	A PhD is referred to as “a test of endurance” (because finishing a PhD is a challenge)
7	Participation – adaptation to a new setting or involvement	About new neighbours “In my new house I have to keep my music down at night as the neighbours have young children”.
8	Relationships or interaction	Seeing family, friends, colleagues
9	Conditions or constraints	Loss of job (before financial difficulties)
10	Consequences	Confidence gets dates, positive attitude attracts opportunities
11	Settings – the entire context of the events under study	University, work place, housing estate
12	Reflexive – researcher’s role in the process, how intervention generated the data	Probing question “How did you feel when he said that?”

Source: Bogdan and Biklen (1992); Gibbs (2006); Strauss (1987)

Table 5.5: Initial coding measurement

Code	Source	Measurement	Example Quote
In what ways can entrepreneurial thinking benefit the social cause?	Social entrepreneurship	Comments made concerning the extent and nature of social entrepreneurial behaviour.	"It can be good I think in some circumstances. Because we look for funding privately from small number of backers, we will try to build relationships with these backers, to persuade them to donate regularly, as opposed to a one off donation. In this way it is important to act like the private sector, but the mission cannot be forgotten." (SS13)
In what ways can entrepreneurial thinking benefit the social cause?	Entrepreneurial orientation	Examination of what respondents think of entrepreneurship if the use of such language/jargon is avoided.	"It could be good for us in determining what activities to run, how long to run them and how best to use our resources." (SS4)
How do agents/stewards balance their social objectives with financial demands?	Performance measurement	Comments relating to the need for both social and financial reporting by non-profit organisations.	"If a business case could be made for it then I'm all for it. I think for most non-profits, particularly smaller ones, the case isn't there. But larger I'm sure could find evidence for better fundraising where they make use of social reports effectively." (SS9)
In what ways is accountability shown within the sector?	Stakeholder theory	Comments made describing the mechanisms used by charity sector organisations and who they deem their stakeholders to be.	"Our events are themselves means of being transparent and accountable. We are very open at these in order to make it clear that donations go where they are supposed to go. Only financial supporters will attend these events, so it is actually a very good way of being accountable. It helps to show that we are offering a return on investment!" (SS1)

5.4.3: Validity and Reliability

In order to safeguard research quality, four separate criteria are addressed. These are: construct validity, internal validity, external validity and reliability (Yin, 2003). Table 5.6 describes what was done in order to ensure these criteria were met and is based upon several authors (see: Miles and Huberman (1994); Patton (2002); Yin (2003)). Construct validity is the extent to which a test measures what it asserts to measure. Internal validity is the extent to which a conclusion is acceptable or logical. External validity determines whether a study's conclusions can be generalised to other scenarios. Reliability concerns how repeatable a study is i.e. can its results be replicated by conducting the same approach again.

Table 5.6: A description of how validity and reliability were accomplished

Tests	Approach	Detail
Construct validity	Triangulation of theories	Several different theories, namely, agency, stewardship, stakeholder and social entrepreneurship, are brought together in a single analytical framework.
	Reviewed transcripts	Transcripts were made on the same day as the interview, re-read to ensure accuracy and further contact was made with interviewees were clarification was necessary.
	Clear sequence of evidence	Original transcripts can be reviewed, in their original context, even after quotes are taken and used in the main analysis.
Internal validity	Individual and cross-case analysis	Views given in interviews are considered on an individual basis and as a collective group.
External validity	Repetition logic in multiple cases	The analytical framework developed in Chapter 8 is based on prior non-profit literature and can be considered across the charity sector in a variety of scenarios.
Reliability	Research design hierarchy	A detailed description of the research approach is provided in this chapter, demonstrating how the interviews were conducted and subsequently analysed.

Source: adapted from Miles and Huberman (1994); Patton (2002); Yin (2003)

5.5: Research Limitations

Researchers have to be aware of how to analyse their interview data. Interview transcripts can be costly and time consuming to produce and even trickier to evaluate (Hussey and Hussey, 1997). This proved to be the case with this study, as the twenty five interviews produced a significant amount of data required to be organised and analysed. Each transcript was produced by taking notes during the interview before writing up, usually the same day or instead the following day. This led to approximately 4-5,000 words being produced per transcript; or just over 100,000 words in total. This made the process of organising the data for chapters 6 and 7 extremely challenging.

Some researchers have opted to use software specifically designed to analyse qualitative information, something that is much more typical in the analysis of quantitative data. Regardless of the approach taken, the researcher must seek key patterns and themes that emerge. This is arguably trickier (and certainly more subjective) than analysing what emerges from quantitative data. Concerning the process of interview data analysis in this study, software was not used and the coding process was instead done manually. This choice was made as the process of understanding emerging patterns and themes was found to be easier than attempts made using software packages. Though there are clearly benefits from using software specially for analysing qualitative data, this study benefited from a manual approach as this was the researcher's preference. However, as discussed, working with data manually can be very time consuming, which proved to be the case with this study.

It is also important to preserve confidentiality when conducting interviews (Irvine, 2003). The interviewee may, purposefully or not, make statements during the course of an interview that could have damaging repercussions for themselves or for their organisation (Irvine, 2003; Irvine and Gaffikin, 2006). Knowing that their responses are available publically can discourage interviewees being truthful if it means discussing the organisation or their colleagues negatively. In order to address this, all interviews held remain confidential, with respondents identified by a label in the discussion chapter which does not gave away their identities. All respondents were assured of this before and after their respective interviews. However, despite these efforts, it is difficult to completely preserve anonymity in the case of interviews held with representatives from OSCR, an organisation from which three were held and are discussed in chapter 6. Descriptions of the respondents, and their answers, may give away their identities to readers who know them personally. This possibility was made clear during interviews and each respondent was fully aware that basic information regarding their role at OSCR, if not their name, would be provided in the thesis.

5.6: Adopting a Research Philosophy

5.6.1: Traditional Thinking in Accounting

Our ontological assumptions determine what we consider, as researchers, to be 'real'. According to Blackburn (1996), epistemology derives from this. Epistemology concerns the theory of knowledge, its acquirement and its limits. Positivism is an objectivist point of view which presumes a singular reality that can be determined through our senses (Sarantakos, 2005). Positivism is closely associated with quantitative methodologies. Accounting research has typically been driven by a positivist philosophy. Due to its seemingly objective nature, accounting has usually seen the use of scientific research methodologies (Dillard, 1991; Graff and Mickhail, 2007). For around forty years, this has been the predominate approach to accounting research. Kairdonis (2009) states that positivism is a 'powerful ideology' which is 'pervasive, evident in the plethora of mainstream accounting journals which privilege a limited view of knowledge defined by positivism' (Kaidonis, 2009, p.293). Studies of major accounting journals have demonstrated that the majority of published articles depend upon an economic or positivist philosophy (Gaffikin, 2007). According to Parket and Roffey (1996), positivism is the 'economic' way of doing accounting research. Ryan *et al*. (2002) make the observation '…that positivism has had a profound effect on the development of finance and accounting'. The authors also contend that Milton Friedman (1953) made the case for positive economics, which formed the basis for much of subsequent accounting and finance research.

5.6.2: An Interpretivist Alternative

More recently, the scope of accounting research has changed dramatically, with interpretivist (amongst others) ways of thought becoming increasingly popular. The result is a wider choice in accounting research compared to the positivist dominated environment which existed before. However, critical accounting effectively plays a supportive, rather than a complementary, role to traditional accounting research. According to Ryan *et al*. (2002), a range of perspectives is important for a discipline's future development. Furthermore, the absence of positivist alternatives risks making accounting academia too close minded. As a result, the discipline is seeing more academics turn to positivist alternatives (Parket and Roffey, 1996). It is also becoming increasingly clear that numbers, a seemingly objective source of data, are not necessarily so. Recent accounting scandals have highlighted the subjective nature of accounting data; whether it is quantitative or qualitative (Rogers *et al*., 2005). Graff and Mickhail (2007) argue that its involvement of people, who ultimately cannot be objective, permits positivist alternatives. Much like any other social science, accounting can be framed in a variety of different ways (Gaffikin, 1988).

Parket and Roffey (1996) argue that interpretivism seeks to '…enrich our understanding of the underlying meanings of our actions' (p.216). They refer to it in relation to grounded theory (the approach adopted in this study, as will be discussed later in this chapter), discussing how it concerns the use of language. Whereas a positivist way of thinking permits only one point of view, both interpretivism and grounded theory encourage a variety. Where positivism seeks to offer 'meaning' through definition, interpretivism inspires a range of thoughts while leaving the door open for future, as yet not thought of ideas and concepts. While accounting has traditionally had connotations of objectiveness and impartiality, recent developments in the field have changed this. Examples include social accounting and narrative reporting. Interpretivism is highly critical of positivism as it contends we should consider the role of people (Saunders *et al*., 2012). Accountability and entrepreneurship, two of the key concepts in this study, are not abstract by nature. They depend on the involvement of individuals. According to Cousions and Sika (1993), accountability is a 'social constructed' concept and will have a different meaning depending on who is asked. The social world can be contrasted with the scientific world in the same way we can contrast individuals and inanimate objects.

5.7: Justification for Qualitative Research

5.7.1: Grounded Theory

Research can begin from either a deductive or an inductive approach. A deductive approach will make use of existing theory to develop the strategy for data analysis (Saunders *et al*., 2012). An inductive approach is taken when the researcher develops a theory that is grounded in their data. This is sometimes described as a grounded approach due to the development of theory through what is discovered. Though the two approaches are distinctive, most research is likely to incorporate both in some way (Saunders *et al*., 2012). For example, theory might be developed from initial research that is then applied to subsequent data i.e. an inductive approach followed by a deductive approach. King (2012) proposes Template Analysis as a way of analysing qualitative data using both inductive and deductive techniques. Such a template would consist of a selection of codes or categories representing the data. However, these would be added to or changed as the research continues, thereby developing the template.

An inductive study may begin with an initially broad research question, which narrows in scope as the research progresses. Grounded theory requires a significant commitment from the researcher as it can be time consuming and challenging to conduct (Saunders *et al*., 2012). Furthermore, an inductive approach also requires preparation, so researchers should not be tempted to adopt this strategy in order to avoid properly planning their study (because theory will be developed after at least partial data collection). In this study, both inductive and deductive elements are incorporated; it begins with broad enquiries before narrowing the focus for the subsequent semi-structured interviews.

According to Miles and Huberman (1994) the analysis stage consists of three separate processes conducted in parallel: data reduction; data display; establishing conclusions. Data reduction requires the researcher to summarise and condense their findings, as well as code it. Data display relates to the organisation and presenting of the researchers findings in an appealing way which follows an established narrative. Establishing conclusions requires the researcher to formulate their own views and discuss them. These three stages should be carried out by the researcher in tandem, not sequentially (Miles and Huberman, 1994). However, Saunders *et al*. (2012) state that there is no standardised way to analyse qualitative data. How the researcher approaches this will depend heavily on whether they are conducting an inductive or deductive study. The researcher will need to demonstrate that their choice of analysis is appropriate for their underlying research philosophy, research strategy and the data collection methods used (Saunders *et al*., 2012). As there is no standardised way, it is up to the researcher to decide whether they wish to adopt a structured approach (such as Grounded Theory, which is inductive yet structured) or an approach more open to interpretation. However, if a less structured approach is chosen, the researcher must ensure they are just as analytically rigorous as they would have been otherwise (Coffey and Atkinson, 1996; Tesch, 1990).

5.7.2: The Merits of Qualitative Research

This study takes an exclusively qualitative approach by; analysing previous research, conducting unstructured and semi-structured interviews and developing an analytical framework. Qualitative research has been described as '…watching people in their own territory…interacting with them in their own language, on their own terms' (Kirk and

Miller, 1986, p.9). Denzin and Lincoln (2003) state that qualitative research is a discipline of study that has distinct and separate underpinnings from its quantitative counterpart. Qualitative and quantitative methods depend on fundamentally different enquiry paradigms and the researcher's approach is dependent on the underlying assumptions of each paradigm (Hoepfl, 1997). A major difference between quantitative and qualitative research approaches is the flexibility of qualitative methods (Mack *et al*., 2005). However, qualitative research is an approach rather than a certain set of methods, and its suitability depends on the social phenomena to be studied (Morgan and Smircich, 1980). Similarly, qualitative research consists of methods used by researchers to demonstrate a deeper understanding than can potentially be obtained from quantitative research (Sandelowski, 2000; Silverman, 2001).

Yauch and Steudal (2003) argue that the main benefit of qualitative research is the ability to gather various perspectives on the same item or event. For example, a thorough understanding of an organisation is not possible without a consideration of opinions from individuals who work there. This ability to consider multiple perspectives makes Hussey and Hussey (1997) consider 'qualitative' in terms of methodology, due to the subjective nature of opinions and perceptions. However, Rowley (2012) states that the aim of qualitative analysis is to give a detailed and thorough description. Its strength lies in the ability to provide a comprehensive analysis of a topic in a way a quantitative study cannot (Rowley, 2012).

Concerning this study directly, a qualitative approach is appropriate given the highly subjective nature of the concepts involved. As this study addresses concepts such as social entrepreneurship and accountability, qualitative data represents a better fit than quantitative data when attempting to understand individual views on the concepts. The ability to gather multiple perspectives on the same item or event, as outlined by Yauch and Steudal (2003), is very appropriate here. Furthermore, a quantitative study would struggle to gather than appropriate data needed for the in-depth analysis presented in Chapter 8 of this study. Similarly, the open ended nature of the questioning used, during both interview stages, could not have been utilised in a quantitative study. It is only through a qualitative study that open ended discussion can thrive, with a quantitative approach requiring predetermined and standardised questions across all interviews.

5.7.3: Qualitative Research in Accounting

Both Lee and Humphrey (2006) and Modell and Humphrey (2008) note that accounting as an academic field saw tremendous growth during the 1990s, resulting in the development (or introduction) of several sub-disciplines, including: financial accounting, management accounting, social accounting, environmental accounting, accounting history and auditing. Within each of these, qualitative research has held a significant role. This has not always been the case; Burns (2014) notes that during the early 1990s, qualitative accounting research was relatively non-existent, with few studies adopting such a methodology. However, the relevance of a qualitative approach has grown over time. While finance can be seen as being abstract, almost separate from the individuals involved (Lee and Humphrey, 2006), accounting can be considered on a more personal level. For example, interviews and case studies allow the role and effect of accounting practices on individuals or organisations to be studied (Lee and Humphrey, 2006). Irvine and Gaffikin (2006) state that the call for qualitative accounting research has grown louder over time.

Lee and Humphrey (2006) discuss how UK accounting academia has changed in recent years. Traditionally, the discipline was primarily quantitative. However, this has since changed, with both approaches now common:

> 'In the UK, accounting has progressed from a largely positivistic, quantitative, academic discipline, concerned predominantly with improvement of the techniques employed in accounting practice. It is now a pluralistic discipline that includes people who use qualitative methods to explore a broad range of issues.' (Lee and Humphrey, 2006, pp.190-191)

Burns (2014) states that outside Europe, quantitative accounting research remains dominant due to its methods being '…structured, transparent and easy-to-follow' (p.72). However, qualitative research has gained popularity within the European accounting discipline. Modell and Humphrey (2008) discuss one reason for this development:

> 'Accounting itself has proved to be a useful disciplinary focus for consideration of the practice of qualitative research, not least because it has almost become, by definition, interdisciplinary in its theoretical framing and the methods deemed to be consistent with such framing. This spirit has infused discussions over qualitative methods with a broad range of perspectives and reflections on the value of particular methodological standpoints.' (Modell and Humphrey, 2008, p.94)

The authors contend that accounting by its very nature is suited for both quantitative and qualitative research methods. However, the importance of 'practical relevance' in accounting research has also been pointed out (Bogt and Helden, 2012; Shapiro *et al*., 2007). Research may be 'lost in translation' (Bogt and Helden, 2012, p.271) if findings are not relevant to practitioners or if the researcher fails to effectively convert them into a useable format. This loss can occur before or during the actual research process (Shapiro *et al*., 2007).

5.8: Summary

In this chapter, the methodological approach taken was explained. This began by explaining the approach taken for the study in each stage. How the data is analysed in later chapters was also explained. Research limitations for this specific study were addressed and ways to mitigate them were considered. Finally, research philosophy and justification for a qualitative approach was discussed. In the next chapter, the findings from the unstructured interviews are presented and discussed.

Chapter 6: Findings – Unstructured Interviews

6.1: Introduction

The first five interviews for this study followed an unstructured format. They were held with individuals who, instead of working for a non-profit directly, are connected to the sector in some other capacity. These interviews followed an agenda based on key points of interest and the literature review. Broadly speaking, the topics of reporting practices, accountability and social entrepreneurship are addressed. Respondent US1 is a Senior Volunteering Development Advisor with ten years of experience within the non-profit sector. Respondent US2 is a Development Advisor, with 40 years of experience within the sector. The purpose of their organisation is to "provide vital support to educate and advise third sector organisations". The remaining three interviews were held with employees of OSCR, the charity regulator in Scotland. Respondent US3 is an accounting advisor for the regulator, with an Association of Chartered Certified Accountants (ACCA) qualification. At the time of the interview, she had worked for OSCR for approximately four years. Respondent US4 is on the senior management team and is a co-chair of the national SORP committee. She is a member of the Institute of Chartered Accountants of Scotland (ICAS) and has worked at the regulator for eight years. Respondent US5 is the Head of Engagement for OSCR and is the "first point of contact for many charities and others". She has a PhD in empowerment and has worked at OSCR for 18 months, with fifteen years of previous international experience at Christian Aid. OSCR was contacted for interview due to this study taken place within Scotland and the relevance of the topics addressed.

6.2: Social Entrepreneurship

6.2.1: Social Entrepreneurship and Funding

The first part of the unstructured interview discussion looks at the role of entrepreneurship within the non-profit sector. The interviewees were asked about entrepreneurship on an individual level (social entrepreneurship), as well as on an organisation level (social enterprise). The aim of this section is twofold; to determine the current prevalence of entrepreneurship (or how it is viewed by respondents, who are observers of the sector) within a non-profit context and, secondly, examine its impact on the principal-agent relationships that exist.

Concerning the first aim, the general view is that entrepreneurial thinking does exist within the charity sector. Evidence they cite for this includes how some organisations approach funding and the current drive towards sustainability. Most of the respondents considered these to be the defining characteristics of an entrepreneurial organisation. The funding strategy and long term sustainability are what, in their view, distinguishes such an organisation from traditional non-profits. For example, Respondent US4 describes how entrepreneurs will attempt to devise a strategy for their income, in contrast to others who will not see a need for one. The respondent states that entrepreneurship is tied to the source of funding; not all types of funding lend themselves well to entrepreneurial thinking:

> "How business minded or entrepreneurial people are will be dependent, to some degree, on where they expect the money to be coming from. This is a big reason why smaller organisations will not care for nor understand business practices. If their funding comes from small donations, they will probably go out and try to get it, not develop a strategy to acquire it." (US4)

Whether respondents took a favourable or unfavourable view of for-profit practices in the sector, this was the prevailing view. Social entrepreneurs require the right context if they are to thrive in the sector. Where respondents parted ways came down to whether an entrepreneurial strategy should be employed. For example, Respondent US1 states that non-profits have a moral duty to maximise their funding and that the methods used to obtain it are largely irrelevant:

> "The third sector is no different from the private sector in one important way; there is a lot of competition. If they don't get funding, despite money being there, that means someone else will. If they really believe in their charitable cause they have a social obligation to get any available funding." (US1)

Respondent US1 describes how important it is for charities to be proactive. The non-profit sector is subject, in its own way, to the same forces that influence the private sector. Competition exists for funding and it is important for charities to demonstrate they are a cause worth supporting. If the management or volunteers of a charity truly believe that their charitable cause deserves to be funded, then they have a duty to make this clear to potential donors. Not being proactive risks jeopardising the cause they believe in and letting down the beneficiaries they serve. To Respondent US1, taking the initiative is a key component of entrepreneurship, separating them from others operating in the sector. Dees (1998) considered this behaviour to be characteristic of a social entrepreneur, however, more recent studies have made similar, though slightly different, contributions. For example, Martin and Osberg (2015) says social entrepreneurs seek 'intelligent trial, error and theory-building' (p.6). This is aligned with Dees' (1998) view that a social entrepreneur would be 'Recognizing and relentlessly pursuing new opportunities to serve that mission' and 'Acting boldly without being limited by resources currently in hand'. Martin and Osberg's (2015) view is more nuanced, however, with their trial and error referring to the theory of social entrepreneurship, too. Their view that social entrepreneurs are engaged in trial and error demonstrates a willingness to find out what will work, even if it means losing resources in the short term. This behaviour would be similar to that of traditional, private sector entrepreneurship, with the social mission being the only visible distinction. Hughes and Morgan (2007) similarly state that proactiveness means not only acknowledging social gaps but a willingness to act on such concerns. Proactiveness is strongly associated with social entrepreneurial behaviour (Nsereko *et al*., 2018). However, being proactive is easier said than done for some organisations. Respondent US2 states that being 'proactive' is akin to 'marketing':

> "If an organisation wants to be funded, they have to demonstrate that they are worth funding in the first place. Not all organisations in the third sector are effective at marketing themselves." (US2)

Respondent US5 offered similar views. For them, this is the danger of the sector; the risk that only the best marketers can obtain funding. Since there is no correlation between social need and funding obtained by non-profits, the respondents argue that there is a real risk of worthy social causes being ignored due to there not being an effective social entrepreneur supporting them. Polonsky (2003) makes this point, arguing that more worthy causes may be overlooked. The concern is that social entrepreneurs and social enterprises are more suited to a free market context, where successful ideas thrive and others fail. The non-profit sector is not equivalent; social causes that require the most funding (difficult to determine in its own right) will not automatically receive the largest share without some sort of state or moral intervention. Polonsky (2003) discusses the fact that children's charities are easier to 'market' than some others, particularly those that effect the elderly. Much in the same way governments redistribute money where it is needed, the non-profit sector seeks to ensure that market failure does not prevent the appropriate funding being in place for less marketable social causes. However, a sector primarily consisting of social enterprise type organisations risks just that; a situation where funding is dependent upon a social entrepreneur's ability to advertise. Balta *et al*. (2012) discuss how in the UK, the non-profit sector has become increasingly commercialised, thereby jeopardising the social purpose of many charities. The strategies adopted by social entrepreneurs are at odds with the way of thinking most non-profits adopt.

Respondent US1 seeks to raise awareness amongst smaller charities of the importance in being sustainable to achieve their social cause. Therefore, his organisation has stepped up their efforts in providing the necessary skills and knowledge to survive in the long term. This effort incorporates social entrepreneurship elements within it:

> "There is a social enterprise drive at the moment i.e. ways to make organisations more sustainable and think about funding. It is not enough to have a worthy cause, you do need to think about how you will fund it. What is their long term plan? Do they know where they will be in one year, three years or five years' time? I think that is one reason while the idea of social enterprise has become so popular. The idea of an entirely sustainable organisation, that still provides "free" services, is very appealing. Few exist at the moment, but we are seeing people increasingly drawn to the concept." (US1)

Respondent US1 discusses how the rising awareness of social enterprise is making the concept more popular. Financial sustainability is becoming an increasingly common goal to aim for. A recent UK example is NHS workers and community groups being asked to establish their own health related social enterprises, in order to take the strain away from the NHS itself (Millar and Hall, 2012). In fact, Respondents US1 and US2 corroborated this statement, stating that they had seen evidence of this in their local area, particularly in the health sector.

Respondent US2 states that acquiring substantial, long-term funding requires tremendous effort from an organisation. This effort will, in effect, resemble that of a business plan conducted by a firm seeking a loan to fund expansion. Irrespective of whether the non-profit considers itself to be entrepreneurial, planning would be essential to ensure such an opportunity is utilised. The interviewee discusses this planning in greater detail:

> "The organisation needs to prove that it can use the money effectively. To do this, it would provide a detailed spending analysis over the time period that the money is needed for. This might require good presentation skills to sell the pitch. The organisation will also need to prove it is sustainable, not just over the life of the funding, but beyond it, showing that it will survive after the funding is over. The wider, national economic picture will need to be considered." (US2)

Non-profits need to prove that they can provide value for money, requiring them to demonstrate careful planning to potential donors. Respondent US2 describes how this will involve the organisation proving it has an answer to anything that could happen during the funding period (and possibly even beyond it). This will mean considering not only internal issues but external factors beyond the organisation's control, such as the economic outlook. Donors will assess the non-profit's response to sudden changes in the economic environment because they do not operate in a vacuum. A number of authors have stated that an entrepreneurial strategy can help non-profits more readily predict changes beyond their control (Badelt, 1997; Dees, 1998; Morris *et al*., 2011; Pearce *et al*., 2009; Stecker, 2014; Zahra *et al*., 2009). Anecdotal evidence found here suggests this could be true.

6.2.2: Addressing a Social Needs Gap

According to Martin and Osberg (2007), one key characteristic of a social entrepreneur is the ability to spot, and successfully target, a 'needs gap' that exists within the non-profit sector. They describe the term as being about: 'Identifying a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit of its own'. The ability to create social value is observed by the social entrepreneur, a task not recognised (or ignored) by others both in and out with the non-profit sector. Therefore, before a funding strategy can even be devised, a social entrepreneur can prove themselves by observing a social gap, much in the same way traditional entrepreneurs take advantage of market gaps. Respondent US3 states that charities seek to fill a social gap they have observed in their local area:

> "Charities are set up to meet needs rather than to make a profit. They exist to meet a needs gap that they have noticed. Within the private sector, spotting a gap in the market might be an opportunity seized without any particular interest held by the entrepreneur beyond a financial incentive." (US3)

Respondent US3 describes how non-profit organisations have their own equivalent of the private sector market gap. Instead of exploiting a market gap for financial gain, charities will put their resources towards targeting a social blind spot instead. One of the characteristics of a social entrepreneur is the ability to do this successfully (Martin and Osberg, 2007).

Respondents were also asked their views on how non-profits balance social objectives with financial limitations. Bacq *et al*. (2015) imagine an agency mind-set to be focused exclusively on one or the other, whereas a stewardship mind-set attempts to balance the two. The general consensus is that social entrepreneurs should, if they are to be successful, be good at achieving both. Respondents agreed that by choosing to operate within this sector, entrepreneurs cannot describe themselves as such if they do not manage this balance; they must consider both social and financial value. Therefore, based on the views of respondents here, a stewardship mind-set is a more appropriate fit for social entrepreneurship theory.

> "One concern we have as an organisation [OSCR] is how well charities balance their social and financial responsibilities. Not all charities can effectively balance the two because they are too small to possess all the right skills." (US4)

This relates to another point raised, that being entrepreneurial is not the same thing as being competent. For example, Respondent US4 expresses concern that many organisations do not have the fundamental knowledge and skills in place to run any organisation. These skills are not entrepreneurial; merely the minimum requirements to ensure an organisation can function day to day e.g. management and financial skills. The scope for entrepreneurship is there, however, in her view, it should only be considered when the organisation is in the appropriate place to implement the changes required of it. Respondent US3 made a similar point, describing larger charities as operating more like for-profit organisations:

> "Larger charities will have a very different structure and mind-set, though. Larger organisations have much more in common with their private sector counterparts than smaller charities operating within the sector. Smaller organisations will not typically have people within them who are business minded, perhaps set up by people who have never even worked within the sector." (US3)

She would not expect to find an entrepreneurial attitude in place within smaller charities, but it might exist within larger ones. Similarly, Respondent US2 voices reservations about adopting private sector practices in non-profit organisations. However, his view is also that social enterprise can be a benefit to the sector at large. Through effective marketing, a non-profit can draw attention to their social cause and the work they do. The approach described by the interviewee would incorporate a range of skills; strategising, marketing and web development. These skills might not even be considered by most traditional charities, let alone implemented by them.

6.3: Reporting Practices

6.3.1: Financial Reporting in the Non-Profit Sector

In this section, respondents offer their views on financial reporting within the non-profit sector. The respondents from the charity support group offered very different views to that of the OSCR employees, though views also varied from employees within each organisation, too. For example, Respondent US1, from the charity support group, explains that one of the most important (and popular) services they provide to charities is assistance with financial reporting, ensuring that the appropriate standards are met:

> "That is definitely a key issue for us, as the majority of charities are set up by individuals with no financial experience. I don't think that should be a barrier to their presence in the sector though, so as long as they make the effort and work with us on financial matters, this will not hold them back." (US1)

He explains that, in his view, a lack of experience concerning budgeting and reporting should not stand in the way of serving a charitable cause. Charities are often set up by people with the best of intentions, but with little to no financial knowledge. This can be a serious issue, particularly for smaller charities who cannot delegate these responsibilities to someone with the relevant skills. Any form of regulation brings additional costs, both direct and indirect (Breen, 2013; Cordery, 2013; Pendlebury *et al.*, 1994). Ensuring there is someone who has the necessary skills required to produce financial reports will be expensive and time consuming. The same applies to social impact reporting, as discussed later in the chapter. Furthermore, McGregor Lowndes and Ryan (2009) state that these kinds of costs are regressive; that is, smaller non-profits are disproportionately affected by them. Larger organisations can more readily distribute the required labour for producing financial statements without it having a detrimental impact on their cause. As a result, smaller non-profits are more likely to require assistance with their financial statements than larger charitable organisations.

Some charities worry about properly conducting their financial matters, despite not in fact being subject to strict regulation. Both Respondent US1 and US2 stated this to be true. Therefore, their charity support group will often find itself aiding charities with financial statements that, strictly speaking, do not have to be provided. Lacking the relevant skills to produce such reports, smaller charities will struggle to fulfil these expectations. This leads to another point of discussion; the range of expertise required to run a non-profit organisation:

> "Running a charity requires a vast array of skills and knowledge, which, for a small organisation, would be impossible to completely address through a handful of people. Even if one particular issue is handled effectively (say, if an individual has a financial background that allows them to quickly and efficiently complete financial statements) in all probability they will still need help with something else (e.g. legal issues, obtaining funding or local knowledge). That is where we step in." (US1)

Respondent US1 describes how difficult it is for charities, smaller ones in particular, to be well rounded and to sufficiently provide all the relevant skills necessary to run their organisation in the most effective way possible. Even if a charity did have a firm grasp of one particularly important issue, for example financial reporting and the SORP, it is unlikely that they would have a knowledge of other important issues that are needed for good governance. As stated by Hall (2014), some organisations may have staff or volunteers who possess the skills required to produce quantitative data or reports due to a statistical background. These include the types of issues that face all organisations, irrespective of the sector in which they operate. Ensuring all aspects of running an organisation are addressed will be costly and time consuming (Cordery, 2013).

By providing these support services, Respondent US1 seeks to remove this major barrier and make sure that it does not prevent a non-profit from benefiting the community by being active within it. He goes on to describe how non-profits themselves perceive financial reporting, based on working with them:

> "Some probably see it as a hindrance; a waste of their valuable time. Others will see it as a necessary evil, something that all organisations have to prepare." (US1)

Views within the non-profit community differ on the importance of financial reporting, though few hold a favourable opinion on the issue. A common perspective is that financial matters, whether budgeting (i.e. internal) or reporting (external), are an unnecessary use of the charity's time, time that could be spent serving the charitable cause itself. Others feel, although time consuming, reporting on financial performance is a requirement to ensure no irregularities. Although they would prefer not to do it, some charities acknowledge its importance in ensuring organisations are properly run. Charities must, like firms, provide a 'true and fair view' of their activities (Connolly *et al*., 2013a). This importance is stressed by Respondent US3, an accountant advisor for OSCR, to ensure charities are not engaged in fraudulent activities.

OSCR expects charities to fulfil their reporting requirements in order to determine that the sector is free from fraudulent activity. The discovery of such behaviour can be very damaging, not only for the charity but for the sector, too. Accounting scandals within the non-profit sector can damage the reputation of the sector as a whole. Furthermore, if not enough information is provided, it is difficult to tell the whole story concerning a charity. Respondent US3 sees a reluctance to report accurately as being a major risk for all charities, but particularly so for larger ones. A big charity that fails to properly report carries with it much greater repercussions if damaging information is later discovered.

A larger charity found to be hiding or falsifying information will have far reaching consequences. The lives of thousands of employees, volunteers and, of course, beneficiaries, will be damaged by its downfall. This risk does not exist in quite the same way for their smaller counterparts:

> "For small charities, it's harder to even provide too little in terms of information, because there isn't much to tell in the first place. Therefore, it is not as significant." (US3)

The repercussions of a failing smaller charity will inevitably be much less damaging, with fewer people affected. Most charities do not have a lot to report about their activities to begin with. Therefore, the risk of under-reporting is smaller.

Respondent US3 acknowledges that some of the information expected of charities in their financial reporting will not necessarily be helpful for anyone but OSCR. But they are a requirement because although the information might not be relevant or useful to most stakeholders, the reporting of financial performance will always be essential to OSCR when assessing the financial viability of a charity. Respondent US3 also explains this within the context of the two available versions of the SORP that are, temporarily, available to some charities. Smaller organisations are allowed to use the FRSSE version, which requires less detail, but this option will not be available indefinitely. She explains some of the differences between the two sets of standards:

> "There will be, temporarily, two SORPS available. The majority of organisations are required to use the FRS 102 version, which expects much greater detail. Smaller organisations can, at least for the time being, use the FRSSE version, though they have the option to use both. The FRS 102 version has a greater narrative focus, with an expectation to explain, for example, the going concern aspect of the organisation. Smaller organisations simply do not have the knowledge to write about all the things covered in FRS 102." (US3)

However, the reporting of any information is seen as a positive step by OSCR, as more information, provided it is accurate, should be good for the charity and its stakeholders. Greater transparency makes for a stronger accountability link between charities and those who have an interest or stake in its performance.

6.3.2: Social Impact Reporting and the Non-Profit Sector

Social impact reporting is an area that has seen greater research in recent years. It has also become increasingly popular amongst non-profits looking to demonstrate that their organisation is achieving its objectives, as well as being financially stable. It can help raise awareness of the organisation and its social mission. There is also increasing evidence that stakeholders find social reports more useful than financial statements (Connolly *et al*., 2013a; Huang and Hooper, 2011). For example, Respondent US1 explains that it is very common for donors to expect some sort of description of objectives and achievements from charities:

> "Often non-profits are required to provide narrative and targets and objectives to funders to show progress. Funders might want to know some key information about the charity. For example; can you demonstrate value for money?" (US1)

Here, he is referring primarily to larger donors, but explains that small donors often like to know more about what the charity is doing, too. Regardless of how much money a donor has, it is clear to him that those who provide funding to charities would typically like to know what the charity seeks to achieve in the near future, and how they will set about accomplishing this. Although some of the points he raises relate directly to money (for example: "Can you demonstrate value for money?"), others appear to be more interested in the work they do, their involvement with the local community and what differentiates them from others within the sector. This interest has also being found by Lyon and Arvidson (2011). As a result, this is an area in which non-profits seek support:

> "Funders often look for information on outcomes and what has been achieved. So not only do charities want help with their financials, but they would also like support with explaining their social objectives, too. They might be doing good things, but do not know how to convey this." (US1)

Therefore, his organisation, in its role of supporting charities, provides a wide range of assistance in helping charities report their performance. This means they assist with both financial and non-financial reporting, although it should be noted that support with social impact reporting is provided for free. Respondent US1 sees this as a useful service as it can mean more funding without forcing the charity to devote copious amounts of time towards it. He also explains that it is important for his organisation to do this too, as it would be hypocritical to encourage charities to improve their social reporting while not doing so themselves. Rather than producing a written report on what his organisation does, Respondent US1 says that their preference is to explain in person at local events. He prefers this set-up as it allows him the opportunity to receive feedback and defend their progress. If charities are not happy with the support they have been receiving, they can tell him or others at these events and they will do their best to incorporate the feedback they receive. Given the nature of what his organisation does, Respondent US1 believes that this is more useful than a written report. His concern is that such a report would be too passive, and would not be useful enough to divert resources for. Hosting and attending local events will always provide the opportunity to gain feedback, good or bad, on the work they do. In his view, this is a more proactive way of being accountable.

The issue of funding continues to dominate the discussion. Respondent US2 also describes the link between social reporting and donations:

> "Funding is very competitive and to some degree depends on the communicative skills of third sector organisations. Some simply aren't very good at this, and suffer for it financially. Others might attempt to disguise poor performance by simply ignoring it altogether, selectively choosing what they report." (US2)

He sees it almost as a necessity, a requirement to survive in the sector. Organisations that choose to overlook it may, in his view, directly suffer for it. Respondent US2 does support the use of social reporting, believing it to be a useful practice:

> "Charities do not exist to create wealth, therefore, why do we assess their performance purely on financial criteria?" (US2)

The respondent questions the purpose of determining non-profit performance solely by their financial position. This echoes the views of Connolly and Hyndman (2013, p.260), who state that financial statements can only ever '…be of secondary importance'. Morgan (2013) states that there are '…serious limitations to the use of financial data in isolation' (p.296). It is not necessarily enough to judge non-profits based upon their financial statements. Although this may prove the absence of fraudulent behaviour, it does not offer evidence of social performance, nor make them accountable for this (Connolly and Hyndman, 2013).

Despite their roles, OSCR respondents spoke positively about social reporting in the charity sector. Respondent US3 states that, in her view, charity reporting should always include a narrative element. Her reasoning for this is that not everyone has an interest in financial statements, but they might have an interest in other social or non-financial information. It is striking to see an employee from OSCR acknowledge this limitation of financial data. Furthermore, financial statements can be difficult to understand, whereas social information can be more readily conveyed in everyday language. It can be a more effective way of showing performance:

> "…it relates to why the charity exists in the first place; it provides context for the social cause. This is difficult to demonstrate through financial statements. Sometimes information cannot be effectively conveyed through numbers." (US3)

For example, concerning its relevance to certain stakeholders, Respondent US3 argues that it can often be more useful than financial information:

> "I think some stakeholders would definitely find it more useful to see a summary report of how the charity has performed. Financial data is obviously needed but a summary of social information could be useful, too. A summary of information would also be more accessible for individuals who want a quick description of how the organisation has performed, without needing to wade through complicated financial statements or lengthy narratives." (US3)

Here, she states that a summary report of some kind would probably be helpful to some stakeholders. This report would detail the social objectives that the charity is aiming for, as well as what it had accomplished. She argues that this might well be more appealing to those who are put off by the detailed financial statements required by OSCR, because it would offer them information that would better inform them of how well the charity is doing in a concise way. In her view, it is important for charities to get social reporting right if they want to attract funding. The competitive nature of funding, particularly over the last few years, has forced charities to think more carefully about how they present themselves to donors. The text below is taken from page 14 of the SORP (FRS 102 edition), which concerns what is expected of charities in terms of their objectives and performance reporting:

Objectives and activities

1.17. The report provides information intended to help the user understand how the charity's aims fulfill its legal purposes, the activities it undertakes and what it has achieved. All charities must provide a summary of:

- the purposes of the charity as set out in its governing document; and
- the main activities undertaken in relation to those purposes.

1.19. The report should explain the activities, projects or services identified in the accompanying accounts. As far as practicable, numerical information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the accounts.

Achievements and performance

1.20. The report must contain a summary of the main achievements of the charity. The report should identify the difference the charity's work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society as a whole.

Charities SORP (FRS 102), P.14

Here, it refers to an expectation of charities to summarise their purpose and their main activities. This should take a narrative form and explain the approach being undertaken by the organisation in order to meet its intended targets. It is also expected that they explain what has been achieved so far and how they have helped their own beneficiaries, as well as society at large. This information does not need to be overly thorough, as it a summary is all that is required. However, it is expected that charities can convey through language what they intend to achieve and what they have already accomplished.

Two of the respondents discuss how not only can the information found in social reports be more useful to stakeholders, but that they will often be more interested in it, too. For example, Respondent US5 states:

> "It can be more enlightening for many stakeholder groups to read about social performance rather than dry financial data. On their own, financial information doesn't tell us very much about a charity. They have their place, of course, and are particularly important for potential funding. And we do need to verify that donations are being used appropriately. But funders are, at least in my experience, at least as interested in social reporting." (US2)

Despite the many difficulties in reporting on social performance, Respondent US5 argues here that it is a necessity due to interest. Even at AGMs, where you would expect financials to be discussed in detail, attendees are, in her experience, unlikely to make many enquiries concerning it. According to Connolly *et al.* (2013a) and Huang and Hooper (2011), donors do not typically find financial statements useful when determining who to support. In the absence of useful means of conveying performance, a social impact report would better serve non-profits looking to attract finance. Of course, details on funding need to be conveyed in figures, too, via financial statements (Jegers, 2010). This ensures that funding is appropriately spent. However, reports which effectively demonstrated social performance have been shown to be more useful for donors (Connolly *et al*., 2013a; Huang and Hooper, 2011). Therefore, for marketing purposes, it is in the interest of Respondent US1's organisation to provide services which assist non-profits with their social reporting, whatever the form this might take.

Respondent US3 also expresses support for more non-financial reporting from charities in the future. The most recent SORP, the 2015 iteration, "…has a greater emphasis on narrative reporting", a trend that has been continuing since its inception (though financial reporting requirements have also increased with each new SORP). Respondent US3 stresses caution, however, warning that there is always a risk that too much information will be required and that this could be detrimental to charities. She describes the role of OSCR, as the regulator for charities operating within Scotland, as being much like that of auditors: "…we have to decide what is material when determining what charities should report to the outside world". Although they could expect charities to provide a lot of information, not all of it would be relevant nor significant enough to warrant publication. Therefore, a balance must be struck:

> "There is a line to be drawn on what can be included in such a document that must be provided each and every year." (US3)

Here, she refers to organisations in general, irrespective of sector, and believes this to be equally applicable to charities. Effectively, the benefit of providing such information must outweigh the cost of doing so. For charities, the 'benefit' of providing more information must be justified, relative to the very real financial cost of measuring it. The difficulty for such organisations, however, is determining what constitutes the benefit. This is especially true where no financial value can be assigned to it; as is typically the case. Non-profits may be able to point towards improved fundraising when disclosures are increased but a causal link will be difficult to determine. Social return on investment (SROI) is a variation of cost-benefit analysis.

However, there can be a mutual benefit from these disclosures. Respondent US4 explains the importance of qualitative information in charity reporting:

> "The charity SORP provides more extensive opportunities for unique accountability relationships [compared with the for-profit sector]. Transparency is incredibly important for charities, probably more so than for the private and public sectors. Most serve a dual purpose. It is important for them to clearly state (and understand themselves) what their objectives are. What is their risk management? Are they sustainable? There must always be a qualitative element in reporting to address these issues." (US4)

Here, she stresses the importance of non-quantitative information that can better explain past performance and future objectives; issues, such as risk and sustainability, are difficult to explain without some form of narrative to convey this information. Respondent US4 also states her view that reporting can help to clarify for charities themselves what are their aims and how to achieve them. Therefore, one of the main beneficiaries of a report, financial or otherwise, is the charity themselves. Accountability can serve the creator of a report, too. Roberts (1991) argues that being accountable helps maintain a sense of purpose for the organisation; without it, the organisation is more likely to stray from its original message.

Although she welcomes more reporting of this nature, Respondent US4 would prefer that it was not overtly included as the terminology can be unhelpful. Over time, however, the SORP has expected more, even if not explicitly stated:

> "We have discussed the idea of increasing disclosures further, and there has been a trend towards greater detail with each new SORP. The old SORP back in 1995 would be unrecognisable today because of how little it required. The big question is, do we make this mandatory across all charities? Would that mean we have to be prescriptive? We would prefer not to make it too rigid; that charities provide a checklist of criteria." (US4)

She explains, like Respondent US3, that it is a difficult balance for them to strike; determining what should be provided and how prescriptive the standards should be. Being too prescriptive would deny charities the opportunity to present many of the things that make them unique. Being too flexible risks the standards being largely ignored with charities providing the information they want to be seen and leaving out would they would prefer to downplay. One of the original key aims considered by Bird and Morgan-Jones (1981) for charity reporting was comparability, something that is difficult to achieve if standards are not rigid enough. Respondent US4 does state that she thinks the trend towards greater qualitative standards will continue:

> "But I do think we are heading towards more qualitative information. Indeed, when the next SORP consultation begins in 2017-18, it is likely to be a central issue. We will likely revisit this debate again, as we have done in the past. We have been gradually pushing towards more disclosure requirements, nudging charities along the way." (US4)

Over time, the expectations put upon charities has increased gradually. Fearing that a sudden jump in standards would be damaging, the SORP has instead sought to slowly familiarise charities with the idea of additional disclosures, including qualitative information. Respondent US2 describes a further benefit of greater disclosures; a reduction in information asymmetry:

> "It is good for discussion, too. More information in circulation would create a better atmosphere for discussing a charity's performance, both in the past and in the future. If the information isn't there, how can others contribute their perspective? How can they offer advice to the charity?" (US2)

Respondent US2 states that the inclusion of more information can be very useful for the charity and its stakeholders, particularly the local community. By reducing information asymmetry amongst all connected parties, trust can be built between the charity and its supporters, thereby encouraging them to play an active role in the charity. Jetty and Beattie (2009) cite this as one of the major benefits of increased disclosures. Within stakeholder groups, it is unlikely that there will be an equal balance of what groups know about a non-profit's activities and performance. Increased transparency via social impact reporting would help to create this balance, ensuring that amongst external stakeholders, larger funders are no privy to information others are not. Further to this, Jetty and Beattie (2009) found that charities sought to report on their social performance 'to create a sense of empathy for the organisation' (p.16). An organisation shrouded in mystery is unlikely to persuade people to care or get involved with its social mission.

On the issue of what should be included, the respondent has some idea of what that should be:

> "More specifically, I think that outcomes and outputs are definitely important for charities to provide. Beyond that, I am less sure of what should be required. The problem, of course, is that the sector is very diverse. Not only in scale, with both very large, multinational and tiny organisations operating under the title of charity, but in other ways, too." (US4)

Her reasoning for this was the differences that exist between charities. Large charities, which operate across the UK and internationally, are regulated by OSCR in the same way smaller charities are, too. While she supports the measurement and publication of outcomes and outputs, further information becomes more difficult to objectively include. Therefore, Respondent US4 is less comfortable with the other aspects of non-financial reporting:

> "Charities exist for very different reasons and measure success in very different ways. It is hard to make them all follow the same ideas. If we tried to be too prescriptive in our requirements, I think the sector would lose what makes it so unique i.e. its diversity. How could we implement a set of standards applicable to all? But the sector is so diverse that it is virtually impossible to standardise without resorting to the lowest common dominator." (US4)

Subjectivity is a major concern for regulators. This is one of the major drawbacks associated with social impact reporting. What makes the non-profit sector unique is its diversity. However, this distinction comes with a drawback; a difficulty to standardise. Some have attempted to quantify social performance e.g. SROI. Currently, though, there is no definitive way of objectively measuring performance within the sector and, in all likelihood, there never will be. Cordery and Sinclair (2013) state that the difficulty arises from attempting to compare complex objectives which have little in common. Determining what objectives deserve priority is inevitably a subjective process. Attempts to do so risk, as Respondent US4 describes, dumbing the standards down to a more simple level.

Respondent US5 also expresses concern over how social impact reporting would measure unique charitable causes. For example, one particular difficulty would be demonstrating performance over different time horizons. Not all charities look to accomplish targets within one year:

> "Development projects are long term, typically taking years to implement, run and maintain. How would the charity demonstrate it had offered value for money at the end of Year 1? How would this be quantified? The result would probably be that it looks like the charity achieved nothing/ very little for 9 years, then suddenly achieved a lot in year 10. That makes it look like the charity performed badly 90% of the time. The long term cannot be shown in the short term." (US5)

Here, Respondent US5 draws from her own experience of working within an international charity. The work in which Christian Aid is typically involved might span several years if not decades. Their objectives do not suit, from their point of view, the short term time horizon of an annual report. It would be impossible to compare performance with other charities; a major benefit of and reason for standardisation. Long term projects, spanning years, might yield no social benefit during the initial planning and setup period. But there might be an enormous benefit to be gained after this time has been spent and the hard work starts reaching beneficiaries.

Social impact reporting designed to mimic that of financial reporting, conducted on an annual basis, would not do justice to causes such as this (Aimers and Walker, 2008; Zappala and Lyons, 2009). Christian Aid might have little or nothing to show for their efforts initially. However, in time, the fruits of their labour would begin to develop. This might take years to materialise. If potential funding was dependant on demonstrating performance, they would struggle to attract support Aimers and Walker, 2008). Projects like those described by Respondent US5 will require significant management early on if they are to pay off later in terms of social value creation.

Furthermore, smaller charities would struggle even to produce such a report, due to limited knowledge on how to and the time constraints that exist. This, as discussed earlier, is perhaps the most immediate hurdle to be overcome for comprehensive social reporting. Any reporting, financial or social, will require additional resources to conduct. Direct costs would include the time spent by employees on their production. There would also be indirect costs, for example, making sure staff are capable (i.e. trained) to produce these reports in the first place, due to the skills that may be required (Cnaan and Kang, 2010). This is cited as one of the major drawbacks of SROI (Emerson and Cabaj, 2000), that very few people within the sector understand it enough to use it effectively. Respondent US5 also makes the point about whether a social report would really benefit the charity itself in the form of more funding; that putting the time and effort into it would not yield further donations. To make it worthwhile, there would need to be proven link between increased transparency and funding; a demonstration that this cost will translate into a sum at least equal to the required expenditure. Therefore, according to Respondent US5, a social impact report would not benefit either the charity or its stakeholders in any meaningful way.

6.4: Managing Accountability

6.4.1: Stakeholders and their Influence

One of the key questions interviewees were asked concerning stakeholders was who they considered to be the most important from their own personal perspective. Although the respondents share a common view on some stakeholders, the background and experience of the interviewees led to differences of opinion on other groups. Here, these findings are discussed in detail, acting as a starting point for subsequent discussion of accountability.

The general consensus amongst respondents is that although the for-profit and non-profit sectors share many similarities in terms of their stakeholders, the non-profit sector is also distinctive. Respondent US1 states that the third sector has unique stakeholder relationships not found elsewhere. Some authors have described these relationships as being not as strong as those found in different sectors (see: Brody, 2002; Herzlinger, 1996). Others, for example Goodwin (2003), see these relationships as merely the product of a heterogeneous sector rather than technically being weaker. Accountability and stakeholder theory, irrespective of the context, are subjective topics with a wide range of views on who is salient enough to warrant attention.

External stakeholders, those who share a connection with a non-profit but not from within the organisational structure itself, were the most commonly discussed by respondents. Within this subset donors were emphasised, with four of the five interviewees highlighting them when asked who were the most important. Their financial interest, though dissimilar to that of for-profit financiers, gives them a good reason to be concerned about a charity's operations. Respondent US2, who offers non-profit organisations advice and guidance on donor relationships, voiced the strongest endorsement of their significance:

> "Funders are first and foremost. This tends to be local councils for larger organisations, but will vary between organisations. There are many sources of income available to third sector organisation, including the lottery and trusts." (US2)

In his view, donors should always be a clear priority for charities. Though the source will vary depending on the nature of the charity in question, management cannot afford to neglect the interests of their financial supporters. It should also be stated that donors are not a homogenous group; within them are a wide variety of different types of individuals and organisations. Therefore, their expectations and clout will range depending on their position. Also voicing strong support for donors, Respondent US3 offers the following reason why she believes them to be important:

> "Organisations are not usually in a position to turn away funding offers, despite the strings that may be attached." (US3)

Charities are dependent upon donations, despite any potential drawbacks. Without them, the future of the organisation and its cause will be uncertain. Connolly *et al*. (2013c) state that "…their altruism created a special relationship of accountability" (p.63). However, based upon some of the interviewee's statements, this altruism is not always clear. While it is true that donors do not (typically) expect to see their funding returned to them, conditions and restrictions placed upon donations could, in some circumstances, undermine this altruism. Despite this, it is undoubtedly true that donors are an important stakeholder group for non-profits to consider, backing up the findings of many other academic studies (notably: Connolly *et al*. (2013c); Hyndman (1990); Morris *et al*. (2007), for example). Furthermore:

> "Funders obviously have an interest in how the organisation has performed and how well they think it will do in the future." (US3)

Without their financial support, non-profits would not exist (Morris *et al*., 2007). One respondent in Connolly *et al*. (2013c) states that the absence of a profit incentive makes the accountability need for donors the greatest, despite this being a contrary argument to why shareholders are often described as the most important for-profit stakeholder group. But donors will always want to know that their money has been well spent and will be careful to observe their chosen organisation's progress following their support. Their support is essential for long term sustainability (Hyndman, 1990).

Two of the respondents, US3 and US5, mentioned beneficiaries, with Respondent US3 providing a very simple reason for why they are important to charities. Due to this connection, they are obviously accountable to them. Respondent US3 also states that beneficiaries might well be the most important stakeholders:

> "Beneficiaries expect a service from the charity. Beneficiaries are perhaps the main stakeholder group of any charity because without them, the organisation would not exist." (US3)

This is in contrast to what is perhaps the more commonly held view; that donors require the greatest transparency. Respondent US5 takes the issue further by distinguishing between direct and indirect beneficiaries:

> "Direct beneficiaries are an obvious one and are the most easily to acknowledge. Indirect beneficiaries are also important as it is rarely the case that a charities efforts affect people directly. For example, a charity helping children will often provide support for family members and parents in a wide range of ways." (US5)

Respondent US5 describes direct beneficiaries as being easy to identify, if not necessarily easy to communicate with. Three of the interviewees, US1, US3 and US5, specified the general public as an important external stakeholder. Society in general (sometimes narrowed down to the local community) is commonly described within a comprehensive stakeholder framework. In fact, due to its strong links and complex relationships, the non-profit sector is seen to be a good fit for stakeholder theory (Connolly and Hyndman, 2013). There is no reason to treat the non-profit sector any differently to its private and public counterparts in this respect, therefore, society will typically play a role. Lee (2004), states that the public is a key non-profit stakeholder, not least because an indirect financial relationship exists. Respondent US5 stated the following concerning the public's interest in charities and the role of OSCR:

> "The wider public will always have an interest in how the charity sector is performing as a whole, to some degree. It is our job to encourage trust and confidence in the sector by ensuring that organisations comply with regulations." (US5)

Interestingly, Respondent US1 describes how similar stakeholder relationships can be in theory, but not so in practice:

> "By and large, from a more abstract point of view, it could be argued that stakeholders are broadly similar, irrespective of what an organisations looks like. But on a more practical level this will not be the case." (US1)

Here he is referring to the fact that although his support organisation would always be prepared to offer assistance to any charity, regardless of their size or scope, this will not typically be how their organisation operates in practice. The stakeholder relationship is not the same. In the literature, when differences between small and large organisations are discussed, distinctions made tend to concern how formal the methods of discharging accountability are. For example, Gray *et al*. (2006) describe how larger organisations will favour more formal approaches. Smaller organisations will not typically adopt this approach, whether its accountability is shared between funders and the general public or between the non-profit and Respondent US1's organisation.

Interviewees were also asked about the influence held by stakeholder groups. Three of the respondents, US2, US3 and US5, discussed funder influence within charities at length. For example, Respondent US3 states that donor involvement can be helpful for the charity:

> "Funders exert their influence over a charity by deciding whether they will provide funding or not and thereby determine whether the organisation continues to exist. In some circumstances, they may state how they would like the funding to be spent. This might be done in a supportive way i.e. suggestions designed to benefit the charity to ensure money is spent effectively." (US34)

In his role as a Development Advisor, Respondent US2 is responsible for helping charities appeal to potential donors. He describes what this role entails:

> "We might offer advice on writing applications to help charities (particularly smaller ones) to appeal to funders. One issue that is important to address is sustainability, something funders consider to be important. By this I mean proving that the organisation has a long term funding plan, and knows what it will be doing after the donation ends." (US2)

Here, Respondent US2 draws attention to the importance of sustainability for charities; by proving to donors that they know what the concept is and how it can be achieved. Donors want evidence that charities have the long term future in mind, beyond any immediate funding that they might receive. Respondent US2 expresses concern that not all charities properly consider sustainability. Smaller organisations are far more interested in the present or immediate future, aiming to provide a social benefit now. It is not that they are entirely unconcerned about the future; instead, they prefer not to think about it or believe it to be beyond their control. They focus on what they assume to be possible, which is, keeping the charity going from day to day. This is consistent with Madill *et al*. (2010), who contend that financial sustainability is vital and relies on some sort of commercial marketing to achieve it. Appealing to donors is a form of commercial marketing. Sometimes, donors will attempt to foster a sustainable attitude within the non-profit to ensure its long term survival. However, when donors play an active role, the impact is not always positive, as Respondent US3 explains:

> "But it might be done in a less supportive way i.e. bullying the charity into satisfying their interests. This is unusual, as typically those with an interest in a charity are well meaning and want to play a helpful role. But occasionally you have individuals who exploit their influence and importance; they have a hold over the charity and that they want to make use of. Charities will rarely by the only provider of their services in an area and are therefore subject to the same market forces found in the private sector; funders will take their money elsewhere, much like customers." (US3)

In some instances, donors might use their position to dictate how the charity is run. According to Respondent US2, however, funders will typically leave the charity to operate the way it sees fit. Although it can happen, it is not typical for donors to dictate how their chosen charity should be run. In his personal experience, funders do not usually behave in this way. This is despite the charity being dependent upon their funding contribution, thereby giving donors a level of control. Respondent US2 describes the position held by funders as leverage, however, it is not one they are keen to exploit:

> "Funding gives a stakeholder a lot of control over a charity, but there is not usually a tendency to make it "jump through hoops" to impress them. But it certainly gives them leverage over the charities operations. In many cases, a funder is probably in a strong position to be influential in how the charity acts, but typically a person who is interested in charity funding in the first place is not the kind of person trying to tell them what to do." (US2)

Hyndman (1990) states that funders are important because the long term survival or the charity depends upon them. Connolly *et al.* (2013c) found in their research that interviewees thought the absence of a profit incentive for funders is what made their accountability link so strong. However, their respondents did not describe this relationship as being like influence, or leverage. Instead, their respondents saw a strong accountability link as being a fair exchange for donating funds to the cause. This link is (almost) altruistic; the funder expects nothing but to be reliably informed that their money has been well spent.

6.4.2: What Accountability Mechanisms Do Non-Profits Use?

As well as discussing stakeholders, the methods by which non-profits discharge accountability were also considered. All respondents favoured their own respective accountability approaches, based on their position. For example, Respondents US1 and US2 spoke positively of the events that they host which bring third sector organisations together. Unsurprisingly, the OSCR respondents favoured financial statements as a means for achieving accountability. Alternative approaches were suggested too, however, the evidence shows that financial statements should always take precedence as an accountability mechanism, with other ways playing a secondary role. Respondent US3 describes financial statements as being the priority, as it is important to demonstrate financial rectitude. Despite that, Respondent US4 discusses at length who the SORP is written for, as well as its choice of language:

> "From the perspective of the SORP, it was started with the best of intentions but not much thought was put into who would be reading it or who would benefit from it. It has moved away from the financial language that some cannot understand (or don't want to)." (US4)

The SORP document is designed to ensure that it is worded correctly, not just that the right information is included. While financial jargon is unavoidable, the producers must be careful to ensure that the document is understandable to not only accountants and auditors, but also to those without a financial background. The SORP must be accessible to a wide range of people if it is to a helpful means of accountability:

> "On the SORP committee we obviously have a lot of qualified accountants but we also have a few who are not familiar with the jargon. That is useful to stop us from getting too technical because we tend to revert to type on these issues. Occasionally they will stop us and point out that the language is too jargon heavy, and not understandable to those who are not already familiar with accounting terms." (US4)

The SORP committee, of which Respondent US4 is a member, includes people without a strong financial background. This offers a non-accountant perspective on what the document looks like, and helps the committee to imagine how readable the SORP is to the general public. The use of financial jargon might not be helpful to some, but by finding out the views of committee members without a financial background, it can be determined what parts might cause issues and whether it is possible to reword these sections.

One important part of the financial statements, to the general public in particular, is administration costs. Respondent US3 explains that this is an area that OSCR looks to address, as it is important to funders and the general public alike. Donors have a keen interest in how much of their money goes towards running the charity:

> "It is quite common for people to want to know how much a charity spends on its administration relative to other expenditure. Typically they might want to know this as a percentage i.e. 10% of total annual spending goes towards administration tells a person that 10p in every £1 goes towards that instead of the charitable cause itself. Some might view this as being 'wasted'; that only 90p is being spent properly." (US3)

Knowing how much of a donation goes towards administration is important for must funders and it is a commonly mentioned issue in the media. Administration costs are often used as an indicator of performance. However, Respondent US3 also points out that they cannot be considered in isolation; context is required to assess a particular charities administration costs:

> "Though I think most people understand that without some sort of administration, the charity would cease to exist – it is a necessary evil. And charities that spend the lowest percentage on administration are not always the best or effective at what they do." (US3)

Respondent US5 also discusses the reporting of running costs by charities. She states that though low administration expenditure is perceived to be advantageous, this is not always the case and it should not be the primary aim of the charity to keep this figure low:

> "I think running costs are given too great a focus. It is said that you should have a number or a percentage for running costs. That is not always realistic, and even if there was, it wouldn't tell the whole story." (US5)

She also expresses concern that simply reporting a lower administration cost does not mean that this is the case. Larger charities might know how to ensure this figure is lower to appeal to potential funders when, in reality, the expenditure is reported elsewhere:

> "It is also possible that the reason it has lower admin costs is because they "hide" the expenditure somewhere else. If a charity claims to only spend 5% of its expenditure on admin, chances are, they have hidden the expenses somewhere else, as it is unlikely they spend so little on it. Clever organisations will do this, while most small charities would have no idea this was even possible!" (US5)

In recent years, however, the displaying of administration costs has become increasingly complex. One of the criticisms made against SORP 2005 is that it weakens accountability in some respects. For example, conversion ratios are no longer calculable, thereby denying readers the opportunity to determine how much is spent on administration costs (Connolly *et al*., 2013b). This change has come at the expense, primarily, of funders and the general public. Though ratios should not be the only reason donors choose one non-profit over another, it denies them the opportunity to use this information when making their investment decision. The result is a decrease in transparency, reversing the general trend made by the SORP since its inception in the 1990s.

Respondent US1, a third sector adviser, speaks favourably of his own events. He sees these as a good thing for the community; for the charities themselves and their beneficiaries:

> "This is usually a positive experience, with constructive feedback being offered. The audience has the opportunity to enquire further, and what we tend to see is people who perhaps worked with a similar charity in the past looking to find out more about that specific part of the sector. They may offer their own experiences, both recent and in the distant past." (US1)

Because most of the attendees are people from different charities, the audience tends to be well informed. Insightful questions will be asked of presenters, with a genuine interest in the responses given. Respondent US1 argues that this makes it a strong method for discharging accountability within the community. Respondent US2 explains that these network events are particularly useful for describing and detailing social objectives to an audience who are in a similar position. They are not designed to assess financial viability; nor should they be. They are there to acquire feedback on social performance and to discuss future plans under consideration by the charity. Like Respondent US1, Respondent US2 also draws attention to the role played by local politicians. Though they are not always present, Respondent US2 sees it as a positive step for them to show a presence within the community through the non-profit network. He sees it as a testament to the quality of the events that local MPs and MSPs make an effort to attend and be visible within the community. Their involvement adds to the atmosphere and helps makes the events appear more outward looking. However, though well attended, charities are not required to contribute and can therefore avoid this opportunity to connect with the community:

> "This helps provide a strong accountability link. Though it must be said that these are optional events, and there is no obligation to attend, let alone present. Therefore, a charity can stay under the radar if it wants to. But those who do get involved, it is a great opportunity to advertise their charitable cause to others. They tend to be more constructive than community forums run by the council – at these people who feel they have a right to say what they want and attack each other. That is not what we are looking for. I do not think there is anything to be gained by verbally assaulting someone who has taken the time to prepare a presentation on their organisation and its cause." (US2)

Despite these occasional problems though, both respondents were very positive about these network events, and were particularly grateful for bigger charities getting involved:

> “Large organisations will often be active in local network events, giving presentations to others detailing what they are doing. Though some might argue that is largely for show, I think it is important that they present themselves as active in the community, and prove they are an invaluable part of our area.” (US2)

Larger charities, which might operate on a national (or even international) level, will attend with as much enthusiasm as their smaller counterparts. As Respondent US1 says, it helps them to establish themselves on a local level. Overall, it is clear that both Respondents A and B see these events as good for accountability and transparency, if not financially, certainly socially. Amongst the charities themselves, it helps to foster an open relationship for the mutual benefit of all, perhaps in a way that would be unimaginable in the for-profit sector due to competition concerns. However, criticisms have been made over the value of such events. As will be discussed in a later section, not everyone agrees that they are useful for accountability purposes, most notably, due to their inward focus.

Their events are a stark contrast to written reports, particularly those which are financial. Both are means of being accountable to an audience, however, in very different ways. The respondents from the third sector support organisation worry that written reports are too passive a way of holding a charity (or themselves) to account. On the other hand, OSCR strongly advocate high quality financial statements as a written record has formality and durability. What’s clear is that both approaches share the benefit of greater transparency; providing information about a non-profit’s operations, financial position, objectives and outcomes.

6.5: Summary

In this chapter, the findings from five unstructured interviews were discussed in detail. The topics addressed included; the role of entrepreneurship within non-profit organisations, reporting practices and accountability. The one thing that arose repeatedly throughout the research was the issue of funding. This came up within the context of all three major topics of discussion. The importance of reporting for marketing purposes, transparency and the adoption of entrepreneurial practices were all considered in terms of how they help to improve a non-profit's funding prospects.

For example, Respondent US2 argues an ability to think in an entrepreneurial manner can help increase donations and obtain grants. Its potential to encourage a sustainable attitude amongst non-profits was also a reason mentioned for adopting an entrepreneurial attitude. However, concerns were expressed by the majority of respondents that entrepreneurship could only ever be useful for larger non-profits, and that it would be a difficult concept to 'sell' to traditional charities. While larger non-profits might benefit, the potential for smaller organisations was thought to be limited. Similarly, one respondent did not see it being useful for smaller funding sources, while another doubted the value of entrepreneurship at all. Concerns were also raised that it would risk commercialising the sector too much, resulting in only the best marketers receiving the funding they need.

On the topic of stakeholders, most highlighted the significance of donors and the need to appeal to them. Their influence, good and bad, was also discussed by respondents. However, beneficiaries were also singled out and both OSCR and third sector support organisations were specifically mentioned as key stakeholders. The influence held by such stakeholders, particular donors, was, for some, a cause for concern. However, appeasing financial supporters was described as a necessity if a non-profit is to survive.

Though most were in agreement that the social cause should always be where the focus of the non-profit lies, this is inevitably linked to funding contributions; irrespective of the source. There appears to be a strong connection between funding, a non-profit's ability to report effectively, transparency and social entrepreneurship. Therefore, a greater focus is put on funding in the next stage of the research, semi-structured interviews with non-profit organisations themselves, in order to address this in greater detail. Similarly, stakeholder relationships are closely examined. This will continue to be done within the context of the topics already discussed.

Chapter 7: Findings – Semi-Structured Interviews

7.1: Introduction

In this chapter, the evidence from the main interview stage is presented. This comprises of twenty semi-structured interviews held with individuals who work for Scottish charitable organisations in various capacities. The questionnaire used for the semi-structured interviews was built based on the literature review in earlier chapters and the unstructured interviews considered in Chapter 6. This can be found in Appendix B. This allowed a template to be designed that asked relevant questions of respondents, based on the issues that emerged as being the most significant to academics and stakeholders directly connected to the charity sector. Not all questions were asked of respondents in every interview; questions were selected based on relevance to the respondent's role and their earlier answers. Furthermore, unlike in the previous chapter, only interview responses are discussed here. Analysis and links to the literature are instead addressed in the subsequent chapter. The chapter is divided up into four sections, based on the research questions outlined in Chapter 1. This evidence serves as the main data used in the subsequent theoretical discussion in Chapter 8.

7.2: RQ1 - How Do Agents/Stewards Balance their Social Objectives with Financial Demands?

7.2.1: Measuring Social Performance

The terms 'outputs' and 'outcomes' were thought to be the same by most interviewees, who assumed the two to be identical. When asked for an example of either, the majority of respondents describe a particular social achievement of their organisation. Examples include the number of children helped by a particular campaign (SS13) and increased organisation membership (SS6). However, four respondents did acknowledge a difference between the two. For example, all four made the point that outcomes are trickier to measure due to an inability to quantify them. This makes sector comparisons more complex. Outputs, on the other hand, were described as a "quantifiable performance measure" (SS14) which, therefore, makes them easier to compare.

On a similar note, some respondents discussed the difficulty of effectively appraising non-profit 'inputs' which do not exist in financial statements. An example of this is volunteers who, due to their lack of remuneration, are absent. This is despite the fact that many non-profits would not survive without them, thereby making them an important asset for such organisations. For example, Respondent SS12, who runs a charity as a volunteer herself, states that her efforts over the last twenty five years do not exist on paper.

> "I have run my charity since the 1990s and have not been paid a penny to do it. Nor would I take any. But there is no written document that counts in any way what I have done in that time. Of course the reality is that by doing what I do, I have helped countless families. My achievements are measured in their happiness, not in documents." (SS12)

The complexities of performance measurement came up repeatedly during questioning, with almost all respondents making reference to it. One respondent discussed a point not made by others; non-profits are reluctant to report outcomes because it can mean reporting failure. Respondent SS8 states that, although it is important for charities to report their social objectives, and whether they have been achieved, some are reluctant to do so because it holds them hostage to past promises:

> "It is not something that concerns me but I know a few other charities who refuse to give specifics on what they plan on doing or what they have done. The thinking is you cannot fail if you do have a target to meet in the first place. I think that is a dangerous though process however, that failure is not meeting some arbitrary target. It overlooks the good that charity has done just because they missed their goal by a small percentage." (SS8)

The respondent also describes the importance of being honest with stakeholders, particularly donors. If a new approach or campaign is unsuccessful, non-profits should, in her view, seek advice from external stakeholders on what to do. Unlike the private sector, where strategy and management must maintain a level for discretion, the charity sector benefits from a greater degree of openness. External stakeholders, will typically be rooting for them to succeed, even if they do not have a close connection to the organisation. Therefore, it is important for them to actively seek advice from the wider community on how best to achieve their outcomes. As Respondent SS8 states: "It is better to try and fail in the open than behind closed doors".

Being honest with stakeholders about social performance was in fact seen to be a strength of the sector. A majority of respondents stated that good quality social reporting can be an effective way of reaching out to funders and the public at large. Slightly more than half, fourteen, favoured social reporting as a way of raising additional funding if needed. For example, Respondent SS3 argues such reporting has several benefits:

> "A social impact report can be useful in a number of ways. For us, it is a way of recording what we do. Provided information is recorded accurately and the document is not used as a sort of propaganda piece, then it can act as an archive for our organisation throughout the years. So it is good for internal stakeholders. But it is also important for appealing to donors and others outside the organisation as it is the easiest way to let them know what we do, even if this is not quantified." (SS3)

Even amongst respondents who spoke less favourably about the need for social performance measurement conceded the point that it can help them appeal to external stakeholders. For example, Respondent SS9, who argues there is not much of a need for social reporting at all, states it could be a useful marketing tool. His view is that social reporting should not be a compulsory act and it is not suitable for all organisations. However, where it can be proven that investment in such reporting is financially favourable, the only sensible action to take would be to implement it:

> "If a business case could be made for it then I'm all for it. I think for most non-profits, particularly smaller ones, the case isn't there. But larger organisations I'm sure could find evidence for better fundraising where they make use of social reports effectively." (SS9)

However, Respondent SS8, who generally spoke favourably about social reporting, also made a point against it, too. She states that it can mean "…talking out loud to the wrong people." By this, the interviewee expresses concern that the focus lies too much on impressing donors and not enough on creating social value for beneficiaries. The respondent argues that it is a difficult balance for non-profits to strike in the long term.

Though several respondents made reference to SROI, none did so favourably. Without prompting during their interview, five briefly discussed the social performance measurement approach. The chief concern amongst these respondents was time and cost commitment required to effectively implement it. SROI requires good quality data in the first instance to be used properly, which may be a tricky undertaking for smaller organisations.

> "It is an interesting concept but little more than that. I cannot see it ever being used across the sector. It requires new skills, time and money. And it is only of any use if enough of us use it, since it is used to make comparisons between non-profits." (SS5)

Another concern raised is that the vast majority of non-profits do not know how to use SROI. Therefore, even if it was widely adopted across the sector, comparisons would be meaningless due to measurement inaccuracies. More broadly, the overwhelming majority of respondents supported qualitative disclosures over quantitative reporting, stating that the nature of social performance requires it. As mentioned earlier in this chapter, an important element of reporting, according to one respondent, is the ability to tell a good story. Most respondents say that good quality, narrative reporting should be the aim as this gives their organisation a voice. However, two respondents (SS9 and SS14) acknowledged that the relevance of quantitative social reporting may be greater depending on the nature of what the non-profit does and who its audience is. By audience, both respondents made reference to funders, specifically larger ones. Their point is that some stakeholders may have use for such data provided that it 'fits' the organisation's particular social achievements.

7.2.2: Should Financial or Social Reporting Take Priority?

On whether financial or social reporting is the most important, respondents were split. Perspectives varied wildly, with some advocating a focus on one or the other, while others supported a much more balanced approach. Here, their views on how best to prioritise reporting are presented, in order to understand what type of information deserves more, or less, attention from non-profit organisations.

One point that respondents generally agreed on, with fifteen making at least some reference to it, was that the two types of reporting ultimately have two distinct objectives; they are not trying to achieve the same thing. Financial reporting was described as being less about providing eye-catching information and more about proof or vindication. On the other hand, social reporting serves the purpose of informing others through everyday language that non-accountants can understand. In other words, it should be jargon free. For those who took the view that the two types of reporting cannot be equated, this was a major reason why. The goals of financial and social reporting are distinct:

> "Financial reports ultimately only have one small set of stakeholders, while social reporting is for just about everyone else. With a financial report, all you are trying to do is prove you did not mismanage funding. It's proving a negative. With social reporting, you are trying to prove something that does exist, that you achieved something worthwhile." (SS11)

How non-profits prioritise their financial or social reporting will depend on which stakeholders they believe to be most worthy of an account. With financial reporting, the audience represents a select group typically with the power or responsibility to check, or even regulate, the organisation's activities. A social impact report is more concerned with conveying information to a wider, more diverse audience. Furthermore, the aim of that information is to demonstrate the cause is worthwhile; something that is not possible to achieve through financial data alone.

For some respondents, there was no question that financial reporting takes precedence. For example, Respondent SS2, though in agreement with the point concerning the two types of reporting having very different purposes, felt they could not be equated or compared.

> "Proving the absence of fraud and financial competence, the purpose of financial reporting in my view, is simply too different to what we ask of organisations to provide in social reporting. Nobody can verify the content of social reports. Much of it amounts to bluster, an attempt to emotionally engage with the reader. But you can check the content of financial statements and if we lied, we would be discovered eventually." (SS2)

He states that financial reporting is testable, perhaps even objective. By contrast, social reporting is designed to appeal to a reader's sense of empathy; it tries to create an emotional connection with its audience. A similar sentiment is expressed by another respondent:

> "I can't imagine anyone but an auditor looking at our financial statements, though of course they are available on the website and at OSCR for all to see. All they do is prove financial competence. Beyond the figures, there is no indication of how we are performing in terms of social good. If our revenues are higher than last year that does not necessarily translate into more social value, though it is likely I concede." (SS13)

Here, Respondent SS13 points out that better financial performance may not mean that more social value has been created by his organisation, though a correlation is probable. Financial reports will rarely give a good indication of what social value has been achieved. It is not their purpose to determine or assess social value and OSCR will not criticise them for not demonstrating sufficient social value creation.

One respondent stated that the importance placed on either social or financial reporting depends on the objectives of the organisation i.e. what it believes to be the priority. Each organisation will have its own culture; a distinct way of operating that affects the way employees and volunteers conduct themselves. The importance placed on social reporting will depend on management's opinion of its relevance. However, the prioritising of social reporting is not the same as prioritising social value, as social reporting may be used for marketing purposes i.e. to increase revenue. Four respondents stated that the best way of doing this was to offer a narrative detailing the organisation's efforts:

> "It is important to tell a good story. Social reporting on behalf of non-profits is about presenting a narrative, or a cause, in a way that has an impact on people. However, that is easier said than done." (SS3)

> "Selling a social cause through reporting cannot be done in the conventional way. It requires an emotional link instead. But you can't do that simply with facts and figures, though they are important. You need to embed them into the narrative, into the conversation." (SS20)

Respondent SS20 describes such reporting as being used for "selling" the social cause, arguing that the content and structure of financial reporting is not fit for this purpose. The idea that social reporting should take the form of a story, or narrative, resonated with several interviewees. Due to the difficulties in quantifying social value, discussed earlier in this chapter, it was stated by respondents who agreed with the idea of social reporting that this was the form its should take.

Others expressed criticism of social reporting too, stating it serves little purpose within the context of the organisation's principal goals. They are critical of the idea that social reporting should amount to storytelling, arguing this is too subjective and lacking in structure. Respondent SS16 makes a simple point concerning it:

> "Social reporting is talking out loud to the wrong people." (SS16)

The interviewee suggests that the target audience of social impact reporting will never be appropriate and that such reporting effectively amount to a waste of time and resources. He argues that the stakeholders it is targeted towards i.e. the general public, are not necessarily the best group to consider when producing information.

Accountability and stakeholders are considered in greater depth in next part of this chapter.

Eight respondents felt that financial and social reporting deserved roughly equal weighting in terms of importance. By this, it is meant that respondents argued for the provision of both types of information to appease all types of stakeholders. For example, Respondent SS3 states that the safest option is to detail as much as possible for stakeholders. Therefore, no priority is placed on one type of reporting over the other:

> "Unlike companies, non-profits must balance the two types of information [social and financial] as best they can. If we were an environmental organisation, I think it would be fair to expect us to provide both financial and environmental data where relevant. We cannot say what information is needed so it is best to play it safe and provide as much as possible for stakeholders." (SS3)

Here, the respondent argues that by providing detailed social and financial information, non-profits can ensure transparency in the eyes of all stakeholders. On a similar note, Respondent SS8 states why this is the case:

> "Who can say what information will prove to be important? And if we promote our openness, by providing as much as possible, it may encourage others to get involved with us. There is nothing to be gained from being secretive in this sector." (SS8)

Respondent SS8 advocates providing both social and financial information where possible as it may lead, indirectly, to more volunteers coming forward to help the organisation.

One interviewee states that the two types of value, social and financial, are inseparable; therefore it is impossible to properly assess one without the other. Respondent SS20 states that the two are inextricably linked:

> "You cannot separate the two types of objectives. One cannot be achieved without the other in this sector." (SS20)

Here, the respondent articulates that financial and social objectives, though different, cannot be neatly separated. The two must be considered and achieved in tandem; therefore, their reporting cannot easily be split. The interviewee argues that this is one of the distinguishing features of the non-profit sector, in contrast to the for-profit sector. In Chapter 8, the concept of 'blended value', within the context of agency and stewardship theories, is considered based on the responses given in this study.

7.3: RQ2 - In What Ways is Accountability Shown within the Sector?

7.3.1: What are the Mechanisms Used?

As the providers of accountability in the sector, respondents were asked what they thought of the accountability concept, specifically relating to non-profits. Most respondents discussed the importance of ensuring funding is spent in an appropriate way i.e. in line with the organisation's social objectives. In order to study this in greater depth, accountability within the charity sector is addressed in two key parts; *how* organisations are accountable and *to whom* they are accountable. In this part, the mechanisms used by non-profits are considered, specifically relating to the disclosure of social performance rather than financial information. Interviewees asked how accountability should be served primarily discussed non-financial approaches. This typically included narrative or performance evidence in order to give stakeholders a better understanding of what the organisation is doing, something that financial data cannot fully address. However, a wide range of approaches are described by the respondents as being good for discharging accountability.

As a means of discharging accountability, very few respondents specifically made mention of financial statements unless prompted during the interview. Of those who did, all have an exclusively financial role in their organisation. However, five respondents highlighted their annual review as an accountability tool. One reason it was seen to be a useful document is its flexibility in terms of content.

> "An annual review, but this is not particularly formal in nature. There are no required criteria, but we include information on research, fundraising and contact addresses for our offices across Scotland." (SS5)

However, seven respondents did point out that their annual review was not crucial to them. Furthermore, upon investigation of their websites, none of the organisations in question linked specifically to their annual review (or annual report) from their website. Instead, these documents are typically placed amongst other, external links. In other words, the annual review is not given prominence or priority over other available information.

Only two organisations mentioned conferences, or other speaking events, as a good way to communicate their message. This is best outlined by Respondent SS1, who cites conferences as an excellent way to publicise the work they do to potential donors and commercial partners. Provided the right audience is there, he views these types of events as being a positive thing. However, he is critical of speaking events where the attendees are exclusively non-profit organisations, describing them as being insular and internally focused:

> "Non-profit events are not very useful, they are too inward looking and are not a good audience to get our message across to others. These events are more a case of non-profits showing off to each other, rather than appealing to outsiders." (SS1)

The events he describes are the same ones organised and promoted by Respondents US1 and US2 who, in the last chapter, discussed their importance as an accountability mechanism. They described the events as a good way of bringing together both large and small non-profit organisations who operate locally. However, Respondent SS1 criticises such events because it means non-profits are speaking to the wrong audience i.e. themselves. In his view, they should be communicating with everyone but other non-profits (who in some cases will be direct competitors) in order to attract funding and media support. The other respondent who discusses speaking events is SS14, who sees them as an important way of keeping financial supporters onside:

> "Our events are themselves means of being transparent and accountable. We are very open at these in order to make it clear that donations go where they are supposed to go. Only financial supporters will attend these events, so it is actually a very good way of being accountable. It helps to show that we are offering a return on investment!" (SS14)

The respondent uses financial language in describing his events, hoping that they demonstrate, to benefactors, that their funds are spent appropriately. In his view, this is the only appropriate way of holding a non-profit event. Speaking to other non-profits is ultimately not a good use of time.

Most respondents described 'free' forms of accountability as being particularly useful. In particular, social media is frequently cited as being a good way of staying in touch with both supporters and beneficiaries.

> "Our website was designed and built for free as a personal favour. We also send out a newsletter every month with updates and that has proved to be very successful – every time we send it out our member base goes up. Our members forward it to their friends and it helps us out. None of this costs us anything as the volunteers run it." (SS6)

This online focus is echoed throughout the interviews, with almost all respondents citing their own organisation's website as being a good means of being accountable. Of the fifteen organisations represented by the respondents, only one does not possess an online presence of any kind. The other fourteen specifically describe their websites, and other online tools, as a good way of being transparent to the general public. For example:

> "It makes you visible 24/7. You can only be out on the streets during the day or contact donors during working hours. But being online means the hard work is done for you. It's like having a billboard next to a busy road." (SS8)

> "Each branch has their own website, which makes the organisation feel much more local and representative of the area. It is a good way for those who need to support to find out how to contact us if they do not know the number or how to visit us." (SS11)

A web presence can be good for accountability with existing donors and beneficiaries. It can also be useful for contacting potential stakeholders yet to be involved with the organisation. Furthermore, three respondents discussed the usefulness of charity performance measurement websites, such as GuideStar UK (for English and Welsh charities) and OSCR. Such websites allow external stakeholders to assess charitable organisations based on a range of factors including size, location and financial data. Respondents who discussed their organisation's website in detail also highlighted the fact that they were designed to target specific stakeholder groups, rather than cater for the general public at large.

Three respondents, SS7, SS8 and SS9, describe research conducted by their respective organisations. This is provided online for stakeholders to read. Two state their hope that such research may pick up media interest and draw attention to their cause:

> "We fund and produce research, particularly in issues such as UK poverty and Christianity. We have found that doing so will provoke a response from particular media outlets." (SS7)

> "The website is very well designed and has a lot of information, including publications made and research conducted. Research can be a headline grabber if done right." (SS9)

Both respondents are open about their hope that by getting their research in front of the right people, it will garner free publicity for their cause. This may be achieved indirectly, with the focus being on what their research says, but it also helps establish their organisation's name and reputation. Ultimately though, the respondents see this more as form of marketing rather than way of being accountable to stakeholders. The research itself will not make them appear more transparent, as it does not convey information relating to their roles or the organisation in general. The published research will concern a particular cause they are interested in drawing attention to.

7.3.2: Who Are These Approaches Targeted At?

As well as considering the means by which accountability is served, it is also important to look at who charitable organisations seek to be accountable to; in other words, their stakeholders. This part acts as a precursor to the final section in this chapter, which asks a similar research question but in the language of principal-agent theory. Without knowing who the important groups are, it is difficult to assess the efforts of non-profits in being transparent and accountable:

> "Who, in your view, are your organisation's key stakeholders?" (Question 24, Appendix B)

Most respondents began by acknowledging that non-profits are accountable to multiple stakeholder groups; that there was no clear link between their organisation and one specific stakeholder. However, this does not mean that respondents felt all groups should be treated equal; that some are in greater need of an account than others.

The majority of respondents referred to funders as being an important, if not the most important, stakeholder. However, funders themselves represent a very diverse group of individuals and organisations, both private and public. Taking as a collective group, only three respondents, SS5, SS7 and SS12, made no reference to financial supporters as a salient stakeholder group. The other seventeen respondents did, eight of whom mentioned them first before any other possible stakeholder groups. This appears to demonstrate the importance of financial certainty for charities, who value highly the views of their supporters. For example, Respondent SS2 describes their funders and commercial partners at length before even mentioning other groups:

> "The Scottish Government, Scotland's local authorities, Scotland's public bodies, a variety of corporate enterprises and the general public (who are also beneficiaries). " (SS2)

The respondent does go on to discuss other stakeholders, including beneficiaries such as local schools. However, these are treated more as an afterthought rather than significant groups his organisation needs to consider. When probed on this, why he views funders to be important, the respondent stated that his organisation depended on them for survival. He is also quick to point out the diverse range of funders his organisation has; they are not dependant on one solitary source. They hold contracts with both national and local government, as well as with the private sector. The respondent sees this as a strength over others in the sector who, in his view, are too dependent on a single source of funding.

One respondent referred not to his own personal views but what his organisation described as their three key stakeholders. He discusses how important these groups are, namely "…service users, parents and carers and commissioners". Two of these three groups represent beneficiaries:

> "Service users would be those who benefit from the charity first hand. Parents and carers represent those who support or look after our youngest beneficiaries. It is important for us to have a close relationship with them. It is especially important as the children we help will not be in a position to provide feedback on our services, but their parents can. They can inform us about how well we are doing and offer suggestions on future changes. Commissioners include the Social Work and Education department." (SS5)

A key point made is that both direct and indirect beneficiaries must be addressed in their own distinctive ways. For example, though children are their direct beneficiaries, receiving the funding and care, it will be their parents or carers who assess their performance and insure they are properly looked after. All twenty respondents discuss the importance of beneficiaries in some way, demonstrating their significance to charity sector organisations for accountability purposes. Ten made reference to them first, describing them as the priority. This means that eighteen of the twenty interviewees thought first of funders or beneficiaries when asked about their key stakeholders. The salience of beneficiaries is expressed by Respondent SS11:

> "The people I assist on the phone or face to face are the most important. They are the ones who come to us for advice and need our support. So they are probably the first." (SS11)

Although there is an apparent split over who requires priority, the choice between donors and beneficiaries may in fact not be a necessary one. Three respondents made the point that it is impossible to separate the two stakeholders completely; that each ultimately depends on the other from the organisation's point of view:

> "The two go hand in hand. You cannot appease one without the other." (SS13)

Their interests overlap, especially in situations where it is difficult for the organisation to directly contact their beneficiaries. Therefore, attempts to prioritise one over the other for accountability purposes is misplaced. There is no need to do so.

The general public are sometimes seen as an extension of beneficiaries, deserving transparency from non-profits that operate in their area. Though they may not be direct users of non-profit services, they will, to some degree, be affected by their activities. Seven respondents described the public at large as being an important stakeholder worthy of consideration for accountability purposes. For example, Respondent SS5 discusses how their extensive media attention makes dealing with the public unavoidable:

> "The general public is clearly a stakeholder, since we are in the public eye. Our website is visited over 100,000 times a year, this can only be because the public take an interest in what we do. We sometimes have press features, both nationally and on a local level." (SS5)

Respondent SS5's organisation attracts a lot of publicity due to the nature and scale of the services they provide. This makes the general public, even those who may never come into direct contact with his non-profit, an important external stakeholder. Furthermore, as the majority of their funding comes from public sector grants, the importance of the public, as taxpayers, increases.

While most respondents referred to the general public, some more specifically mentioned the local community in which their organisation operated. For example, Respondent SS15 was one of only two interviewees to not describe funders or beneficiaries as being her main stakeholder, instead stating that the local community at large is her primary concern, whether they help someone directly or not:

> "The local community that we serve must be the main stakeholder. We are accountable to them and if we did not do a good job, it would be noticed." (SS15)

A similar view is shared by Respondent SS19, who states that a direct impact is not necessary to be thought of as a force for good in the area. Non-profits can have an indirect, yet positive influence:

> "The local community in general benefits from our presence so they must be considered. Even if we do not directly assist someone, it does not mean that we have not had an impact." (SS19)

Several interviewees pointed to their volunteers as key stakeholders. In total, nine singled out such individuals as a salient group, although four of them held such a position themselves. Two respondents, SS5 and SS15, discuss the importance of making sure the right training is in place for volunteers who give their time. For example, according to Respondent SS15, volunteers as the "life blood" of their organisation. Failure to address their needs can have damaging repercussions:

> "Our volunteers are also important. If we they did not like working with us, they would leave. It takes time to train a volunteer and we would prefer not to have a high turnaround that forces us to keep training new people. That does happen sometimes. So we try to make them happy and ensure volunteering here is a worthwhile opportunity." (SS15)

This view was echoed by others who mentioned volunteers. The importance of making volunteering a worthwhile activity is seen by some organisations as being crucial to their success.

Only one respondent, SS3, made a specific reference to OSCR being a stakeholder. Nobody else, including those with a financial background or role, highlighted the charity regulator as being an important stakeholder for their organisation. Even for Respondent SS3, who holds an accounting position, OSCR was the last stakeholder highlighted after several others had been mentioned, including rival organisations (who were not mentioned by any other interviewee):

> "The stakeholders that spring to mind, from our point of view, are: the Scottish Government (due to funding), the public (who are also taxpayers as well as the audience), grant givers, peers/similar organisations, the board and the OSCR." (SS3)

Amongst this group of interviewees, the charity regulator does not appear to stand out as an important stakeholder. This is despite the view of OSCR themselves, as discussed in the previous chapter. The other six respondents with a financial role in their organisation did not mention the OSCR during the discussion. Nor did those respondents who were in charge of their respective organisation, who made up an additional five of the interviewees. However, two did make reference to auditors as being important.

7.3.3: Deciding How Much Information to Provide

As well as considering the mechanisms by which accountability can be provided, and who they should be targeted at, organisations must also consider how much detail they should go into. Therefore, respondents were asked not only what type of information they should provide, but how much of it, too. The general consensus appeared to be non-profit organisations should provide what is necessary to fulfil legal requirements and, where possible, provide additional disclosures that can be demonstrated to be useful to stakeholders. In other words, the majority argued that published information should serve a purpose not just for the sake of transparency.

This is best exemplified by Respondent SS18, who argues outcomes, in terms of social data, represent the only type of information non-profits should seek to present:

> "In terms of social reporting, I think social outcomes should be included where possible. I do not think there is a need to go beyond that. We could propose that social reports become regulated and non-profits need to provide a bunch of numbers associated with their performance. But numbers are meaningfulness unless you have something to compare them with and you cannot compare social numbers. So we should stick with outcomes as that will always provoke the most interest." (SS18)

The respondent states that certain types of social reporting provide little information value to readers. The example he selects is quantitative social information, such as number of people helped or volunteer hours logged. This information cannot be compared with other non-profit organisations, even ones who provide the same service. At best, this information could be used to compare past, present and future performance for the organisation in question. However, even for this purpose, the scope for data manipulation makes such figures difficult to interpret.

A minority of respondents argued against any disclosures beyond the legal requirements at all, unless the organisation could gain from them indirectly. From the point of view of these respondents, the most important stakeholders are, in terms of publish information, OSCR for what is required and funders for marketing information:

> "There shouldn't be a need to go beyond the legal requirements as there is little to gain from extra disclosures." (SS16)

> "It would be a waste of resources to go beyond what is needed for regulatory requirements and marketing opportunities. There needs to be an underlying benefit for the organisation when making the effort to provide disclosures. Otherwise, why bother? The information we provide is only ever to satisfy the OSCR or to appeal to donors. We do not go beyond that." (SS14)

Respondent SS12 took a more extreme view, resenting the need to provide disclosures at all, irrespective of what they contain:

> "In all honesty, I'd be happy enough not publishing anything at all. It is time consuming and there is little to gain, both for us and for stakeholders. I even resent having to provide financial disclosures! I understand why it is important but it makes the process no less frustrating." (SS12)

She states that, ideally, she would prefer not to provide disclosures of any kind because of the time commitment required. Her view was not shared by other respondents, who at least argued for the need to provide financial disclosures that demonstrate appropriate use of funds. One respondent said she would be happy to provide additional disclosures of there was an appetite for it amongst stakeholders:

> "It would depend on the response we get from readers. I'd be more than happy to provide more information if that was what stakeholders wanted. Otherwise, I see no need to do so. There is no sense in doubling our disclosures to massage our egos. There has to be a legitimate and meaningful reason for providing them." (SS17)

She argues that it if it can be proven it is in a stakeholder group's interest, and they have demonstrated interest in seeing further information, then a case could be made for providing it. She is uncomfortable with the idea that additional disclosures should in some way serve the people providing them, the managers, as that should not be their purpose. Only one respondent made the suggestion of actively seeking to provide additional disclosure beyond what they currently give.

> "There should always be scope to provide more. The minimum requirements expected of us don't tell stakeholders very much due to their financial focus." (SS8)

Respondent SS8 was very vocal about giving as much information as possible for all stakeholders. She argues for a need to tailor disclosures to suit the accountability requirements of different groups, as it cannot be predicted what information will be relevant or important. Financial information might be of interest of stakeholders beyond OSCR and funders, but this is unlikely to be true, thereby allowing scope for additional, social reporting.

7.4: RQ3 - To What Extent is Entrepreneurship Evident within the Sector?

7.4.1: Consideration of Risk

As discussed in the literature review, risk is a key component of entrepreneurship. It is also an important consideration for the charity sector. However, the relationship between risk and non-profit organisations differs from that found in other sectors. Agents must treat it differently from their counterparts in private, for-profit organisations. During the interview process, respondents were asked how relevant risk is before mentioning the term 'entrepreneurship', which is discussed later on. Perception of risk varied greatly amongst respondents.

A point made by several interviewees is that non-profits take on enormous risk merely by operating at all. For example, one respondent states that they are at least as vulnerable to the economic climate as other sectors, if not more so:

> "Risk is very important to charities in general. Most of them take a risk simply by existing in the sector. It is not such an issue for us, our funding is stable and can be relied upon. We have not even seen a notable reduction since the recession. In my view the sector is heavily exposed to economic cycles and suffers when the economy is performing badly. People stop donating to charity when this happens." (SS19)

The point that non-profits take on risk merely by being present in the sector is frequently made during the interviews. Most respondents made reference to this; stating that the sector is inherently risky. Similarly, Respondent SS10 states that the risk taken on by a non-profit extends beyond the organisation itself and affects its various stakeholders, too:

> "Risk is important to any sector. There's always the possibility that we will have no money in a years' time, therefore, lots of people lose their jobs and even more lose their support from us. So the organisation is not the only one taking a risk – the risk extends to our employees, volunteers and the young people we help." (SS10)

A non-profit's workforce and beneficiaries will suffer in the event of closure. This increases the sense of risk relative to private sector firms who do not have beneficiaries to serve. In the for-profit sector, a workforce will face the risk of losing their jobs if their organisation disappears. However, in the non-profit sector this risk extends beyond just the organisation's employees. Respondent SS1 is critical of how most smaller non-profits operate, arguing they take on more risk than they need to:

> "Charities take on risk merely by existing. Some charities take on more risk than they need to because they do not know the right way to run themselves, despite the best of intentions. Not being able to have a healthy margin like typical private sector organisations creates more risk for the charity." (SS1)

The interviewee argues that although the sector is inherently risky, some organisations create additional risk by dogmatically sticking to unwritten rules concerning the sector, such as the avoidance of profit. The allowance of a profit margin, or surplus, can help a non-profit survive bad funding years. By spending all their income, organisations take away a safety net they may need in the future. Respondent SS1 describes having a surplus as being taboo amongst smaller non-profits but that this mind-set is damaging for the sector as a whole.

An important part of the risk faced by any enterprise is financial. However, the nature of this risk is not necessarily the same across sectors. Many small businesses start life with the entrepreneur's own capital, or capital they have borrowed. While personal sources of finance are common for business entrepreneurs, the data from this study suggests that this is not typically the case for charities. Of the 15 organisations represented, only one relied, in its early stages, on personal financial contributions. This organisation, established by Respondent SS6, was entirely funded his own contributions for over eighteen months. The eventual support from the Scottish Government, in the form of grants, has allowed his organisation to continue in the long run and be sustainable. However, the respondent describes his uneasiness during that early, uncertain period:

> "I took a risk when I started this organisation. It was costing me money for almost two years, enough to upset my wife. There was a very real possibility that the Scottish Government grant was not going to come through and that my money would be lost. When it did, I was able to cover the money spent so far and keep us active for the foreseeable future. But I had a number of sleepless nights of that money, thinking, will I ever see it again?" (SS6)

Though the sector may see limited personal financial risk compared with the private sector, there are other, non-financial risks that they need to take into account. For example, several respondents describe risk to their reputation as being a very real one. At stake is their credibility in the eyes of their local community or their network of contacts. Whether they are in charge or further down the hierarchy, most respondents think it is important to maintain a sense of trustworthiness, both on a personal and an organisation level. Again, Respondent SS6 discusses personal risk he has faced in establishing his non-profit; had it failed, it would have damaged his credibility:

> "I have called in a lot of favours to us off the ground on a shoe string budget. I got our website built for free and access to meeting rooms for which we could hold our board meetings in. If, at the end of all this, we had failed to be financially sustainable, it would have destroyed my reputation in the eyes of my business contacts and the Scottish Government. I probably would have given up on it altogether." (SS6)

Social entrepreneurs will call upon their network of contacts wherever possible in order to minimise costs. The downside of this is it can leave them in the personal debt of others whether they succeed or not. So although social entrepreneurs may not take on *financial* risk (though some certainly do) there are other types of risk they need to consider when establishing a non-profit. A similar point is made by other respondents:

> "My reputation is the biggest thing I personally have at risk running my organisation. Because I am the face of what we do, and interact directly with funders and business partners, I am the first point of contact. If things start to go bad, for whatever reason, I will be the one to suffer. Not financially, but my reputation will suffer badly." (SS13)

> "I was the co-founder of this think-tank so my reputation is tied to it. I did not use my own funds to set it up so I have no financial risk but the views reported by the organisation are seen to be mine." (SS7)

Concerning risk on an organisational level, most respondents agreed that the sector at least as risky as other sectors. This is due to the general economic environment in which all organisations must operate within. Within the context of this study, more respondents discussed personal risk in relation to reputation rather than financial. This is in contrast to the private sector, where traditional entrepreneurs will typically carry substantial personal financial risk as well as risk to their reputation. This appears to be one of the distinguishing features between the two types of entrepreneurs.

The nature of risk was described as being greatly misunderstood by some respondents. For example, Respondent SS18 states that some organisations fear failure of any kind, leading them to avoid any risk taking whatsoever.

> "Some charities I know are reluctant to take any risks, or think outside the box. When you are managing other people's money, it is understandable that you might think like that. You don't want to be accused of recklessness. It is human nature not to want to let people down." (SS18)

According to the interviewee, there is a concern amongst non-profits that risk taking of any kind is akin to recklessness; a concern that it is wrong to appear careless with other people's (i.e. donor's) funding. He also states that this is damaging for the sector as it means potential opportunities are not uncovered. The respondent argues that the definition of failure, within the non-profit context, requires a rethink. Non-fatal mistakes can be learned from, eventually leading to greater success in the future.

7.4.2: The Role of Innovation

An equally important component of entrepreneurship is the concept of innovation. Respondents were asked how relevant they felt innovation was to the charity sector, again before further enquiries about the term 'entrepreneurship' itself. One respondent states that risk and innovation are inextricably linked; that ignoring the latter increases the former:

> "It is very relevant. Any organisation that gets left behind is taking an enormous risk. Not being innovative creates unnecessary risk for the charity that would be difficult for it to handle." (SS4)

Irrespective of how interviewees viewed entrepreneurship as a concept, most agreed that innovation is an important consideration to make. For example, Respondent SS8, who expressed discomfort with the idea of adopting entrepreneurial thinking, thinks it is in a non-profits best interests to keep up with others:

> "You can't be left behind and in this sector it is easy to be left behind." (SS8)

Even of the ten respondents who speak negatively about social entrepreneurship, eight of them felt it was important for charities to consider their position relative to their peers. For them, being innovative is a necessary evil for any organisation, regardless of sector. It is simply the nature of operating.

The vast majority of respondents interpreted innovation as being quick to adapt to changes in technology and society. For example, several discussed their approach to communication with stakeholders, particularly social media. Respondent SS10 discussed at length the importance, for his organisation, of being constantly available and having a large “digital footprint”. Though he acknowledges that this type of innovation will not be so crucial to others:

> “We try to stay on top of technology. Because we work predominately with young people it is important for us to stay up-to-date as much as possible. That’s why we are very active on social media, platforms which make it much easier to connect with that demographic. It probably varies across the sector though. Staying on top of technology is perhaps not so vital for other charities, for example, those who assist the elderly will not need more modern forms of communication. Perhaps they will need to be innovative in other ways though, for example, in term so medical care. So it depends on the context, but it will almost always at least be relevant.” (SS10)

Though what makes his organisation innovative is not a good fit for every organisation in the sector that does not mean others cannot embrace the term in different ways. According to the respondent, innovation is relative to the organisation in question and the context will vary. Therefore, we cannot apply a broad brush approach to evaluating a non-profits ability to innovate as it is too subjective. Another interviewee who interpreted innovation in technological and communicative terms was respondent SS5:

> “I think this is very important. We always try to stay on top of technology, ensuring we benefit from being ahead. It is vital these days for any organisation to be visible on the internet. We have a well-designed website that details everything we do and who is in our senior management team and the board of directors. This ensures we’re transparent and it is clear to all who we are and what we’re doing. We are also active on social media and use it to promote our fundraising events. These days it is essential to do these things, in fact, it’s probably only par for the course – not doing them puts you at a disadvantage!” (SS5)

This is a common perspective amongst respondents; innovation is synonymous with technology. Although this is not strictly true, as innovation concerns a much broader range of concepts, this is how the term is interpreted by participants. However, some do discuss other ways of being innovative. Respondent SS1 describes the importance of adapting to change and how, in his view, his organisation is amongst the best in

Scotland at doing so, let alone the charity sector itself. He is amongst several interviewees who were uncomfortable with the stereotype of non-profits being run down or behind the times. In his view, the only real distinction between his organisation and the private sector is what happens to the surplus at the end of the year; no other real differences exist that merit recognition:

> "It is very important. Charities are sometimes thought of as being a bit behind, the last to adapt to change. That is not true across the sector though. We are probably ahead of most organisations in terms of the systems we use and technology we have." (SS1)

The respondent discusses at length the systems and infrastructure his organisation has in place. He sees this not only as a technological advantage, which it is, but also as a good way of adapting to changes that might arise in the future. By having the right systems in place, he can respond to changes quicker than his "competitors". Similarly, Respondent SS9 discusses how some non-profits function and behave more like private sector organisations.

> "Innovation is important to every organisation. Charities need to keep up or they will fall behind. Some of the biggest charities behave like companies – they have top class management and sleek websites. They know this is a worthy investment." (SS9)

He feels that it is important non-profits make this investment as it will be beneficial in the long run. Not everyone agreed with this point of view, though. One respondent, SS15, responded negatively to the suggestion non-profits should be innovative, proposing that it may backfire. Too much emphasis on innovation may, in her view damage the organisation's reputation in the eyes of onlookers:

> "It is important not to be left behind but charities cannot be seen to be ahead of the game either. Otherwise people start to question how you can afford to finance these things." (SS15)

Respondent SS15 fears that innovation is associated with high expenditure on infrastructure, leading to awkward questions as to how a non-profit can afford equipment not in use by others in the charity sector or even the private sector. This turned out to be a minority view amongst respondents who generally agreed innovation is essential.

7.4.3: Social Entrepreneurship

In addition to direct enquiries concerning risk and innovation, respondents were also asked for their views on social entrepreneurship and what it means to them. One of the main questions asked during interviews concerning this subject was as follows:

> "In terms of acquiring funding, how important is it to be entrepreneurial and business minded? E.g. should non-profits ever 'think like a business'?" (Question 12.2)

This question was used in order to gauge respondent's attitudes towards the adoption of private sector approaches in a not-for-profit setting. Interviewees were asked this before assessing their views on how they both personally saw themselves and their organisation. In other words, indirect queries were made before respondents were directly asked for their views on social entrepreneurship, in order to determine whether responses changed. Concerning Question 12.2, respondents were divided on the issue but a majority, fourteen, appeared to favour such an approach, albeit reluctantly. For example, one interviewee discussed the importance of making their organisation sustainable:

> "Because we look for funding privately from small number of backers, we will try to build relationships with these backers, to persuade them to donate regularly, as opposed to a one off donation. In this way it is important to act like the private sector, but the mission cannot be forgotten." (SS13)

A similar point of view is expressed by Respondent SS14 about the importance of appearing well organised:

> "It is very important! My role is indistinguishable from a private sector chief executive in most respects. For example, if we ran a golf day and it didn't turn out very well, we couldn't get away with just saying: "well, we are a charity, what do you expect?" Our sponsors would expect more from us, and it would reflect badly on us to appear unprofessional, even if we are a charity." (SS14)

The respondent explains that although they are a non-profit organisation, he does not want to present an image of being run down or incompetent. He is not concerned with clients thinking that his organisation spends too much funding on indirect costs; in fact, his view is quite the opposite. Not spending enough on events and presentation may prove to be damaging for his organisation's funding prospects. Even when there were doubts, many respondents demonstrated an appreciation for business like approaches towards social value creation. Where this proved to be the case, interviewees cite previous experience in different sectors as an influence to their way of thinking. This is in stark contrast to several other respondents who felt all but the most essential administrative costs could not be justified. For example:

> "It is not something I am supportive of. I have observed charities that behave more like businesses and care about the profits. I wouldn't dream of operating in that way. I have been involved with my charity for almost 30 years and have not earned a penny doing so. I am glad that is the case and would not have it any other way. The guilt I would feel of taking any money which therefore cannot go towards a child would be too much." (SS12)

A similar perspective is shared by another respondent:

> "I am not keen on the idea of charities behaving like businesses. That is not what they are there to do. I cannot see how thinking like a business would in any way help me do my volunteer work of helping people. I strive to be efficient, and see as many people in an afternoon as I can. But I do not compromise the service I provide and would not try to be efficient for the sake of it. Maximising the number of visits is not the primary aim – providing a trustworthy and reliable service is." (SS19)

Several respondents gave lukewarm endorsements when asked about it in this way, before appearing to change their mind when asked about entrepreneurship in a more direct manner. For example, Respondent SS7 is extremely negative during later questioning, rejecting the concept altogether. In answer to Question 12.2, though, he states that entrepreneurship can be useful:

> "You have to be business minded in some sense, though we depend on donations our other income streams are more private sector natured e.g. advertisement. That is only to make us sustainable – it is not what any of us want to be thinking about day to day." (SS7)

He answers the question in reference to his organisation, that it is important for them to be sustainable. However, his response to questions concerning entrepreneurship turn increasingly negative. Upon being asked whether he considers himself to be an entrepreneur, he states:

> "I highly doubt it. I do not like the idea of business like motivations of methods in the charity sector. Where they might exist is out of necessity, not desire." (SS7)

The respondent argues that entrepreneurial practices, if used, are not there out of choice. Similarly he is adamant that his non-profit could not be described in the same way either:

> "Since my co-workers do not feel that way either, I do not think you could describe our organisation as entrepreneurial. Perhaps the freelancers are, but that is a separate issue. It is an unnecessary idea." (SS7)

This contrasts his earlier views where he appears to be more open to the concept of entrepreneurship. It is only upon being asked about it more directly that he appears to be reluctant to endorse it. His views are shared by others in the study who at first express support before later citing doubts. For example:

> "It can be good I think in some circumstances. Because we look for funding privately from small number of backers, we will try to build relationships with these backers, to persuade them to donate regularly, as opposed to a one off donation. In this way it is important to act like the private sector, but the mission cannot be forgotten." (SS13)

> "Probably a necessity. We need to manage our income and expenditure like any organisation, even though we never have a profit – any surplus is put into next year. But we can keep that aspect at arm's length, away from the children we work with." (SS8)

The term 'social entrepreneurship' itself, hotly debated and difficult to define, provoked some notably evocative responses. Several respondents stated that it represents 'community'. To them, the distinction from traditional entrepreneurship is that it can represent a collective effort, in contrast to the more solitary description of private sector entrepreneurs. When asked directly about the concept, most respondents did not discuss themselves on an individual level; they discussed their organisation. For example, Respondent SS20 describes social entrepreneurship as being "dependant on the collective good achieved by both employees and volunteers". Similarly, Respondent SS8s states the following:

> "It would be counterintuitive for one person to fight a social cause on their own when they do not have to. There shouldn't be a sense of pride which prevents us from asking for help as you're not asking on behalf of yourself, you're asking on behalf of others." (SS8)

The interviewee argues that non-profits should never avoid support where offered, nor avoid seeking it out either. This perhaps reflects the social objectives of non-profits and social enterprise organisations. The findings in this study suggest that the defining feature of social entrepreneurship is that it is a community driven effort. This appears to represent the 'social' element of the concept. Where common ground lies, in the word 'entrepreneurship', is their ability to build a local network upon which the non-profit will depend. This is achieved through connections; by "knowing the right people" (SS15). Furthermore, a willingness to pursue opportunities as they arise that may create social value:

> "I actively search for opportunities in our area because I cannot assume someone else will do it instead. I would not do this for free, after all, I have a family to look after. But the feel good factor is an immeasurable bonus." (SS10)

A similar view is expressed by another respondent:

> "It's about responding to social gaps in the market. Rather than giving in to frustration over nothing been done to resolve a social wrong, better to be proactive and do something about it." (SS9)

Amongst interviewees who speak favourably about social entrepreneurship, there appears to be an emphasis on accomplishing social goals on a local level. This goes hand in hand with the community element of social entrepreneurship. While several respondents describe entrepreneurial characteristics when discussing themselves, the involvement of other stakeholder groups (be it beneficiaries, funders or the general public) mitigates their personal role in favour of a collective effort by all relevant parties. Social entrepreneurs may play a significant role in taking the social cause forward, however, they will not be the only force at work.

7.5: RQ4 - In What Ways Can Entrepreneurial Thinking Benefit the Social Cause?

7.5.1: Taking the Social Cause Forward

Respondents were also asked to explain, in their view, how entrepreneurial thinking can be beneficial to their organisation's social cause. Interviewees had a wide range of previous experience across different sectors. Eleven had worked in the private sector, including four who had been self-employed, while six had worked in the public sector before entering the charity sector. Most respondents had worked in different environments during their working life and subsequently picked up a range of skills and knowledge they could bring to their current role. For example, one had run their own marketing business for twenty years before establishing their own non-profit, while another was a managing director in a multi-national firm.

The respondents who took a positive view of entrepreneurship tended to mention two areas in which such thinking can be helpful; planning and funding. Four respondents cited planning as an entrepreneurial act. For example, one respondent saw entrepreneurship as adopting a private sector approach to management and resource control:

> "It could be good for us in determining what activities to run, how long to run them and how best to use our resources." (SS4)

Here, the interviewee sees entrepreneurship as an approach to management. Similarly, Respondent SS16 interprets entrepreneurship as being about "…planning ahead and being prepared". Five respondents, when asked about how entrepreneurship can benefit the social cause, cited forward planning as a potential benefit from utilising such a way of thinking.

One interviewee felt that it was essential rather than some sort of distinct approach to non-profit management. Respondent SS5 describes how ultimately his organisation is run like any private sector firm but that they are far from the only ones in doing so:

> "I have never thought of our organisation using that kind of language. In many ways, we operate just like a profit making organisation, but I strongly doubt we are unique in doing that. We also plan budgets and consider our finances very scrupulously. But any organisation has to do that." (SS5)

Respondent SS10 makes a similar point:

> "We are entrepreneurial in the sense that we plan far ahead and only take measured risks. Though an organisation who failed to do this would be foolish in my view and not necessarily lacking in entrepreneurial spirit." (SS10)

Another way entrepreneurship can benefit the social cause is discussed by respondent SS4, who states that it can help observe and correct social wrongs:

> "I think entrepreneurship used within the non-profit sector is a way of bringing others into the market. By that I mean those who are entrepreneurial can offer a voice to overlooked groups." (SS4)

Respondent SS4 describes how entrepreneurs can give a voice to the voiceless. Social entrepreneurs can fill a 'social gap' that exists, much like a market gap. They can bring those unable to so themselves, through disability or like of money, into the marketplace.

Regardless of whether respondents were generally supportive or opposed to the idea of entrepreneurial thinking in charities, several highlighted its potential for raising further finance. For example, one respondent endorsed the idea that more money will always be beneficial for the social cause:

> "It is a different way of thinking. Great for exploring funding opportunities I should think. Anything that increases donations is surely a good thing? A good understanding of measured risk and innovation could pay dividends in progress." (SS9)

Even respondents who were uncomfortable with the idea of entrepreneurship in the non-profit sector put forth the view that it could improve a non-profit's financial outlook. For example, Respondent SS3 states: "I suppose it could be good from a funding perspective or to help raise awareness of the charity." Similarly:

> "If it means being business minded, then the obvious benefit would be in raising funding." (SS8)

The connotation associated with entrepreneurship, to most respondents, appears to be 'business'. Most associated the term with adopting private sector thinking or approaches in the charity sector. However, others, while seeing its potential, were quicker to dismiss the concept:

> "The only way I could see it being useful would be improving funding. Perhaps if I sat down with my co-workers and devised a strategy, we could raise our level of funding and have a bigger impact. However, we have no interest in doing that, our objective is not to obtain more income or achieve growth. Those are private sector ideals." (SS7)

Here, the respondent who gave during their interview perhaps the fiercest opposition to entrepreneurial thinking in charities admits to seeing its potential for improving his organisation's financial position. However, he continues to express reluctance in adopting such an approach, even if it means a healthier funding situation in the future. He also describes such thinking as "private sector ideals" and dismissed their relevance to his organisation. Similar views are given by others uncomfortable with entrepreneurship, including Respondent SS17. While she could see its potential, she qualified her endorsement by stating it may damage what matters most:

> "If it could ever be useful it must be good for funding. You could use it to raise more money than you would otherwise. But that comes at the cost of degrading the social brand and not being a true non-profit. If you aim for raising the most funding, you are in the wrong sector to begin with." (SS17)

The respondent argues that adopting a strategy which aims to maximise funding risks overlooking the social cause itself. The focus should not lie on financial aspects, even if it means increasing funding as much as possible.

Some interviewees were, however, opposed to the idea of introducing entrepreneurship in the sector at all. Even from a funding point of view, they do not see the potential for it. Four respondents took such a view that is perhaps best expressed by Respondent SS13, who rejects entrepreneurial thinking of any kind in the sector:

> "I am not really a supporter of the idea that entrepreneurship is useful in the non-profit sector. I do not think that it is applicable within this context, in all honesty." (SS13)

The respondent states that, in his view, the concept has no relevance to charities. A similar sentiment is expressed by two other interviewees:

> "From what little I know about entrepreneurship, it is not a good fit for this sector. I cannot see the merit in taking something that is ultimately designed for profit makers and crowbarring it into non-profits. Why would we want to do that?" (SS19)

> "There are much more important things for charities to be thinking about than entrepreneurship. I am sorry to say it but the two do not work together. Though of course others may feel differently." (SS15)

As with Respondent SS13, Respondents SS15 and SS17 believes the concept has no place in the sector. This tended to be a minority view, for the majority of respondents either whole heartedly supporting the concepts place in the sector or at least reluctantly acknowledging its potential role.

7.5.2: The Relationship between Entrepreneurship and Sources of Funding

One of the main issues that emerged during the initial, unstructured interviews was where a non-profits funding came from. Because of this, funding became a major focus of the semi-structured interview questioning. Most respondents expressed a view that when examining entrepreneurship in the charity sector, it was important to factor in how organisations are funded. The respondents in this stage of the data collection process describe a very diverse range of funding sources. Of the fifteen organisations represented: three receive the majority of their funding from contracts with private firms or public sector bodies; three receive smaller donations; three receive grants or larger donations; one depends on trading income and five rely on government funding grants.

Two respondents discuss how important it is to 'tell a good story'. However, although their description of this is similar, they refer to separate stakeholder groups for which it is targeted at. For example, Respondent SS10 states that telling a story is good for inspiring employees and volunteers to continue their work:

> "Stories are great for motivating both employees and volunteers. Having a continuing stream of impact stories, which describe in detail what we have done, is an excellent way of keeping your workforce in the loop. The best part of it all is that it's completely free, too." (SS10)

In his view, it is a useful form of free inspiration. While it might be difficult for employees or volunteers to know what goes on beyond their own role, good communication can ensure they are consistently informed of the good being done by the organisation. Furthermore, the respondent states that its sole purpose should be to keep employees and volunteers abreast of important details:

> "Building a narrative isn't easy and it cannot be done in a way which comes across as showing off. It should be about informing others, nothing else." (SS10)

Respondent SS2 instead discusses its importance in raising funds. He states that it can be an effective tool for reaching out to potential donors. Rather than just providing abstract results with no context, it is better, in his view, to build a discussion surrounding the social cause. However, he does not discuss this in an entirely positive way, fearing it may lead to the best marketers being funded over the greatest in need:

> "Raising funding for a non-profit means telling a good story. The most successful charities become so by building a narrative, not by publishing good financial figures. If you have something to say, the challenge of fundraising becomes a lot easier." (SS2)

This point came up repeatedly during both interview stages. Both respondents also expressed uncertainty over whether it is more useful to create a detailed, specific narrative or a broader, more general one concerning all their beneficiaries. For example, Respondent SS2 states that his organisation has two options when creating a narrative. They can discuss a particular environmental campaign launched in one school in one location. The alternative is to discuss his organisation's achievements from a broader perspective, for example, the number of volunteers recruited in a year. Either way, the respondent expresses concern that narrative building is only available to certain types of non-profits. Furthermore, he argues that although such narratives can be influential, relying too heavily on them is a risky strategy. From a funding perspective, he stresses the importance of developing a good quality business model over emotional narratives in the long run. In his view, it is necessary to provide a high quality product or service which offers beneficiaries perceptible social value; emotional narratives (or non-profits in general) does not permit the provision of a second-rate service.

Despite his apparent apprehension, this respondent spoke very favourably of non-profit commercialisation during his interview. Across the respondents as a group, the response to commercialisation was much more mixed. In fact, nine respondents expressed concern with what, in their view, is an increasingly competitive environment. One of the main reasons cited for this is the involvement of private sector partners who bring with them a different mind-set. Some respondents state that this may have a damaging impact upon their organisation's values and its ability to address various stakeholder needs. However, the source of this discontent brings with it much needed financial support; thus forcing non-profits to strike a difficult balance. Furthermore, they bring with them skills not necessarily always found in the charity sector. Respondent SS16 argues that this is badly needed:

> "Most non-profits do not possess the crucial skills needed to get funding in the first place. It may seem cold hearted but if you do not know how to get funded, maybe you should consider something else." (SS16)

Here, the respondent argues that non-profits should possess the necessary skills and talent to survive in the sector. If they do not, they should try to obtain them. Another respondent made the point that the need for such skills will depend on the type of funding sought:

> "Surely the need for a business style approach will depend entirely on what kind of funding they are trying to get? If they rely on a steady, consistent grant from the government or a reliable organisation, a charity does not need to be good at selling itself. If their chosen funding source is trade income, or contracts, then a bit more effort is required." (SS9)

Respondent SS9 argues that the need for entrepreneurship will entirely depend on where the funding is coming from. Some sources will be easier to obtain then others. Responses from other interviewees suggest this to be the case, with the need for less conventional approaches emerging where the funding source is less certain. For example, Respondent SS6 states his most important trait when pursuing much needed funds is perseverance:

> "I am nothing if not determined. I failed multiple times to get us off the ground. I approached not only the government but private companies that might be interested in sponsoring us in return for good publicity and media attention. I think in total I made seven formal requests for money before I successfully persuaded the government to back us for a 12 month trial period." (SS6)

Here, Respondent SS6 discusses the need to be patient when funding a non-profit. Asking for donations is always going to be harder during the initial start-up period while the organisation established itself. The respondent also goes on to discuss how his approach developed over time when it became clear his first attempts were not working:

> "I was sloppy with the earlier efforts. I learnt from that and developed what was effectively a business plan. Not only that, but because I was doing it on behalf of the government I developed an educational initiative in order to prove my organisation had a different type of social value worth supporting. This actually proved to be successful in the end, though there were strings attached that I have learned to live with." (SS6)

He discusses how his methods changed in response to his earlier funding attempts. However, not only did he make his pitch more professional, he also attempted to appeal to his potential funders, the government, by way of demonstrating his organisation has educational benefits. This involved pitching his idea for improving math in schools; itself a separate initiative from his organisation but one which proved to be useful for appealing to public sector funders.

> "We piloted my concept in a local primary school. The gist of it was using sport to appeal make math more interesting to children. Particularly football, which if you think about it, is swamped in numbers and data. Possession stats, minutes left on the clock, shots on target. The point is, they liked my idea and agreed to support it as part of the Scottish government's attainment challenge, which was put in place to give all children a proper education. That got my foot in the door and played well when it came to getting my non-profit, which is almost entirely unrelated from that education programme, supported financially." (SS6)

Not only is it important to be patient, applying for funding can require different ways of thinking beyond a narrow pitch for money. Respondent SS6 describes at length the importance of appealing to your potential benefactor's specific needs. He knew, after several false starts, what would best please them and offer the best chance at financial support for his personal ambitions.

Respondent SS14 argues that an appearance of professionalism is vital for his organisation. Though he knows others may disagree with the idea of non-profits spending resources on presentation, for him, it is important for their model:

> "My role is indistinguishable from a private sector chief executive in most respects. For example, if we ran a golf day and it didn't turn out very well, we couldn't get away with just saying: "well, we are a charity, what do you expect?" Our sponsors would expect more from us, and it would reflect badly on us to appear unprofessional, even if we are a charity." (SS14)

From his point of view, it is important to meet expectations and not fall back on the "we are a charity" excuse to explain bad organisation. This is in line with the views of Respondent SS1, who also argues that the not-for-profit tag should not justify weak infrastructure or poor performance.

7.6: Summary

In this chapter, the main research findings were presented. This consisted of twenty semi-structured interviews with individuals working in the charity sector. The responses given were presented based on the research questions outlined earlier in the thesis, in order to demonstrate how the findings relate to them. In response to Research Question 1, on the balancing of social objectives with financial demands, it was found that views on the relative importance of each varied significantly. Those who argued strongly in favour of focusing on either social or financial performance tended not to see to negotiate between the two at all. However, almost half (eight) argued that the two types of reporting deserved to be treated equally and that the underlying on social and financial objectives should be treated in a similar fashion. Research Question 2, which concerns the importance of accountability within charities, it was found that the overwhelming majority agreed on the importance of giving an account. However, differences emerged over who is in need of it. Respondents who supported the pursuit of both social and financial value and objectives, i.e. RQ1, were more sympathetic to the idea of providing as much information as possible to appease different stakeholder groups. Those who perceived RQ1 more selectively took the view that this was not important and that not all stakeholders need an account for their organisation.

In response to Research Question 3, on the evidence for entrepreneurship within the sector, it was found that respondents understood the concept of risk to affect the charity sector differently than elsewhere in the economy. Risk is seen to be more personal rather than financial. However, on innovation, the vast majority of respondents did not interpret the concept in the way academic literature traditionally does. For most, their understanding of the concept meant that the term is synonymous with technology and keeping up with it. The concept's wider meaning is generally overlooked. Finally, Research Question 4, which asks how entrepreneurial thinking can benefit a social cause, found agreement that the concept could improve a non-profit's financial position, thus leading to more social value creation. However, its usefulness is found to be closely tied to funding sources. Not all means by which charitable organisations obtain funding will tie well to the concept of entrepreneurship. In the next chapter, these findings are discussed in relation to agency, stewardship, stakeholder and social entrepreneurship theories. Furthermore, a charity sector principal-agent analytical framework is created.

Table 7.1: Semi-structured interview key themes and quotes

Representative Quote	Theme
"Risk is very important to charities in general. Most of them take a risk simply by existing in the sector."	Risk management
"Charities incur risk just like any other organisation, but it is a different kind of risk I would think."	Risk management
"Risk is important to any sector. There's always the possibility that we will have no money in a years' time, therefore, lots of people lose their jobs and even more lose their support from us. So the organisation is not the only one taking a risk – the risk extends to our employees, volunteers and the young people we help."	Risk management
"Innovation is important to every organisation. Charities need to keep up or they will fall behind. Some of the biggest charities behave like companies – they have top class management and sleek websites. They know this is a worthy investment."	Innovation
"Our income sources are very diverse. We receive some public money, we have contracts with the local authorities, and benefit from trust and foundation donations, we have an enterprise arm and we have a fundraising department."	Funding considerations
"Raising funding for a non-profit means telling a good story. The most successful charities become so by building a narrative, not by publishing good financial figures. If you have something to say, the challenge of fundraising becomes a lot easier."	Funding considerations
"It is a different way of thinking. Great for exploring funding opportunities I should think. Anything that increases donations is surely a good thing? A good understanding of measured risk and innovation could pay dividends in progress."	Funding considerations
"If I could change one thing about the way things operate, it would be funding restrictions. I completely understand why donors put them in place and feel they are needed. But they do more harm than good. It's also a little condescending for them to imply that we do not know how best to spend our income. These restrictions mean we cannot serve the social cause as effectively as we would like."	Funding considerations
"Because we look for funding privately from small number of backers, we will try to build relationships with these backers, to persuade them to donate regularly, as opposed to a one off donation. In this way it is important to act like the private sector, but the mission cannot be forgotten."	Social entrepreneurship
"If it could ever be useful it must be good for funding. You could use it to raise more money than you would otherwise. But that comes at the cost of degrading the social brand and not being a true non-profit. If you aim for raising the most funding, you are in the wrong sector to begin with."	Social entrepreneurship

"It is very important! My role is indistinguishable from a private sector chief executive in most respects. For example, if we ran a golf day and it didn't turn out very well, we couldn't get away with just saying: "well, we are a charity, what do you expect?" Our sponsors would expect more from us, and it would reflect badly on us to appear unprofessional, even if we are a charity."	Social entrepreneurship
"What I appreciate about my role in running this charity is that I don't have anyone looking over my shoulder telling me what to do. As long as we achieve our organisation's goals, I am free to do this however I choose. Not all organisations operate like that, indeed, my past experience has been quite the opposite."	Social entrepreneurship
"It makes sense to assess non-profits based on their social achievements. After all, that is what they are there for. They do not exist to create wealth, so why judge based on financial reports?"	Social impact reporting
"Social reporting is talking out loud to the wrong people."	Social impact reporting
"It is important to tell a good story. Social reporting on behalf of non-profits is about presenting a narrative, or a cause, in a way that has an impact on people. However, that is easier said than done."	Social impact reporting
"Unlike companies, non-profits must balance the two types of information [social and financial] as best they can. If we were an environmental organisation, I think it would be fair to expect us to provide both financial and environmental data where relevant. We cannot say what information is needed so it is best to play it safe and provide as much as possible for stakeholders."	Social impact reporting
"I have run my charity since the 1990s and have not been paid a penny to do it. Nor would I take any. But there is no written document that counts in any way what I have done in that time. Of course the reality is that by doing what I do, I have helped countless families. My achievements are measured in their happiness, not in documents."	Social impact reporting
"The local community in general benefits from our presence so they must be considered. Even if we do not directly assist someone, it does not mean that we have not had an impact."	Facilitating accountability
"Our main stakeholders are the board, donors, volunteers and families we support (parents might indirectly benefit, too). Donors are probably the key group, though, due to their financial support."	Facilitating accountability
"The two [funders and beneficiaries] go hand in hand. You cannot appease one without the other."	Facilitating accountability
"It would be counterintuitive for one person to fight a social cause on their own when they do not have to. There shouldn't be a sense of pride which prevents us from asking for help as you're not asking on behalf of yourself, you're asking on behalf of others."	Facilitating accountability

Chapter 8: Developing an Analytical Framework for Charities

8.1: Introduction

In the previous chapter, the main research findings were provided. In this chapter, those findings are now analysed. Parts 8.2 and 8.3 then offer evidence for agency and stewardship theories, based on the findings from Chapters 6 and 7. Part 8.4 then sums up the this evidence in order to address the question of what principal-agent theory looks like in the charity sector. Part 8.5 then presents a new hybrid model of principal-agent theory. This model is based upon the earlier research of other academics discussed throughout this study and the findings made in Chapters 7 and 8. The final stage of this chapter is to use this model in order to analyse the two case studies in parts 8.6 and 8.7. These case studies represent two contrasting mind-sets, agency and stewardship, and are analysed using the framework determined by the newly developed model.

8.2: Evidence for Agency Theory

8.2.1: Component One - Blended Value

In this part, findings presented in Chapter 8 are reviewed within the context of part 8.2. During that part of the discussion, it was shown that agency and stewardship theories can be considered within a non-profit context when used in tandem with stakeholder theory. Here, the 'mind-sets' of respondents, who represent interface and internal stakeholders when based on the table presented by Puyvelde *et al*. (2011), are reviewed based on their responses concerning social entrepreneurship, blended value accounting and accountability. First, the agency mind-set is considered. An agency mind-set is one where the individual is more focused on one objective rather than attempting to balance multiple, different ones (Bacq *et al*., 2015). However, there are a range of alternative factors which can be considered when examining the difference between agency and stewardship mind-sets. A blended (or singular) value approach is one but other factors include: risk management; volunteering of information (i.e. information asymmetry); and shirking by agents who operate on behalf of principals. For the remainder of this chapter, each of these four factors will be looked at.

First, blended value is considered, based on the conceptual model provided by Bacq *et al*. (2015). It highlights the point that although on the surface respondents such as SS1 and SS7 may strongly differ in their way of thinking, their 'mind-sets' are closely aligned. Respondent SS1, who is looked at in greater depth in the case studies at the end of this chapter, exhibits a predominately agency mind-set due to his focus on financial performance. By contrast, Respondent SS7 is an advocate for (almost) exclusively social outcomes, placing him at the opposite, left end of the spectrum. Both are responsible for running their respective organisations and hold similar levels of influence.

Respondent SS7 is not alone in leaning this way. Respondents SS12 and SS17 hold similar views, arguing that the focus should always lie on social objectives. For example, as a reminder, Respondent S12 states the following concerning the measurement of social outcomes:

> "I have run my charity since the 1990s and have not been paid a penny to do it. Nor would I take any. But there is no written document that counts in any way what I have done in that time. Of course the reality is that by doing what I do, I have helped countless families. My achievements are measured in their happiness, not in documents." (SS12)

What gives them the agency mind-set is the need to prioritise one over the other, based on their own personal views of their importance. It refers to a person's tendency to act in accordance with their own views and not their organisations. However, unlike the traditional point of view in strategic management theory, personal financial gain is not the only potential goal of the agent. Furthermore, without some sort of control, the agent will act in line with their own personal ambitions. This personal ambition need not be driven by self-serving profit, however, the agent's views will potentially deviate from the organisation's own social and financial objectives. The agent will act to create social value in a manner that they deem most appropriate, rather than how their organisation best sees it. In this sense, the agency mind-set is aligned with social entrepreneurship; the agent acts to complete their own personal objectives.

The agency mind-set does not dictate that a respondent should favour complete support for one type of goal and complete objection to the other; they may still argue for a need to do both. For example, no respondents suggested the removal of financial reporting altogether. There was complete acceptance of its importance in ensuring financial stringency. However, interviewees like Respondent SS12 questioned its weight relative to social information which, in her view, conveys the real story. The creation of financial value is a means to an end for agents like Respondent SS12 and is not their primary goal. Similarly, Respondent SS1 had no objection to pursing social value outright. Instead, he argued it was better to build a strong foundation through financial value, by having the right people and infrastructure in place, thereby allowing the social value to follow in suit. Both of these respondents fit the agency mind-set but are not dogmatic with their personal opinions.

8.2.2: Component Two - Information Asymmetry

The second factor to be discussed is the provision of information by agents to outside parties. Information asymmetry, where agents have access to more information than the principals they represent, is one of the key components of agency theory. This information gap can and does exist in the non-profit sector too, as agents will have more information than the organisation's beneficiaries, funders and any other stakeholder groups. Here, an attempt is made to see whether the 'mind-set' of an agent is relevant to their willingness to volunteer information.

While generally there was sympathy with the idea non-profits should be as transparent as possible, there are issues which stand in the way of this happening. The lack of a clear ownership link (like that typically found in the for-profit sector between shareholders and a company) was highlighted as being the source for confusion on who requires an account. This is unfortunate, as social performance accountability is dependant upon stakeholders who can demonstrate a clear need for an account. Nason *et al*. (2017) argue that non-profit organisations are reliant on 'referents' for the purpose of social performance evaluation. Without them, it is difficult to truly measure social performance as success is dependent upon stakeholder feedback (Nason *et al*., 2017).

Accountability and transparency were regarded as important, with no real need to keep strategy out of the public domain. Whereas for-profit organisations might argue a case for selective disclosures in order to avoid giving away trade secrets or strategies, the collective nature of non-profit organisations means that they can be more open with their social reporting. This can, according to some respondents, encourage stakeholders to support the organisation in an active way by offering advice. This is in contrast to the findings of Arvidson and Lyon (2013), who showed that organisations preferred to limit their information publishing for fear of sharing too much. It is, however, in line with Grieco *et al*. (2015), who argue such reporting can benefit internal management and lead to additional funding. The expected benefits of 'legitimacy, status and comparative advantage' (Arvidson and Lyon, 2013, p.884) were not found to be as important for these respondents.

However, those adhering to an agency mind-set were more ambivalent about this need to volunteer information than their stewardship mind-set counterparts. This is perhaps not surprising, as given the previous discussion on blended value, agency mind-set individuals strongly favour the pursuit of one type of value rather than both equally. Respondent SS2 argued that the provision of too much information, or complete transparency, would be irresponsible as it means surrendering strategic planning to competitors. He states that the rules governing for-profit organisations, where strategy must stay secret, equally applies to non-profits who have their own rivals to consider. Detailing too much would do his organisation's beneficiaries a disservice and would in fact do great harm for very little gain. By contrast, Respondent SS12 argues it is important to provide social information but he does not see a need to provide detailed financial reports beyond a necessary, required minimum.

Some interviewees, like Respondent SS2, argued that non-financial reporting was a distraction for them. As a result, some agents may be in a positon where they are expected to provide detailed social or environmental reports despite them being, in their view, largely unnecessary. Furthermore, the information for such reports will need to be tracked and measured by themselves (or their subordinates), placing potentially significant time requirements on them in order to serve information expectations. This would go against the agent's view on how best to serve the social cause. Though transparency will have, to some extent, value to the agent, it will not be critical for the purpose of social value creation or outcomes.

Therefore, if a social entrepreneur should be acutely aware of accountability and stakeholder needs, the agency mind-set does not appear to fit the concept within the context of information asymmetry. Agents will not see a need to appease all stakeholder groups; instead, they will show interest in a select group, depending on who they determine to be in need of an account. Much like blended value, which is closely linked to information asymmetry, social entrepreneurship does not fit well with agency within this context.

8.2.3: Component Three - Approach to Risk and Innovation

On the component of risk, which is crucial to both traditional and social entrepreneurship, respondents in this study expressed support but qualified it with a need for caution. A common viewpoint appears to be that risk, within reason, can be advantageous. However, the downsides associated with failure, resulting in a loss of social value as opposed to financial value, are seen to be too great. Social entrepreneurs are not putting their own 'social capital' at risk but that of their organisations beneficiaries. This contrasts with traditional entrepreneurs, who will typically put their own financial capital at risk of loss; it is the individual who accepts the burden of failure. None of the respondents in this study endorsed this view, with even supporters of entrepreneurship suggesting the non-profit sector context creates a need for restraint. For example, Respondent SS10 states that not only is he at risk in the event of his organisation disappearing, but so also are his employees, volunteers and beneficiaries. This stops him from taking too many chances or opportunities that could end badly.

While he is not opposed to the concept of risk, he feels this must be tempered in the non-profit sector context.

Very few of the interviewees declared any personal risk they took upon themselves in their involvement with their organisation. The majority did not make reference to any financial or social risk that would have impacted their own lives in the event of failure. However, there were exceptions, including respondents SS6 and SS17. For example, Respondent SS6 discussed the financial investment made by himself which he did not see returned for almost two years. This was a personal commitment made which he could not guarantee the future repayment of. Respondent SS17 declared a similar, albeit smaller, financial investment into her organisation. However, Respondent SS6 did describe concerns about his reputation, too. Had his organisation failed to succeed, the respondent feared it would damage his name not only in the non-profit sector but elsewhere, too. So by taking on the challenge of starting his own organisation, he took on two types of personal risk. However, this personal risk differed from the risk faced by beneficiaries had his non-profit disappeared.

Similarly, Respondent SS17 exposed herself to financial risk by spending her own money on establishing her non-profit. However, the difference is that she appeared ambivalent over seeing it returned to her; provided some good came from it, then its purpose was served. In effect, no risk was taken on by the respondent. The level of risk taken on by a social entrepreneur very much depends on their own personal position and their intentions with the organisation.

On innovation, as discussed in the previous chapter, most respondents spoke of technology rather than the wider meaning of the concept. To almost all respondents (n=17), this was the term's definition. If taken to be the case as described by respondents, then innovation, much like risk, is looked at depending on what 'type' of agent respondents are. Some respondents, including SS1 whose views on innovation are discussed at the end of this chapter, did discuss the concepts more fundamental meaning. For example, it was observed by Respondent SS14 that the sector as a whole too often looks to past instead of the future. Though it was acknowledged that past performance can only be learned from through retrospective review, Respondent SS14 states that too often this is used as an excuse not think ahead. This finding correlates with a discussion on innovation in Snibbe (2006). An interviewee in Snibbe (2006) describes performance reports as the "enemies of innovation" because of they mean looking backwards, not forwards.

> 'Innovations by their nature are adapting solutions to conditions of uncertainty," he notes. "And so when you want people to be innovative, what you need is a process that allows you to try out things, alter things, change things, get feedback, and adapt.' (Snibbe, 2006).

Snibbe (2006) then goes on to state that reporting is the very opposite of innovative behaviour, as it requires measuring and reporting the same information, year to year, in the same way. This is done irrespective of whether there are economic or societal changes affecting the organisation's progress. However, it would be unfair to state this is exclusive to non-profits; all organisations will report annually in a standardised way.

To summarise, the agency mind-set fits suits social entrepreneurship within the context of risk and innovation, the key entrepreneurial concepts, where financial value is the individual's primary concern. Of all respondents, they are the most likely to express support for measured risk taking and innovation adoption within the sector. However, the view that social entrepreneurship means relentlessly chasing opportunities was deemed to be reckless, even amongst risk supporting respondents.

8.2.4: Component Four - Management Responsibilities

The last point if discussion concerning non-profit agency and stewardship theories is how management approach their responsibilities. Here, the importance of management freedom and shirking is considered, in order to determine its relevance to the sector. As previously mentioned, an agency mind-set means pursing personal goals that do not align with the organisations, either social or financial in nature. Therefore, an agent who pursues their own ambitions, or at least, what they think is best for the social cause, will do so despite the organisation's mission statement. In this section, the freedom for agents to do what they think is best is looked at.

Some respondents stated that they had such freedom from their organisation, subject to conditions. For example Respondent SS10 states that provided he acts in his organisation's best interests, he is entitled to manage as he sees fit. He also states that this sort of freedom is what allows social entrepreneurship to best flourish; the pursuit of a stated social goal but no prescriptive methods for achieving it:

> "What I appreciate about my role in running this charity is that I don't have anyone looking over my shoulder telling me what to do. As long as we achieve our organisation's goals, I am free to do this however I choose. Not all organisations operate like that, indeed, my past experience has been quite the opposite." (SS10)

Within this context, an agency mind-set benefits from a certain level of freedom for the individual to act. Similarly, Respondent SS14 states that he has complete freedom in deciding how he chooses to run his organisation to meet its objectives, partly because the nature of their objectives permits him to do so. He states that they are vague enough to allow scope for a personal interpretation of how best to confront them. Roberts and

However, social agents see this differently from financial agents. Though they may have their own views on how best to serve the social mission and disagree with the organisation's approach, they will not respond by seeking to alter its course. For example, Respondent SS7, though unashamedly a social agent, sees limited need for individualism in an organisation that strives for the collective good. This is perhaps unsurprising, given the respondent's opposition to social entrepreneurship theory adoption within the sector in any circumstances. Though he has a singular view of value creation, and may disagree with his organisation's pursuit of particular objectives, he would not take it upon himself to make significant changes:

> "As long as our mission statement is sensible then I will strive achieve it. I could propose changes but realistically what would that do?" (SS7)

This contrasts with the financial agent, who welcomes the freedom to manage in their own way. As such, social entrepreneurship does not fit the social agent profile well as although they may have the freedom to manage how they wish, they will prefer not to do. The organisation is best run with collective responsibility amongst employees and volunteers, limiting the role of individualism and entrepreneurial thinking.

In conclusion, the agency mind-set permits more freedom and a greater focus for management, provided the agent is a financial agent. Within this context, the agency mind-set is suited for social entrepreneurship. This is because entrepreneurship benefits from a level of freedom that allows individuals to behave in a different or unique way. However, the social agent interprets this differently. Their approach to management will be collective due to their views on the importance of social value creation and disagreement with entrepreneurial thinking in the sector.

8.3: Evidence for Stewardship Theory

8.3.1: Component One - Blended Value

In this part, the respondents who demonstrated a stewardship mind-set are considered. A stewardship mind-set means attempting to balance financial and social objectives where possible, rather than focusing on one or the other. (Bacq *et al*., 2015).It is clear that individuals with agency and stewardship mind-sets will have different views on the goals that should be pursued by their organisation. For example, Respondent SS8 expresses strong support for a focus on social objectives but qualifies this by stating financial performance cannot be overlooked. Respondent SS14 spoke consistently about his organisation's financial performance but also addressed social outcomes. Individuals with a stewardship mind-set argue it is important to provide as much information as possible, in order to address all stakeholder accountability needs. Their hope is to achieve the two in tandem and are perhaps unable to separate them into two distinctive parts. One cannot be achieved without the other.

> "You cannot separate the two types of objectives. One cannot be achieved without the other in this sector." (SS20)

As the stewardship mind-set is synonymous with dual value creation, it would seem social entrepreneurship fits the mould of the stewardship mind-set more than the agency mind-set, at least in this specific context. When we consider what non-profits try to accomplish, social and financial value, the stewardship mind-set aligns better with social entrepreneurship.

When attempting to create long term value, a stewardship culture amongst social entrepreneurs will strive not only to accomplish their organisation's objectives but also attempt to act in the interest of all stakeholders. They acknowledge and understand that stakeholder interests are not, and will never be, perfectly aligned. However, this will not stop them looking to create blended value for the benefit of all by attempting to balance stakeholder concerns with the organisation's stated ambitions. By doing so, the steward hopes to instil trust amongst both internal and external stakeholders, thereby reducing overhead costs (i.e. monitoring) and inspiring employees and volunteers to perform better.

However, some cited the difficulty in attempting to accomplish two separate objectives. One respondent described it as a "middle ground" that remains underinvested. By this, the respondent refers to the fact that funding typically comes with restrictions requiring it be spent on a particular social cause, thereby not allowing decisions to me made by managers on how best to spent funds for value creation. Blended value is a buzz word like term that does not yet resonate with the majority of people at this time. Respondent SS13 puts it well when describing the difficulties of working around funding restrictions:

> "If I could change one thing about the way things operate, it would be funding restrictions. I completely understand why donors put them in place and feel they are needed. But they do more harm than good. It's also a little condescending for them to imply that we do not know how best to spend our income. These restrictions mean we cannot serve the social cause as effectively as we would like." (SS13)

Despite this general lack of knowledge amongst stakeholders concerning blended value, most respondents agreed that the term was becoming increasingly relevant to the non-profit sector. It is becoming increasingly difficult to discern between different types of organisations. Both for-profit and non-profit organisations may strive for, or inadvertently create, both financial and social value through their actions. Emerson (2003) presents blended value accounting as a way of handling the blurring lines between sectors because, increasingly, we can no longer say with certainty what for-profit and a non-profit organisations look like. Introducing new ways of accounting for it is a direct response to the challenges faced in handling distinct new types of organisations, as well as new ways of managing them. Santos (2014) articulates a similar argument, rejecting the separation of social and financial value within the context of non-profit causes. Therefore, the stewardship point of view is in line with Santos (2014) with regards to the consideration of economic and social value; the distinction between the two is unhelpful for social entrepreneurs.

To summarise, a stewardship mind-set is consistent with the concept of blended value, as it appeals to the steward's desire to maximise wealth creation. Put another way, such individuals recognise that all organisations, profit or non-profit, create both social and financial value. Ideally, both would seek to maximise value, irrespective of its type, where they are best placed to do so; the end result being a blended mixture of financial and social value. Stewards see them as inseparable and attempt to balance both types of value. This was acknowledged by respondents who pointed out the fading line between profit making and non-profit organisations; such distinctions are not as clear as they once were.

8.3.2: Component Two - Information Asymmetry

In this part, how the stewardship mind-set relates to information asymmetry is considered. Generally, the stewardship mind-set is consistent with efforts to inform all stakeholders equally. For example, Respondent SS3 argues that their organisation cannot say with certainty what information will be relevant or required by observers, therefore, they must provide as much as possible:

> "Unlike companies, non-profits must balance the two types of information [social and financial] as best they can. If we were an environmental organisation, I think it would be fair to expect us to provide both financial and environmental data where relevant. We cannot say what information is needed so it is best to play it safe and provide as much as possible for stakeholders." (SS3)

This contrasts sharply with the agency point of view, that only the bare minimum need be provided to placate stakeholder expectations. The stewardship mind-set makes individuals more sensitive to the information needs of stakeholders, relative to the agency mind-set. The aim should not be to satisfy a regulatory minimum but to provide what is asked for or expected of them from interested parties. They may even choose to go beyond that in order to pre-empt future requests for information. This contradicts the agents more hierarchal point of view, with legal reporting requirements at the bottom and other stakeholders further up (as failure to report what is legally required will carry with it much harsher punishment than overlooking social outcome information). The steward does not see this reporting as a hierarchy, or pyramid, of needs; the different types of reporting are considered to be approximately equal in importance. Furthermore, information that is valuable to decision makers and internal stakeholders may not be of use to external stakeholders. For the steward, it cannot be assumed what is useful or interesting to them will be so for others. However, by providing as much information as possible, the steward can avoid this.

Concerning the point made by Respondent SS1, that transparency has a major disadvantage in the form of giving up private plans/strategies, stewardship mind-set respondents were less worried. The nature of the sector and its social objectives led respondents to the conclusion that they should place greater significance on information provision instead of keeping secrets. This is because, ultimately, non-profits operate collectively for the greater good and not for their own financial gain or glory.

For example, Respondent SS8 made this clear with her point that it is always in the interests of individuals and the organisation to work together on behalf of beneficiaries:

> "It would be counterintuitive for one person to fight a social cause on their own when they do not have to. There shouldn't be a sense of pride which prevents us from asking for help as you're not asking on behalf of yourself, you're asking on behalf of others." (SS8)

Here, the respondent was referring to asking for help not only within their own organisation, but out with it, too. For example, asking external stakeholders or similar organisations operating in the sector. As the intention is to create social value, not pursue personal financial gain, there should be no reason not to communicate with others on how best to achieve the organisation's objectives.

Lastly, as mentioned in the previous part on blended value, it has been commented on that reporting has developed with time due to evolving ideas. Nicholls (2009) states that reporting practices in social entrepreneurship are 'emergent and dynamic – drawing on existing practice but also, in the process, innovating and reshaping these practices' (p.756). This is particularly the case for reporting that is inclusive of all stakeholders, as it requires extensive and wide ranging information in order to accommodate all connected groups.

In conclusion, a stewardship mind-set is closely associated with the need to address information asymmetry. Stewards see information asymmetry as a problem to be overcome through high quality reporting that addresses all stakeholders where possible. In contrast to the agency mind-set, stewards try not to favour particular stakeholder groups by being accountable to all. This does not necessarily mean they will treat all stakeholders equally; instead, they acknowledge all deserve an account of some kind, be it financial or social in nature.

8.3.3: Component Three - Approach to Risk and Innovation

In this part, how the stewardship mind-set relates to risk and innovation is considered. In general, the findings would appear to indicate that stewardship is consistent with a risk adverse way of thinking. Furthermore, none of the stewardship mind-set interviewees discussed innovation beyond the context of technology. From this perspective, it would appear that that social entrepreneurship and stewardship theory are not consistent.

Risk was described by some respondents as being poorly understood in the sector. For example, Respondent SS18 states that too many non-profits fear failure, causing them to avoid taking any risks at all. The respondent describes how this is not a good way of looking at potential opportunities. He argues that failure requires a rethink in meaning, as we can learn from mistakes and thus build on them. A similar sentiment is expressed by Kramer (2005), who states:

> ‘A project may be considered successful even if it does not meet its original goal however, as both parties exhibit a ready willingness to change direction as events unfold.’ (p.13)

This view, as described by Kramer (2005), was often mentioned by respondents who fit the stewardship mind-set. However, the majority described risk as being dangerous and ill-suited to the non-profit sector, believing to be a for-profit adoption that goes too far. Though some risk is inevitable, excessive risk intended to create greater social value (much in the same way a for-profit might take on greater risk to create greater financial value) is seen to be reckless.

On innovation, what is clear is that stewardship mind-set respondents interpret it to be synonymous with keeping up with technology developments. Though this tended to be the case across all respondents, with only a minority of interviewees describing innovation as being concerned with the adoption of inventive ways of thinking, those who did tended towards an agency mind-set. This led to a narrow view amongst respondents, with innovation described as quick adoption of new technology and a strong social media presence. However, the relationship between risk and innovation was also acknowledged by a minority of respondents, including stewardship leaning respondents. For example, Respondent SS3 argues as such when discussing innovation in her interview:

> "Risk of failure is a part of innovation and innovation is not always about making significant breakthroughs or achievements. It's about incremental success, over time, built on experience." (SS4)

Similarly, Lawlor *et al*. (2009) state that innovation is impossible without some degree of failure. We cannot learn new things without understanding, through experience, the wrong ways of doing things.

This discussion looks at the relevance of stewardship theory to social entrepreneurship. Generally, it would seem, a stewardship mind-set leads to a low risk strategy. Those with a stewardship mind-set tended to take this line, expressing views consistent with risk aversion. Furthermore, no respondents with a stewardship mind-set understood innovation to be anything other than keeping up with technological changes in society. This is in contrast to the earlier agency discussion on innovation, where a minority did make reference to the concept's more fundamental meaning. It is therefore difficult to say which mind-set is more suited to the social entrepreneurship concept, as the evidence is contradictory. For stewardship to thrive, there needs to be an establishment of trust between stakeholders. As Van Slyke (2007) states: 'The assumptions of stewardship theory are that long-term contractual relations are developed based on trust, reputation, collective goals, and involvement where alignment is an outcome that results from relational reciprocity' (p.164).

8.3.4: Component Four - Management Responsibilities

In this final part reviewing evidence for agency and stewardship mind-sets, how the stewardship mind-set relates to management is considered. As before, the issue of shirking is looked at, as well as social entrepreneurship. The expectation of stewardship theory is that management's goals are closely aligned to their organisation; therefore, they do not require monitoring as their relationship is built on trust. Where a stewardship mind-set is prevalent, we would expect to find this trust in management. If it is not there, despite the stewardship mind-set, than resources are being wasted unnecessarily on monitoring and regulation.

For example, Respondent SS15 sees the focus lying on a collective effort amongst the employees and volunteers of a non-profit and that there is limited scope for personal ambition. The goal is not, and should not, be to take credit of achievements on an individual level but instead to do so in the name of the organisation as a whole.

> "This is not the right sector for showing off your talents for management or finance. We work together as a team, it shouldn't be about trying to impress others or individual performance. Provided the objective is achieved, who cares how it was done?" (SS15)

This is consistent with Ghalwash *et al.* (2017), who argues that social entrepreneurs are more compassionate relative to their traditional counterparts. Therefore, the stewardship mind-set, from the perspective of management, has much in common with the social agent mind-set. Both regard collective responsibility as being important instead of the more individualist approach that a financial agent might take towards the creation of social value. Similarly, Respondent SS3 expresses a view that it would be futile to determine the impact of individuals within her organisation:

> "It would be hard to directly trace any one person's involvement in what we do and definitively describe their involvement relative to others. Nor is there a need to do so, I think. What would that honestly achieve beyond making us more competitive amongst ourselves? And would that really be a good thing?" (SS3)

As a consequence, stewardship is more concerned with a collective approach amongst employees and volunteers, together striving towards the creation of social value.

Where the stewardship mind-set prevails in an organisation, it is perhaps fair to say that entrepreneurship has less scope to take hold. An entrepreneurial attitude requires more freedom than stewardship allows. Therefore, social entrepreneurship is perhaps best suited to a non-profit where an agency mind-set is prevalent (provided they are a financial agent). However, this contradicts the view that social entrepreneurs are the creators of dual value; social and financial. Furthermore, not all definitions of social entrepreneurship specifically make reference to the idea that it requires such freedom to be considered valid. For example, Martin and Osberg (2007) describe it as being about the observance of an 'unjust equilibrium' which social entrepreneurs attempt to balance by creating a 'new, stable equilibrium'. Their definition, like many others, do not require social entrepreneurs to work alone; a collective effort would be equally valid for the label to be relevant.

Table 8.1 presents how both agency and stewardship mind-sets relate to social entrepreneurship, based on the prior discussion. It shows how the strength of the agency mind-set, in terms of entrepreneurial thinking, is its allowance for personal ambition and the freedom to pursue social value in a way deemed appropriate by the agent. By contrast, the stewardship mind-set is directly tied to blended value, a core component of social entrepreneurship, and encourages stewards to be more accountable to stakeholders where possible. However, scope for personal ambition will only be fully utilised by financial agents, not social agents, who will approach management in a way more in line with the stewardship mind-set.

Table 8.1: Agency and stewardship mind-sets and social entrepreneurship

Social Entrepreneurship - Potential	
Agency Mind-set	**Stewardship Mind-Set**
Scope for personal ambition	Best suited for the pursuit of dual value
Allows greater focus on particular objectives	More sympathetic to wider accountability expectations from different stakeholders
Freedom to pursue social value how they see fit	Encourages a collective effort amongst participants

8.4: What Does Principal-Agency Theory Look Like in Charitable Organisations?

In the sections 8.2 and 8.3, evidence for agency and stewardship mind-sets was presented. Here, prior findings are summarised and discussed as a whole. Furthermore, these findings are considered in relation to literature discussed earlier. Wiseman *et al*. (2012) argue that agency theory can be considered beyond its traditional for-profit context. The authors put forward the view that the main components of agency theory, including self-interest and information asymmetry, both discussed earlier in this chapter, are just as relevant to other types of organisations. The findings from this study appear to indicate that agency and stewardship theories can be examined in the non-profit sector. In addition, social entrepreneurship has brought with it new potential principal-agent relationships (Bendickson *et al.*, 2015), due to the increased relevance of risk and innovation to the sector. Blended value approaches, information asymmetry, consideration of risk and management responsibilities, which are collectively key agency and stewardship theory components, are important in other contexts, too. Critics of agency theory argue it is too limiting in scope for consideration outside the for-profit sphere. However, it is contended here that the theory's strength lies in its ability to abstract from specific contexts, allowing it to be applied to other sectors, too. Furthermore, agency theory need not be considered in isolation but alongside stewardship, stakeholder and social entrepreneurship theories, in order to make it more relevant.

Table 8.2: Agency and stewardship theories in the charity sector compared

	Agency	**Stewardship**
Underlying premise	Misalignment in objectives between management (i.e. interface stakeholders) and both internal and external stakeholders.	Objectives and interests of both parties overlap, dual objectives pursued
	Individual or shared responsibility	Shared responsibility

Treatment of stakeholders strongly depends upon the mind-set of respondents. Both blended value reporting and information asymmetry are linked to stakeholder theory. With the former, agents must decide which stakeholder(s) require an account. With the latter, the importance that the respondent gives towards information provision will depend on the salience (in their eyes) of each stakeholder group. Where agents/stewards attempt to meet multiple, diverse or even conflicting requirements from stakeholders, performance measurement becomes much less certain. Perhaps one of the benefits of the agency mind-set is reduced ambiguity in terms of stakeholder relationships, though that does not mean we can say for sure who their stakeholders are without enquiry. The agency mind-set assumes a singular focus but this emphasis may be on either financial or social objectives. Therefore, their concern for providing an account will lead to either a focus on financial stakeholders, such as the OSCR, or social stakeholders, such as beneficiaries.

Table 8.3 presents the agent's views on the issues discussed in part 8.2. They prefer a focus on singular objectives which appease potentially just one stakeholder group. In addition, information asymmetry, though important, is less of a concern for the agent than the steward. They are more tolerant of the probability that they will be in possession of more information than their organisation's stakeholders, due to their management role. Information provision would be on a 'need to know' basis. In addition, agents have a more focused and direct approach to management, as well as arguably greater freedom to conduct themselves. Within this context, agency and social entrepreneurship align well, as entrepreneurship depends upon a level of management freedom to flourish. Though the agency mind-set is not a good fit for their approach towards blended value, it is more suited to the way agency management.

By contrast, the stewardship mind-set requires the steward to consider a wider range of stakeholders when providing their account. This also implies the need for a wider variety of information that needs to be prepared by the steward, in order to satisfy these stakeholders. Therefore, the steward works harder from an accountability point of view. It is difficult to determine which encourages the other; that the steward seeks to be transparent willingly or if encouragement or existing structures/mechanisms makes them behave this way. Regardless, the stewardship mind-set is closely aligned with stakeholder theory in this context, based on the steward's support for reporting and accountability to all connected parties.

Table 8.4 presents the steward's mind-set, in contrast to the agent's. They strongly favour the pursuit of 'blended value', taking the view that you cannot have one type of value without the other. Financial and social value are entwined and inseparable. This point of view is in line with Santos (2014), who argues that social and economic value are inseparable; for non-profit organisations, it is possible to internalise positive externalities in a way for-profit organisations cannot. The author describes this as a 'second invisible hand'. The steward also sees value in reporting both social and financial information where possible. In doing so, the steward is less likely to have a particular stakeholder group in mind and is more likely to treat them equally, or at the very least address all of them. Furthermore, information asymmetry is a bigger concern for the steward than their agent counterpart and they are more likely to alleviate it with their external reporting.

Table 8.3: An agency mind-set, based on responses

Factor	Agent's View
Blended value reporting	Unnecessary, distracting, more of a focus on outcomes rather than the process
Information asymmetry	Requires consideration but not crucial
Approach to risk	Mixed – depends on what type of 'agent' they are
Management responsibilities	Focused, direct, greater freedom

Table 8.4: A stewardship mind-set, based on responses

Factor	Steward's View
Blended value reporting	Worth the time and financial investment
Information asymmetry	Important to address
Approach to risk	Generally risk adverse
Management responsibilities	Ambiguous

A social entrepreneur might play several, almost conflicting roles. They will, sometimes, play the role of an agent/steward. At other times, they may play the role of the principal. Agency theory can provide a useful description of principal-agent relationships where these two roles are distinct and easy to pinpoint. Where a dual role is played will create complications and make the traditional agency theory largely irrelevant. Thus, the development of social entrepreneurship theory over the last twenty years has highlighted the weaknesses of agency theory within contexts beyond the traditional for-profit sector. Evidence here would suggest that an agency mind-set should be avoided where the pursuit of blended value is critical. A stewardship mind-set, by contrast, should be fostered if both financial and social value are concerns of the organisation.

That isn't to say agents are disinterested in being accountable, or that they would not benefit from it. It could be argued that accountability helps develop a more stewardship like culture amongst agents. As a consequence, principals, identifying a reduced agency problem, may in turn respond by providing their representatives with more freedom to conduct themselves. Agents may then respond to this establishment of trust by performing better, thus, it is a too way street of transparency, trust and expectations. The end result, for the organisation, is a lower risk of moral hazard. In addition, both employees and volunteers are more likely to appreciate a collectivist organisational culture than an individualist one.

It would also be unfair to suggest agents are only ever motivated by self-interest rather than their organisation's goals. It is often assumed that in the absence of monitoring, agents will deviate from their expected role in order to benefit themselves economically. In other words, maximise their own utility at the expense of beneficiaries. Wealth maximisation, traditionally the goal of agents under agency theory, does not always fully explain the actions agents take when operating on behalf of their organisation. For example, in this study, several respondents commented on that fact that with their experience and qualifications, they could be earning more in the for-profit sector. Their very presence in the non-profit sector contradicts the central assumption of agency theory. This assumption does not exist in stewardship theory, which contends that stewards are motivated by being part of a collective effort centred on the organisation. Social entrepreneurs have been portrayed as both altruistic (i.e. stewards) and self-seeking (i.e. agents). Here, it has been demonstrated that both agency and stewardship theories are relevant to the sector. Furthermore, this thesis suggests that principal-agent relationships are complex and also contradicts the perspective that social objectives are synonymous with stewardship theory.

Stewardship is in fact more concerned with blended value; the creation of both financial and social value.

A further challenge is reaching an agreement on how to assess performance in this sector. Social performance measurement is inherently subjective. Even with a way of measuring social performance, it cannot be said with confidence that the measured value has been done so accurately. This was a commonly cited issue for respondents, particularly amongst those with a stewardship mind-set. The difficulty stems from a need to prioritise different objectives over multiple time horizons and report on these objectives in a twelve month document (Cordery and Sinclair, 2013). Unless this process can be simplified, non-profit organisations may choose to sidestep such reporting due to the difficulty involved, despite an interest in seeing it provided and done correctly.

It is hoped that the research presented here can contribute to the theoretical development of both principal-agent theory and social entrepreneurship within charity sector organisations. In the next part, this research is developed into a principal-agent model.

8.5: A Principal-Agent Model for Charitable Organisations

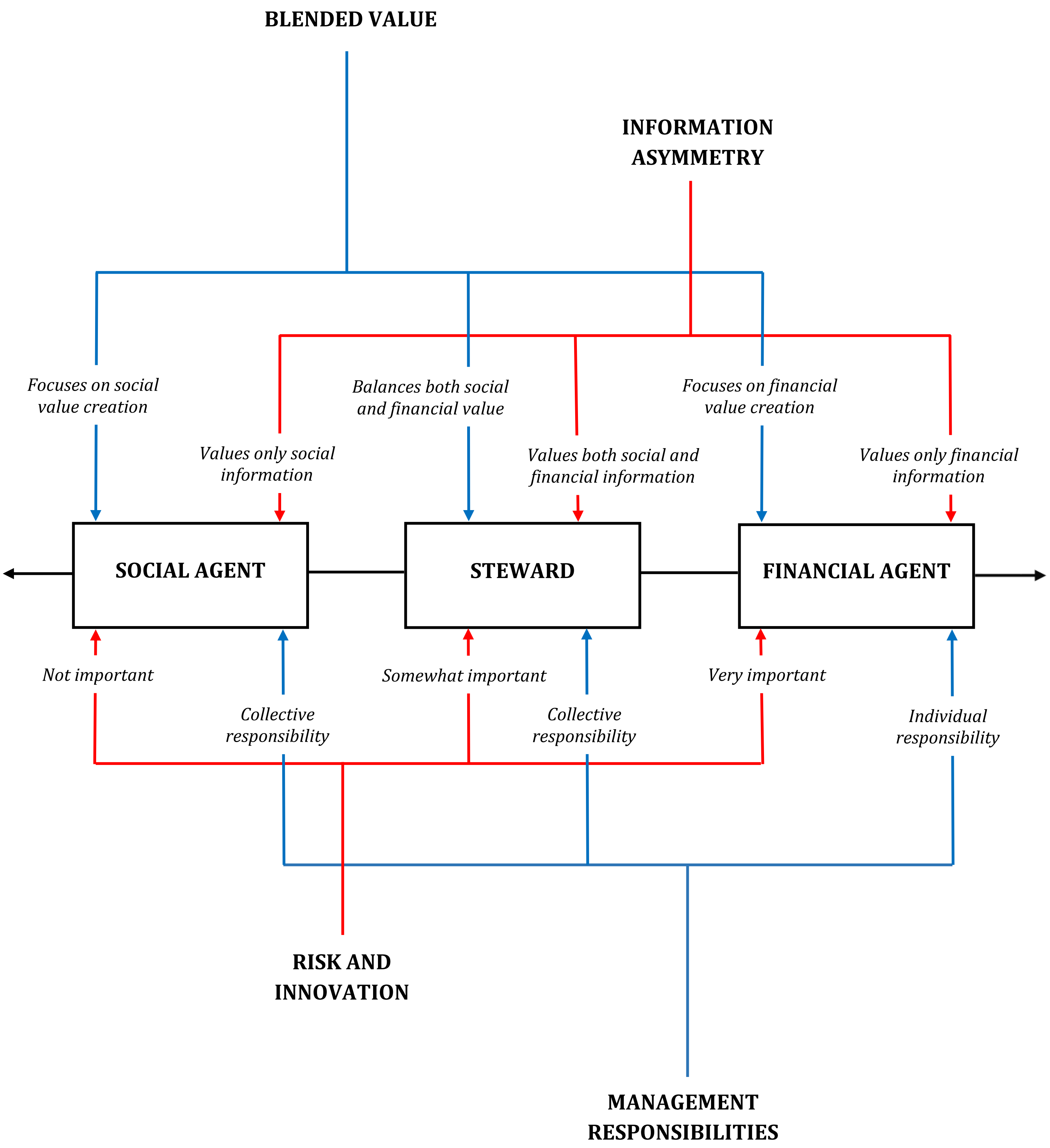
Here, a principal-agent model, based on the prior findings and research, is presented and discussed. It refers to the developed discussion earlier in this chapter on agency and stewardship mind-sets, concerning blended value, information asymmetry, risk and management. As an example, a participant's personal motivation may be influenced by the organisation's focus on organisation or individual importance. They may have a personal view on how best to create social and/or financial value that does not perfectly overlap with their organisation's assessment. Also, these mind-sets need not be constant. A person may begin with an agency mind-set, with a focus on one type of objective, before changing to a more stewardship way of thinking in the future. Alternatively, a person may begin with a stewardship mind-set before focusing on the pursuit of only financial or social objectives due to disheartenment with the organisation's approach.

Figure 8.1 below presents the charity sector principal-agent model and shows how the four components discussed earlier relate to non-profit agents and stewards. The blended value component is line with research from Bacq *et al*. (2015), who argues that it can be imagined on a spectrum with social agents at one end and financial agents at the other, with stewards lying between the two extremes. Information asymmetry is closely associated with blended value, in that those who support social value creation will also be strong supporters of social information reporting. Similarly, financial value creators strongly support the reporting of financial related information. By contrast, stewards advocate the provision of as much information as possible, both social and financial, for the purpose of informing all affected stakeholder groups. Thus, instead of attempting to 'balance' the provision of social and financial information, they will seek to detail what they can in order to accommodate all stakeholder requests and expectations.

Figure 8.1 also shows that the relationship between agents/stewards and entrepreneurship is related but in a different way. The likelihood of an individual supporting the concepts role in the sector will depend on who closely they are associated with financial agency, with 'social agents' being the least enthusiastic and stewards lying somewhere in the middle. This is consistent with respondent views on value creation, as those who strongly favour social value, but not financial value, tended to be uncomfortable with the adoption of ‘for-profit practices’ in the sector, Finally, Figure 8.1 shows how agents/stewards relate to management responsibilities. The stewardship mind-set is consistent with a more collective approach, relative to the more individualist approach of agents. However, social and financial agents will diverge due to their different views on how best to create value for the organisation.

The model is in line with Wiseman *et al*. (2012), who state that agency theory, with modifications, can be considered in the non-profit sector. The model provides contributions to both agency and stewardship theories, as well as social entrepreneurship. In fact, social entrepreneurship acts as the lynchpin for this agency/stewardship theory development, with the concept providing a unique way of looking at principal-agent relationships in the charity sector. The findings and discussion have demonstrated that social entrepreneurship does not perfectly fit either the agency or the stewardship approach. However, both fit the concept in their own ways.

Figure 8.1: A principal-agent model for charitable organisations



8.6: Case Study One

8.6.1: Case Study One - Profile

This chapter finishes with a closer look at two respondents using the developed principal-agent model. For the first case study, Respondent SS1 is considered. Several interviews were held with the respondent during the data collection stage. As well as the main interview conducted with all semi-structured interviewees, this respondent, along with the respondent considered in part 8.7, was met with to discuss the agenda used for the unstructured interviews. Respondent SS1 is the chief executive of a national non-profit based in Scotland. He has 25 years of experience in the non-profit sector, including four at his current organisation. They have 68 full time staff, eight trustees and up to 500,000 volunteers. Here, the responses given during his interviews are considered within the context of the concepts discussed during the course of this chapter, including blended value, information asymmetry, approach to entrepreneurship and management responsibilities.

8.6.2: Blended Value

Over the course of this chapter, it has been found that an agency mind-set makes individuals less inclined to support the concept of blended value. This is because agency theory assumes a focus on either social or financial objectives and not a mix of the two, which is what blended value concerns. Consistent with this is Respondent SS1, who, during the course of his three interviews, demonstrates an agency way of thinking. On blended value, he strongly favours the pursuit of financial objectives over social objectives, as well as financial reporting over social reporting. He states why this is the case:

> "You cannot create social value without first creating financial value. I am of the view that if the organisation is staffed well and proper financial regulation is in place, then the social benefit will manifest itself. It will not come by accident. It never does. Being sufficiently pure or ethical just doesn't cut it."

From his point of view, the best way of serving social objectives is by first ensuring the infrastructure is in place. It is not because the focus should be taken away from the social mission; instead, it should be recognised that the best approach for achieving it is by creating a sustainable organisation through which to serve it. Therefore, he argues that instead of trying to 'balance' the two types of value, it is better to treat them in sequence. Within the context of the principal-agent model in Figure 8.1, he represents a 'financial agent'. He argues that his type of organisation is best prepared to achieve a social mission, in contrast to one which presents itself as being more "pure or ethical" on financially related matters. He takes the view that the motives of the individuals behind a non-profit organisation are not what is most important.

> "Too many charities focus only on the short term. They cannot see past their current financial position. So in the long run, who will do more good? The charity which is built to last for years or even decades, or the one which dies when its 12 month grant disappears?"

Conversely, though others might argue that a greater focus on the social mission at the expense of financial and administrative matters is important for a non-profit organisation, Respondent SS1 argues that his approach will ultimately achieve more in the long term. This is because he looks beyond their current funding position in order to ensure they are still operating after the current financial period, in contrast to what he describes as a short term outlook used by less experienced charity organisers.

8.6.3: Information Asymmetry

Earlier in this chapter, it was found that an agency mind-set makes an individual less inclined to address information asymmetry than the stewardship mind-set. Here, the importance of addressing information asymmetry for Respondent SS1 is discussed. Due to his focus on financial value creation, Respondent SS1 argues that detailed financial statements are important, while social reports are less so. On current financial reporting practices that must meet the SORP, to then be filed with the OSCR, Respondent SS1 argues that the current standards are well designed and keep non-profit organisations in check:

> "Think it is very useful. It is good that it forces charities to comply and allows them to be more comparable. It used to be done badly and informally. It has been beneficial not only for charities but for auditors financially and for others looking in, too."

> "They are in fact much more helpful than company accounts and provide more information than they do. They do the job quite well to be honest. All the important information is there."

Here, he argues that the reporting practices of non-profits has markedly improved in recent years, relative to what reporting was like when he began working in the sector. He even goes as far as to say that they are better at fulfilling their purpose than company accounts are for the private sector. When asked about his views on developing the SORP, which is an ongoing issue for the SORP committee who are always looking for new ways to improve upon their standards, Respondent SS1 states that this is not necessary. In his view, as the appropriate financial information is provided and effectively audited (or at least it should be), there is no need to develop the SORP any further. He also fears that developments made to the SORP will lead to the wrong type of information being expected in future:

> "If they make changes, chances are it will be to increase the narrative disclosures. I don't think this is needed. A little is fine but it should be within reason. The most important thing is that financial data is there so we can check funds are being used appropriately."

Respondent SS1 is not opposed to social reporting outright, in fact, he states that it is his organisation's intention to take it more seriously in the near future. However, its primary purpose is not to inform stakeholders:

> "There's nothing wrong with reporting on social outcomes. Indeed, it is something we intend to do more seriously over the coming months. Our current approach is to provide bits of information through our website without actually producing a formal social report that details our work. But this report we plan on doing is a marketing tool first and foremost. It isn't there to fill some sort of information gap others might perceive."

The respondent states that rather than attempting to fill some sort of information gap, a report will be used for marketing purposes. The social report they intend to produce will be used to focus their marketing strategy towards the right stakeholders. It will not be used to inform the types of stakeholders mentioned as being the audience of social reports by other respondents, such as beneficiaries. Potential business partners and funders will be the primary recipients of such a report.

One accountability method discussed by Respondent SS1, though not by other semi-structured interviewees, was non-profit events. These are the events organised and discussed by Respondents US1 and US2 in Chapter 6. The respondent is highly critical of these events, arguing that they do not fulfil their intended purpose i.e. to improve transparency and accountability:

> "Non-profit events are not very useful, they are too inward looking and are not a good audience to get our message across to others. These events are more a case of non-profits showing off to each other, rather than appealing to outsiders."

If the aim of non-profits is provide as much information as possible to stakeholders, the targeted audience of such events is incorrect, according to Respondent SS1. These events will typically only be attended by other non-profit organisations operating in the area; therefore, the 'wrong' people are being informed of their recent efforts and performance. Therefore, even if his intention was to address a perceived information imbalance, there are better ways of achieving it than attending these events.

8.6.4: Approach to Risk and Innovation

On the components of entrepreneurship, risk and innovation, it was found earlier in this chapter that an agency mind-set makes individuals more likely to favour consideration of the two if they are 'financial' agents. On risk, Respondent SS1 argues that it is an unavoidable reality which all organisations must confront. However, he states that some non-profits create more risk by the way they administer themselves:

> "Charities take on risk merely by existing. Some charities take on more risk than they need to because they do not know the right way to run themselves, despite the best of intentions. Not being able to have a healthy margin like typical private sector organisations creates more risk for the charity."

Here, the respondent argues that "the best of intentions" is not enough to effectively run a charitable organisation. The sector's discomfort with profit margins creates, in his view, unnecessary risk for the organisation, risk which could in fact be avoided. He explains that profit margins are almost taboo; that bringing in more than is spent creates a bad impression for external stakeholders. However, a margin can be retained for later years in order to smoothen out the organisation's financial position in the long term. This would reduce risk, as it cannot be assumed income, or expenditure, will be similar or predictable in later years. Therefore, Respondent SS1 sees his organisation's retainment of project surpluses as a way of minimising risk in the future. He sees this as giving his organisation an edge over others who do not, as it helps make them sustainable in the long term.

> "We produce accounts on an annual basis, but in reality organisations do not function like that. The accounts are little more than a snapshot of the reality. But too often that is how charities see things, over a short term time horizon."

On innovation, Respondent SS1 was one of the few interviewees to look beyond just technology when discussing the term. He describes how, to him, innovation is about thinking where they will be in the future and how he intends to get there. Though the respondent did discuss technology at length, referring to his organisation's equipment and well maintained website, he considers innovation to be about planning ahead:

> "It is always important to think about the future. I am living 12 months from now in my head. Then I backtrack and think about where we are now, and how I will get to the future based on our available resources."

He regards planning ahead as being a large part of innovation and considers his approach to it as being innovative. Too many non-profits, according to the respondent, only consider the present and not where they will be in a years' time. Therefore, he describes how he must be "living 12 months from now" and plan accordingly, based on what he has to hand right now. Similarly, he states the concept of entrepreneurship relates, in his view, to planning ahead:

> "Being entrepreneurial is all about planning and knowing what resources are at hand. I cannot devise a strategy without knowing what resources are available to me and cannot start a new contract without knowing this data."

In general, the respondent favours the adoption of entrepreneurial thinking where possible as this is synonymous with for-profit practices; the adoption of which can only be a good thing in a sector that overlooks such approaches.

8.6.5: Management Responsibilities

When reviewing how agents approach management, it was found that, when compared to stewards, there is greater scope for personal ambition, a bigger focus on specific objectives and more freedom to create social value in a way the agent deems to be appropriate. While Respondent SS1 states that his organisation will always "operate by consensus", whoever is most senior in their role will have the final say on matters relevant to them.

> "Yes – we operate by consensus. I have certainty on some things but will need flexibility in how I view funding, finance and expenditure. I would never override the financial director on an issue – I might ask for an explanation on an issue but will not look to overrule him. That is his area of expertise and I recognise that. I will always consult advice from other employees too – it is a bad organisation, private or non-profit, that does not take advice when offered. But it will usually be to provide guidance, and will not typically be decisive information."

He is an advocate for the idea that there should be a degree of individual responsibility within an organisation, despite the fact they serve a collective cause. Similarly, he states that he has the freedom, to some extent, to manage in his own way, which allows him to bring his significant managerial experience into the role and implement practices that others may see as not appropriate for the sector:

> "I want to create a first class organisation. I'd put £50,000 on the fact that we have the best systems in Scotland. If we have the bedrock right we can do more in the future. Not having that will always limit the available resources so that only small change can be made. Proper foundations allow the organisation to accomplish a lot more without changing the fundamental structure of the organisation. In other words, planning is very important and I think we do that very well, by thinking 12, 18 or 24 months into the future."

Respondent SS1 also describes one specific way in which he believes his organisation is run more effectively than sector competitors. Using Full Cost Recovery (FCF), he states it is possible to plan future projects effectively. FCF refers to ensuring funding for all costs to be incurred, including both direct and indirect costs. As all organisations need to recover their costs and at least break even in the long term, he describes it as a key way of ensuring the money is there to plan for the future.

> "One way is how we plan our costing model. We use Full Cost Recovery. This means that we have planned out and accounted for our entire set up. If our overheads are £750,000, and the average salary in our organisation is £23,000 (plus pension and NI contributions takes it up to £28,000) we can cost this out and factor these figures in based upon the knowledge that each employee has 200 working days a year (five days a week, less holidays, sick days and lack of productivity) at seven hours a day. These overheads are typically fixed to some extent, and are separate to the employees."

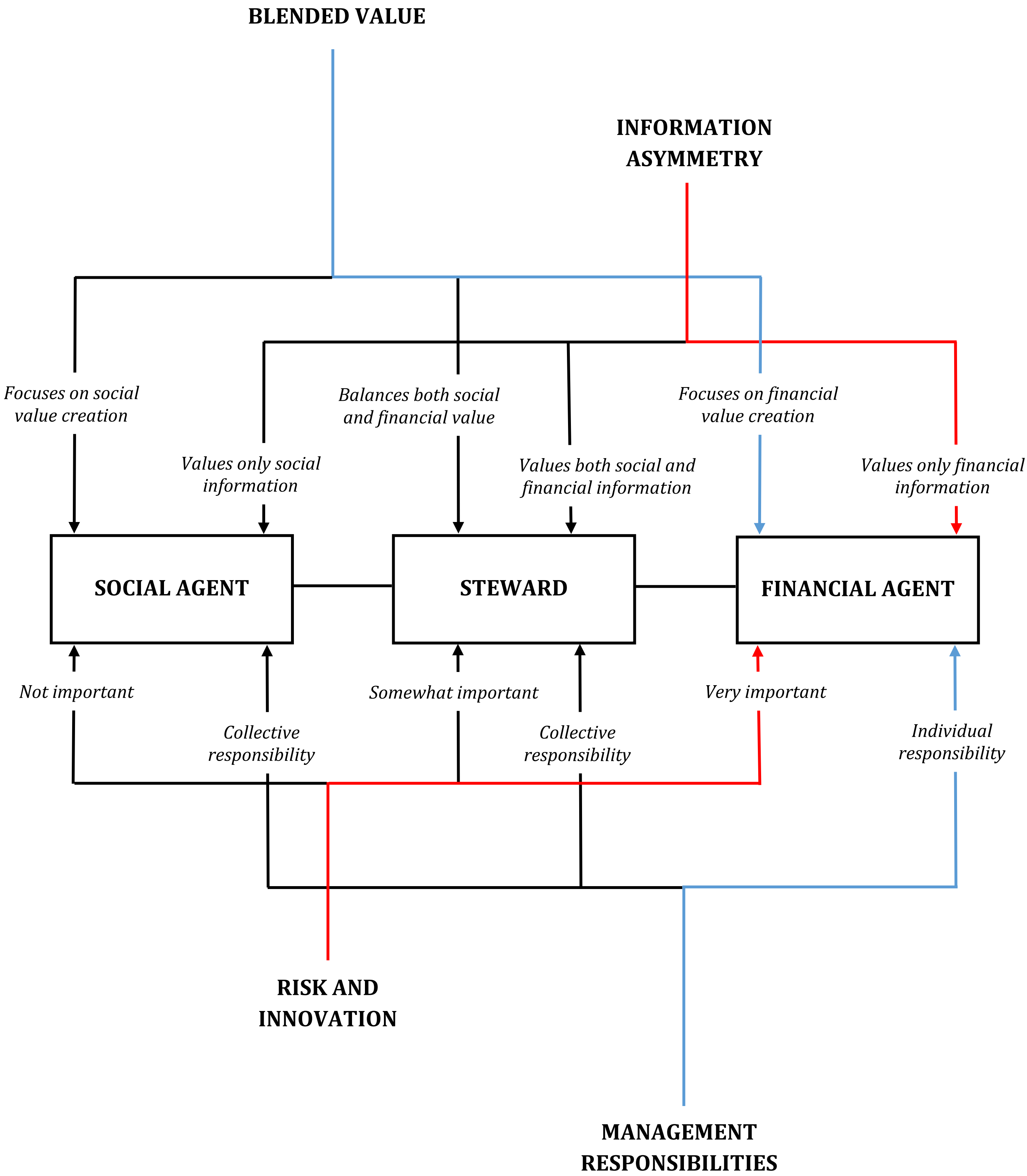
He describes the use of this approach as being entrepreneurial. He also states that this kind of example is virtually unheard of in smaller, more traditional charities. It is further evidence that the concept of entrepreneurship is, to him, about demonstrating fundamental business principals and approaches within the charity sector. The respondent also states that this approach is the one he would choose but would not necessarily what another in his position would do. However, he appreciates the freedom that comes from running his organisation; provided the result is achieved, he is entitled to approach it how he sees fit. He is not expected to follow rigid rules detailing how best to complete projects or manage employees. For Respondent SS1, it could be argued that he is an agent not only his actions but by circumstance. He is responsible for running a charity sector organisation that, fortunately, fits his management methods.

8.6.6: Case Study One - Summary

In this part, Respondent SS1's interview responses were considered as a case study. The respondent's views describe an agency 'mind-set', characterised by his focus on financial objectives/reporting, views on information provision, support for risk taking and his approach towards management. Figure 8.2 reproduces the principal-agent model in Figure 8.1 but highlights the ‘financial agent’ characteristics relevant to the respondent.

For example, Respondent SS1 sees financial value as the priority. Social value, he argues, is a by-product of effective financial performance by an organisation. He argues against the idea that the two go hand in hand and can be ‘blended’ together. Instead, social value emerges from effective management. On information asymmetry, the respondent argues that in terms of informing stakeholders, only financial information is actually required for this purpose. He sees value in social reporting if it is done for the purpose of marketing; not for transparency or accountability. He argues that if a ‘business case’ can be made for a social report, it makes sense to provide one, otherwise, there is no need to do so as it would be a waste of valuable resources. In general, the respondent is a strong advocate of entrepreneurial thinking within the non-profit sector, equating it to for-profit practices. He argues that most charities take on greater risk than they need to and that innovation is overlooked within the sector. Finally, he makes the point that his approach to management is what distinguishes his organisation from many others, arguing that his approach is much more developed and forward thinking than the sector as a whole. In the next part, another case study is considered that contrasts the perspective of Respondent SS1.

Figure 8.2: Principal-agent model for financial agents



8.7: Case Study Two

8.7.1: Case Study Two - Profile

This part looks at a second case study of an interviewee from Chapter 7. Here, the responses from Respondent SS8 are considered in detail. As with Respondent SS1, three interviews were held with the respondent, including the main semi-structured interview and the unstructured agenda. Respondent SS8 is a fundraising coordinator for a locally based non-profit and previously ran another charity organisation. She has 20 years of experience within the non-profit sector, including three at her present organisation. Her current organisation has a core staff of ten, with twelve volunteers. Her responses are considered in relation to blended value, information asymmetry, entrepreneurship and management.

8.7.2: Blended Value

This chapter has demonstrated that blended value is closely aligned with a stewardship mind-set. Blended value is also aligned with social entrepreneurship, based on the definitions described both in the literature review and in this study. Consistent with the stewardship mind-set, Respondent SS8 is very supportive of pursing both social and financial value. She argues the two are closely linked and, within the context of the sector, impossible to separate and see as two distinct entities.

> "The third sector is different in that the social and financial objectives deserve more equal treatment. Unlike profit makers, who of course need to prioritise their finances and corporate social responsibility is little more than window dressing, non-profits have to treat the two more similarly. This is not to say the social mission is undermined in any way, it's accepting the reality that without financial sustainability, the social mission is doomed before we start."

Here, the respondent describes how non-profits must consider both social and financial objectives with equal importance. Her reasoning for this is that social objectives are dependent upon financial performance, whereas for profit-making organisations this will never be the case. Furthermore, she states that this relationship exists in reverse, too:

> "It goes both ways. If we are not going a good enough job, if we are failing in our social mission, then this will have long term financial repercussions. So the two are very closely linked together, you cannot have one without the other."

This is in contrast to Respondent SS1, who argues that there is indeed a relationship between the two but describes it as being only one way. His view is that only with firm financial performance in place can social value subsequently develop. Here, Respondent SS8 argues that the two are dependent upon one another. Within the context of the principal-agent model in Figure 8.1, Respondent SS8 represents a 'steward'.

However, Respondent SS8 describes the biggest risk as being not setting any objectives at all. She fears that without something to aim for, a concrete plan over a given time horizon, this will be detrimental to the organisation's purpose.

> "It is not something that concerns us but I know a few other charities who refuse to give specifics on what they plan on doing or what they have done. The thinking is you cannot fail if you do not have a target to meet in the first place. I think that is a dangerous process however, that failure is not meeting some arbitrary target. It overlooks the good that charity has done just because they missed their goal by a small percentage."

The respondent states that some non-profits imagine setting objectives to be counterintuitive, fearing failure to meet them will reflect badly on their efforts. However, by not setting targets, it is difficult to access performance in the long term as there is nothing to compare year to year. The end result is to risk creating less social or financial value than they otherwise would, despite their intentions. Therefore, Respondent SS8 is of the view that non-profits should set both social and financial targets in order to evaluate their performance. This allows them to compare their past and present performance, as well as relative to the sector as a whole.

8.7.3: Information Asymmetry

Earlier in this chapter, it was shown that the stewardship mind-set makes individuals more sympathetic to the need to address information asymmetry between non-profit managers and external stakeholders. Respondent SS8 exemplifies this with her views on financial and social reporting. Generally, she is in favour of disclosures where possible, in order to pre-empt expectations:

> "It is good to provide what you can for stakeholders. Our stakeholders include financial backers, the families we help and the general public at large. We cannot predict who will show an interest in what we do or who will want to know more."

The respondent states that her organisation cannot assume who will want to know more about their activities, therefore, by providing as much information as possible they are better prepared for potential enquires. They are happy to provide both financial and non-financial information to those who show an interest in what they do. Furthermore, she is generally supportive of non-financial reporting where possible as a means for encouraging both internal and external stakeholders:

> "Social reporting is a great way of engaging both volunteers and the general public. It allows us to convey performance in everyday language."

Social reports can help increase engagement from stakeholders as they can inform without the use of jargon. She encourages her organisation to implement such reporting where possible and to publicise it online so funders and the public can find it.

Respondent SS8 is also conscious of the fact that non-profits can benefit from a transparent relationship with stakeholders:

> "It is better to try and fail in the open than behind closed doors".

She argues that openness and transparency can be hugely beneficial for a non-profit as it means communicating with stakeholders what their strengths and weaknesses are, thereby allowing stakeholders to make meaningful contributions. The emphasis, according to Respondent SS8, is on the collective efforts of the organisation and its stakeholders. This cannot be achieved when important information is kept out of the public domain. This is in stark contrast to Respondent SS1, who prefers to provide disclosures only where they are absolutely necessary. The emphasis, for him, is on protecting organisation strategy and their processes. However, Respondent SS8 argues this is the wrong approach. Her view is that the sector is not the appropriate place to keep performance and intentions secret as the benefits of being open outweigh the drawbacks.

Therefore, two respondents in the case studies represent polarising views on the merits of providing information to stakeholders, with each explaining why, to them, their perspective benefits the social cause most. Respondent SS1 articulates that third sector organisations are like any other type of organisation, meaning that secrecy is sometimes required in order to wrong foot competitors. By contrast, Respondent SS8 takes the view that the nature of the sector changes the way organisations should approach their disclosure responsibilities, thus requiring them to favour transparency over strategy. In doing so, a non-profit can hope to benefit by presenting themselves as open to suggestions and support from all stakeholder groups.

8.7.4: Approach to Risk and Innovation

On risk, it was found that the stewardship mind-set generally makes individuals risk averse. As social entrepreneurship definitions include a propensity towards risk taking, the stewardship mind-set does not immediately appear to fit well with this. In line with this, Respondent SS8 demonstrated an almost entirely risk averse point of view, arguing against the adoption of strategies where outcomes cannot be made certain.

She appreciates the general certainty associated with their income, due to it coming directly from the council in the form of a contract. However, although they can be certain of receiving funding from this source, they cannot predict *exactly* how much will be provided. The value can go down as well as up from year to year, thereby creating some funding risk for her organisation. Furthermore, a small but significant part of their income comes from fundraising, therefore, they require people who possess the right skills to obtain it. For the respondent, this uncertainty makes her nervous about the organisation's long term future, despite the majority of funding being effectively certain.

> "While much of the income is already assured, some depends on fundraising and donations. The contract from the local authority has been reduced by 5% for this financial year, which equates to a reduction of £12,346. This reduction in income has impacted objective 1 by reducing the target of young people supported by 5%. We will look to discuss this further with the local authority, whilst continuing to seek opportunities to generate additional income and exploring further efficiency savings, where feasible. So while the majority of our funding is certain in a sense, as we know what it is, the overall amount we receive has fallen."

Respondent SS8, like the majority of interviewees, interpreted innovation as being synonymous with technology. The majority of her responses concerning the term referred to this interpretation of it. However, she did also state the following when discussing innovation:

> "You can't be left behind and in this sector it is easy to be left behind."

Respondent SS8 was not the only interviewee to state this. She expresses concern that too many non-profits are not good enough at responding to changes and developments in the sector, meaning they end up behind the curve. She fears the divide between well developed and innovative non-profits at the top end and smaller organisations at the bottom end is enormous, relative to the differences that might exist between large and small for-profits. Large non-profits will function indistinguishably from large for-profit organisations. However, small non-profits will not keep up as effectively as small for-profits might do. Thus, a divide will exist in the sector in terms of innovation and responses to change.

8.7.5: Management Responsibilities

On management, it was found that the scope for personal ambition is reduced under the stewardship mind-set. There is a greater emphasis on collective responsibility and pursuing the organisation's objectives than in the case of agency. From the perspective of social entrepreneurship, this means that there is less scope for entrepreneurial behaviour in the traditional sense but a place for social entrepreneurship in line with how the majority of academics would describe the term i.e. it can refer to a collective effort in the name of a social cause.

Respondent SS8 is very much of the view that non-profits should provide a supportive and collaborative environment in which to work. This is done in the interests of the social mission, which should transcend considerations of personal achievement.

> "No one person should represent the organisation or the cause. That is not how this sector works."

This is not completely contradictory to what Respondent SS1 states in the previous case study discussion. In his interviews, he described how he likes to "operate by consensus"; while he will have the final decision on all matters, he would never dream of overruling the financial director on financial matters, or the IT department on technical issues. The difference appears to be motivation behind their thinking. For Respondent SS1, his operating by consensus is smart for business reasons as it ensures the strengths of individuals working in his organisation are effectively utilised and not overruled by less knowledgeable management. By contrast, for Respondent SS8, there is a collective effort amongst her organisation's employees and volunteers because that is the appropriate way to run a non-profit organisation.

8.7.6: Case Study Two - Summary

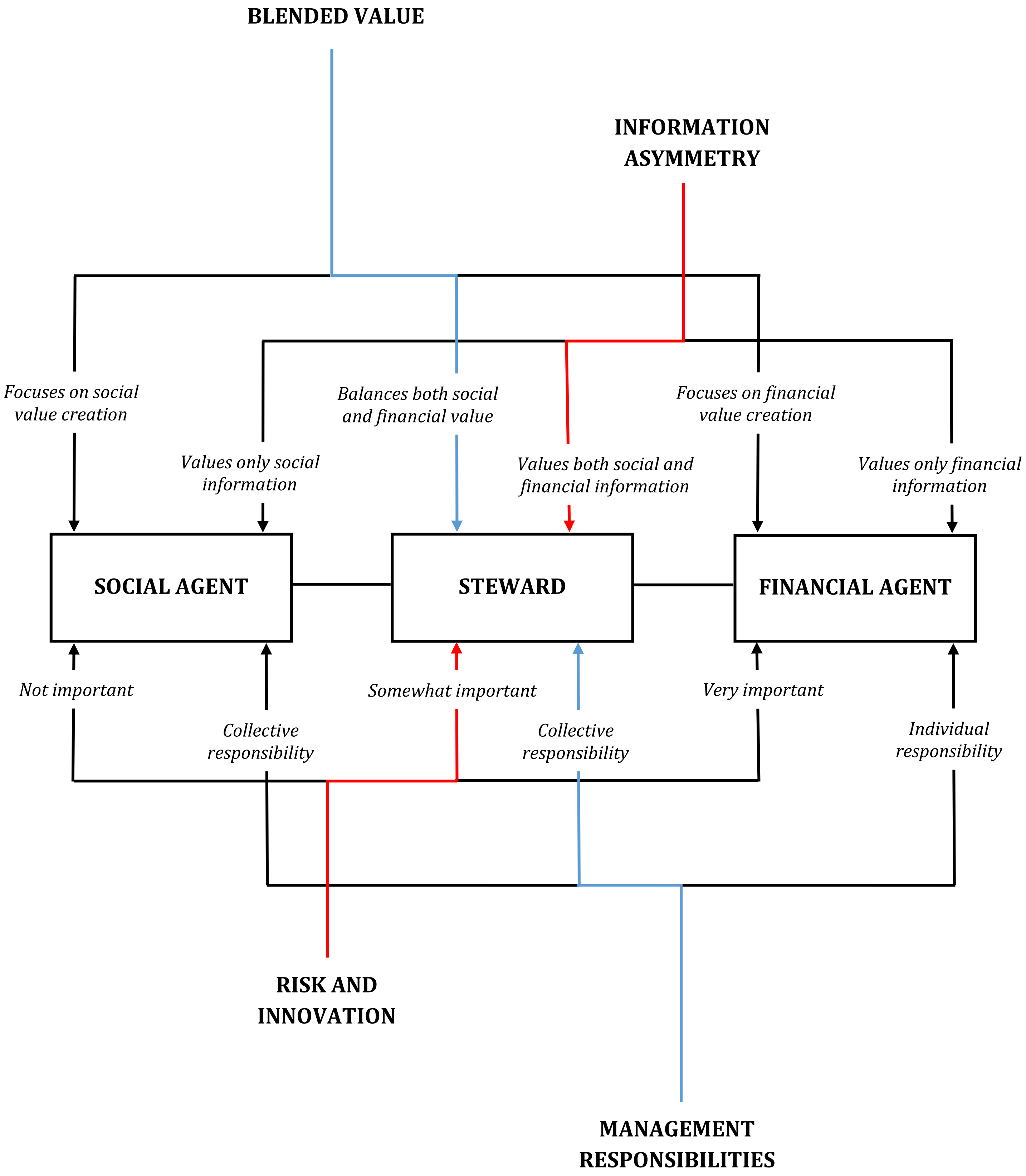
In this part, Respondent SS8's interview responses were considered. Here, the respondent's views articulate a stewardship 'mind-set'. Figure 8.3 reproduces the principal-agent model in Figure 8.1 but highlights the 'steward' characteristics relevant to the respondent, in contrast to those that were relevant to the prior case study. This is demonstrated by general support for blended value, a need to address information asymmetry, risk aversion and her collective approach to management. Her views are in stark contrast to those discussed in the previous case study, with the respondent articulating a very different way of thinking to the agency mind-set individual. Her favouring of blended value and information provision is consistent with social entrepreneurship which, depending on the definition under consideration, assumes the pursuit of both financial and social value with a heightened sense of accountability towards stakeholders. By contrast, her views on risk and innovation, the key components of entrepreneurship, contradict the nature of social entrepreneurship. This presents a mixed picture of the respondent within the context of social entrepreneurship.

8.8: Summary

In this chapter, the principal-agent model for the research was developed. This was achieved by first reviewing prior research on non-profit principal-agent theory which this research builds upon. The findings presented in Chapter 7 were then considered within the context of this theory. The created model was then presented and discussed. It was demonstrated that agency and stewardship mind-sets have a significant impact upon respondent views concerning blended value, information asymmetry, entrepreneurship and management.

Figure 8.3 shows how stewards will aim for blended value, while social and financial agents will attempt to create one type of value. However, their reasons for doing so might be because, in their view, the best way to create social value is by first ensuring financial value is created first. This was demonstrated in the first case study, where the respondent articulated that the priority is to create a sustainable organisation. On information asymmetry, it was shown that stewards are more sympathetic to addressing it than agents, valuing both financial and social reporting where possible. Agents tended to support the reporting of information consistent with their views on value creation, rather than seeing a need to report both.

Figure 8.3: Principal-agent model for stewards



On the components of entrepreneurship, risk and innovation, it was found that support for its role within the sector correlated with support for financial value. In other words, the strongest endorsements came from financial agents while the weakest came from social agents, with stewards somewhere in between the two extremes. This is consistent with the views expressed by respondents concerning financial and social value, as financial agents tended to be more open to 'for-profit' approaches and practices within the non-profit sector. Social agents, who argued against a profit motivation for working in the sector, disagreed with concepts they considered to be inappropriate for non-profit organisations. Lastly, on management, it was shown that financial agents tend towards individual responsibility, while stewards and social agents tend towards a collective responsibility point of view. Financial agents are more likely to disagree with their organisation's mission statement and act on this, relative to their counterparts. By contrast, social agents may disagree with their organisation's chosen approach but will be less inclined to act on it. Stewards are more likely to agree with the mission statement and strive towards achieving it by any means possible.

The principal-agent model presented in Figure 8.1 brings together a range of important issues, including blended value, accountability and social entrepreneurship. This model builds upon the work of prior authors who have attempted to consider the charity sector within a principal-agent framework. In the next and final chapter, the research in its entirety is summarised and concluded.

Chapter 9: Summary and Conclusion

9.1: Introduction

In this final chapter, the research is summarised and concluded. This begins by revisiting the research objectives introduced in Chapter 1, to discuss how these have been addressed. In addition, the conclusions drawn from the researches findings, discussion and model building are addressed and summarised. Limitations concerning the findings are also considered and implications for future non-profit and principal-agent research are also discussed. The final part concludes the study.

9.2: Revisiting the Research Objectives

This study sought to address a number of research questions within the context of principal-agent theory, stakeholder theory and social entrepreneurship. In line with Wiseman *et al*. (2012), who argue that agency theory can be applied beyond a for-profit context, this research demonstrates that such theories can be considered where social objectives are as important as financial ones. To answer these questions, a principal-agent model relevant to charitable organisations was developed, based on four separate components that each correspond to a research question. The research questions, first introduced in Chapter 1 and discussed in Chapters 7 and 8, are reproduced in Table 9.1, along with their corresponding principal-agent model components used for analysis.

Table 9.1: Research questions and principal-agent theory components

Question Number	Research Question	Principal-Agent Model - Component
One	How do agents/stewards balance their social objectives with financial demands?	Blended value
Two	In what ways is accountability shown within the sector?	Information asymmetry
Three	To what extent is entrepreneurship evident within the sector?	Approach to risk and innovation
Four	In what ways can entrepreneurial thinking benefit the social cause?	Management responsibilities

RQ1 addressed how agents and stewards manage social objectives with financial requirements. The corresponding principal-agent component used for analysis purposes was blended value. Respondents were asked about the importance they placed on financial and social value, relative to each other. RQ2 addressed accountability in the charity sector. Its corresponding principal-agent component was information asymmetry. Respondents were asked their views on various stakeholder groups, the types of way an account can be given and the importance of information provision. RQ3 looked at entrepreneurship and the factors related to it. This led to discussions on both risk and innovation, traditionally the two key components of entrepreneurship. Respondents were asked how relevant these are to the sector. Lastly, RQ4 asks how entrepreneurship can help achieve social objectives. This was related to how respondents approach management responsibilities. Traditional entrepreneurship studies its impact on financial value. Here, both financial and social value are considered due to the nature of the sector.

9.3: Conclusions from Findings and Theoretical Discussion

9.3.1: Overall Conclusions

A number of conclusions can be drawn from this study. First, it is clear that the 'mind-set' of respondents is relevant to their perspectives on blended value, information asymmetry, entrepreneurship and management responsibilities. The agency mind-set is consistent with individualism and personal ambition, however, this need not be to create financial value for themselves. The agency mind-set articulates that an individual pursues either financial or social value, on behalf of their organisation, in the way they feel is best. By contrast, the stewardship mind-set puts forward the view that the individual will act in line with the organisation's wishes; they will pursue social and/or financial value based on how the organisation wants it to be done. It cannot be said which of these mind-sets is most appropriate to the sector, or whether one is more effective than the other. Strengths and weaknesses exist for both agency and stewardship theories.

Finally, it was found that social entrepreneurship cannot be neatly tied to either an agency or stewardship mind-set as strengths and weaknesses lie with both. Prior research has demonstrated that social entrepreneurship is tied to blended value; the pursuit of both social and financial objectives together. Blended value is associated with a stewardship mind-set, as it refers to the creation of both social and financial value. However, the agency mind-set, based on the findings in this study, is more readily associated with individualism and 'thinking outside the box'. These qualities are often seen as entrepreneurial due to the concept's relationship with risk and innovation. The traits of social entrepreneurship can be found in both agency and stewardship and it does not easily fit one or the other; instead, the concept can be applied to both.

9.3.2: Conclusions - Research Question One

For RQ1, it was found that agents and stewards treat social and financial objectives very differently. However, it is not the case that a steward is wholly concerned with social value, while agents focus on financial value. An agency mind-set may mean an individual focuses (almost) solely on the creation of either financial or social value. The steward is more concerned with striking a balance between the two and sees the merit of doing so. This is consistent with Bacq *et al*. (2015), who first introduced the idea of agents being focused in either social or financial value while stewards attempt to balance the two. Those in favour of the concept are in line with Santos (2014), who argues that there is no distinction to be made between social and financial value. However, as was found during the first case study discussion, a focus on financial value creation does not mean that the agent is ignorant or unaware of social value creation. The respondent declared that his primary concern, from his perspective as a chief executive, is ensuring his organisation's financial viability. However, he saw social value is being best served, or created, by effective management and financial sustainability. Therefore, from his point of view, the best way to create social value is by first ensuring long term financial value.

9.3.3: Conclusions - Research Question Two

RQ2 found that accountability is facilitated in a number of ways within the sector and that there are a wide variety of stakeholders to be considered, depending on the respondents views of their importance. The result was that agents and stewards had differences of opinions on the need to address information asymmetry. Stewards were more sympathetic with the idea, arguing that it was important to provide as much information as possible to appease all stakeholders, whether they are after financial data (funders, auditors) or social information (beneficiaries, the general public). Agents, depending on their stance in RQ1 on social or financial objectives, typically saw a need only to address one of these two types of information. It is consistent that a social value creating agent will see only a need to report on their social outcomes and not the financial performance, and vice versa. Therefore, the stewardship mind-set is a better fit for stakeholder theory in its broadest form i.e. where multiple groups, no matter how they are connected, are in need of an account. The agency mind-set articulates a narrower interpretation of stakeholder theory, with only selected groups considered.

9.3.4: Conclusions - Research Question Three

For RQ3, evidence for entrepreneurial thinking was found, as well as support for the concept's application in the sector. However, support was far from uniform, with wildly different views on its relevance to non-profit organisations. Generally, respondents with an agency mind-set who favoured financial objectives and reporting voiced the strongest opinions, with some stewardship mind-set respondents offering qualified support for the concept. Some respondents argued that risk and innovation were inseparable, stating that ignoring the latter increases the former. On risk, there was a clear understanding on what the term meant and belief that it is relevant to the charity sector. However, it was generally agreed that it should be treated differently from for-profit organisations due to the repercussions of failure. 'Measured risk' was commonly mentioned; non-profits must be more cautious. Innovation was typically assumed to be synonymous with technology, with the majority of respondents not considering its broader meaning beyond that. The assumption for most respondents was that being up to date with technology meant being innovative, or at least not behind the curve. The term's more fundamental definition, concerning the adoption of new ideas and theory, were not typically addressed by respondents. However, this is a finding in and of itself; that charity sector participants consider innovation to be entwined with technology.

9.3.5: Conclusions - Research Question Four

RQ4 found that the agency mind-set allows greater scope for personal ambition. The stewardship mind-set places a greater emphasis on collective efforts in the name of the organisation and not individuals. Within this context, the agency mind-set might seem like a more appropriate fit for social entrepreneurship. However, definitions for social entrepreneurship have discussed that it differs from traditional entrepreneurship in several ways, including how different the charity sector is to the for-profit sector. Therefore, social entrepreneurship, which certainly can incorporate personal ambition and solitary efforts from individuals to create social and financial value, can also concern collective efforts between groups to create social change.

9.4: Implications for Future Research

There is significant potential for future research in non-profit principal-agent theory, accountability and practical social entrepreneurship. Prior studies, including this one, have only scratched the surface on this sector. There is scope to consider agency, stewardship and stakeholder theories, in tandem, within the third sector. For example, there is scope for research which uses the principal-agent lens but discusses the perspectives of external stakeholders (i.e. the principals) instead. This includes funders, beneficiaries and the general public. The framework presented and discussed in this study could be applied but with external stakeholders acting as the interviewees/respondents. This would help understand the complex stakeholder relationships that exist within the sector. Most prior studies, including this one, have framed this discussion from the perspective of management and internal stakeholders. Future studies could consider principal-agent theory from the perspective of other connected groups.

This study also sought to provide a contribution to both abstract and practical social entrepreneurship research. Respondents were asked for their views not only on the concept itself but also on evidence they have seen of it in the charity sector. Future studies might seek to attempt similar studies to better investigate how sector participants view and interpret social entrepreneurship. This could then contribute to a better understanding of how the introduction of entrepreneurial mind-sets benefit, or do not benefit, charitable organisations and their social objectives.

9.5: Final Concluding Comments

This study sought to shed light on principal-agent theory and social entrepreneurship in charitable organisations. A number of different theories were considered as part of the analysis, including agency theory, stewardship theory, accountability, stakeholder theory and social entrepreneurship. Components of principal-agent theory, namely blended value, information asymmetry, approach to entrepreneurship and management responsibilities, were considered within the context of agency and stewardship 'mind-sets'; a term which concerns the perspectives and ways of thinking held by interviewees in this study. In addition, literature on social entrepreneurship, social enterprise, social impact reporting, accountability, stakeholder theory and principal-agent theory was considered. The final result was a principal-agent model, based on the interview findings, which could be applied to analyse the case studies.

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Appendix A: Unstructured Interview Template

<u>Research Questionnaire</u>: Accounting, Accountability and Entrepreneurship in the Third Sector

SECTION A – You and Your Organisation

1) What is the purpose of your organisation?

2) How long have you worked in the non-profit sector?

3) How long have you worked at this organisation?

4) What is your highest level of education?

5) Do you have a professional qualification?

6) What is your role in the organisation?

7) How many years has your organisation been operating for?

8) For the most recent financial year, what were your organisation's revenues?

9) How many employees does your organisation have?

10) How many volunteers do you have?

11) Is your organisation local, national or international?

SECTION B – Agenda

1) Non-Financial/ Narrative Reporting
    a) Do you think SORP should purely serve a financial purpose or offer social reporting too?
    b) Is there a greater need in the sector for narrative reporting?
    c) Would a narrative report on activities be more valuable than a financial report for some stakeholders?

2) Identifying Stakeholders
    a) Who are the key stakeholders for non-profits?
    b) How do they exert their influence?
    c) Do they have an impact upon the organisation?

3) Accountability to Stakeholders
    a) How are third sector organisations made accountable to/ how do they discharge their accountability to stakeholders?
    b) Does this vary from stakeholder to stakeholder?
    c) What affect does this have on the way they operate; how they report?

4) For-Profits vs Not-for-Profits
    a) How do third sector organisations differ from traditional for-profit organisations?
    b) In terms of acquiring funding, how important is it to be entrepreneurial and business minded? E.g. should non-profits ever 'think like a business'?
    c) What evidence (if any) is there to suggest that entrepreneurial activity helps third sector organisations to do better?
    d) Do non-profits need to approach donors?

Appendix B: Semi-Structured Interview Template

Research Questionnaire: Accounting, Accountability and Entrepreneurship in the UK Third Sector

SECTION A – You and Your Organisation

1) What is the purpose of your organisation?

2) How long have you worked in the non-profit sector?

3) How long have you worked at this organisation?

4) What is your highest level of education?

5) Do you have a professional qualification?

6) What is your role in the organisation?

7) How many years has your organisation been operating for?

8) For the most recent financial year, what were your organisation's revenues?

9) How many employees does your organisation have?

10) How many volunteers do you have?

11) Is your organisation local, national or international?

SECTION B – Social Entrepreneurship and Fundraising

12)

1. What are the main sources of your organisation's funding?

2. In terms of acquiring funding, how important is it to be entrepreneurial and business minded? E.g. should non-profits ever 'think like a business'?

3. How important is it to build client relationships?

4. Do you have fundraising events?

5. Do you have to approach donors, or do they come to you?

6. How many employees are involved with fundraising?

13) One of the definitions of social entrepreneurship is an aim to create social and financial value using unique strategies. In other words, an individual (or an organisation) seeks to aid a social cause in ways others might not have thought of beforehand. In what ways do you think that you do something different to others?

14)

1. Two of the key components of entrepreneurship are 'risk taking' and 'innovation'. Risk taking can be thought of as acting boldly without being constrained by available resources. How relevant do you think that risk is to the non-profit sector?

2. Innovation would mean trying to keep the organisation modern and up-to-date as society and technology change. How relevant do you think that innovation is to the non-profit sector?

15) Based on these components, risk taking and innovation, would you describe yourself as being entrepreneurial?

16)

1. Would you describe your organisation as being entrepreneurial?

2. In what ways?

17)

1. How do you think entrepreneurial behaviour helps in devising new strategies?

2. Can you give an example?

18) How important do you think it is for management and accountants to be knowledgeable about the social cause itself?

SECTION C – Financial and Non-Financial Reporting

19) The Statement of Recommended Practice (SORP) is a set of standards designed to help charities produce financial statements. Their purpose is to help reflect the different needs of charitable organisations when compared with the private sector. What do you know about these recommendations?

20)

1. Along with financial data, an organisation might choose to report social objectives to its stakeholders. Social objectives might include the social cause the charity sets out to tackle, as well as additional aims such as looking to be environmentally friendly. More specifically, this might be an aim to recycle more, or seek to adopt greener forms of energy over the next five years. Does your organisation report its social and environmental objectives?

2. If so, how is this done?

21)

1. How well do you think the current reporting standards, SORP, serve non-profit organisations for social information?

2. Is there anything that you think should be covered by SORP that is not currently, particularly concerning social information?

22) What reasons do you think there is for a non-profit organisation to report its social objectives i.e. what the organisation sets out to do?

23) If non-profits report their non-financial activities i.e. their social objectives, what form should this take? Should this information be quantified in some way (to allow comparisons between organisations) or should it take the form of a qualitative report i.e. written in detailed paragraphs to describe the organisation's activities?

SECTION D – Accountability and Stakeholders

24) Who, in your view, are your organisation's key stakeholders? (For example, financial donors, the government, auditors, regulators, beneficiaries to the social cause and society in general would be described as external stakeholders).

25) Do internal stakeholders (such as staff members and volunteers) have an impact upon your organisation's activities? E.g. influence where funding is spent, how best to help the charities beneficiaries etc.

26) Do external stakeholders, such as donors, have an impact upon your organisation's activities? E.g. influence where funding is spent, the duties of staff and volunteers etc.

27) Other than financial or social reporting, does your organisation have any formalised methods of discharging accountability to external stakeholder groups? E.g. meetings, events, website.

28) When looking for information, do you think external stakeholder groups would be interested in: the annual financial report, an informal social report and the organisation's website? Which groups would be interested in each of these?

Appendix C: Entrepreneurial Questionnaire

Entrepreneurial thinking questionnaire given to all respondents at the start of interviews, before questioning began. Respondents were asked to work through this themselves, answering Yes or No to each question.

How Entrepreneurial Are You?

1) Do you work hard at things that interest you?
2) Are you a self-starter, somebody who does not need pushing?
3) Are you the sort of person who frequently has new ideas?
4) Do these new ideas usually get implemented?
5) Are you willing to put in the extra hours to get things done?
6) Have you a supportive family that does not object to you putting in those extra hours?
7) Do you usually do your own thing rather than follow the crowd?
8) Do you set yourself goals and gain satisfaction from achieving them?
9) When things go wrong do you press on regardless if you believe in what you're doing?
10) Are you fairly stable – not too many ups and downs?
11) When you don't get your own way, do you shrug it off, not bear a grudge and just get on with life?
12) Can you motivate others to work with you?
13) Are you willing to take measured risks?
14) Can you live with uncertainty about the future?
15) Are you willing to try your hand at most things?
16) Do others consider you a fairly good all-rounder?

Appendix D: Ethics Approval For Interviews

APPLICATION FORM FOR

DEPARTMENT OF ACCOUNTING AND FINANCE ETHICS COMMITTEE

Purpose	**This form applies to all investigations (other than generic applications) on human subjects undertaken by staff or students of the Department of Accounting and Finance**
Completion	**The form is designed for completion in Word, and should in any case be typed rather than handwritten. The grey-shaded text boxes on the form will expand to allow you to enter as much information as you require. Please do not alter any of the text outside the shaded areas.**
	Once completed the form should be submitted electronically to John Dunn, Ethics Convener, Department of Accounting and Finance (john.a.dunn@strath.ac.uk).
	Your form must be accompanied by a draft copy of any research instrument that you plan to use and/or an outline of any interview questions.

1. **Chief Investigator**	Name: **Thomas Neal** Supervisor's Name: **Dr Julia Smith**

2. **Title of the Investigation:**	**Exploring the Extent and Nature of Accounting, Accountability and Entrepreneurial Thinking in the Third Sector**

3. **Where will the investigation be conducted:**	**At the premises of Third Sector organisations operating within the UK, specifically, where management operate.**

4. **Objectives of investigation and methods to be used:**	**The objectives of this investigation are:** **Learn how Third Sector organisations view current reporting practices, and what they think of alternative approaches that aim to capture non-financial information.** **To better understand the role of stakeholder groups in Third Sector organisations and how they exert their influence.** **Explore the extent to which Third Sector organisations employ entrepreneurial thinking and, if so, how this differs from the profit making sector**. **This study will make use of a number of methods:** **First, secondary source data on the third sector will be examined. This will allow for greater understanding of the UK Third Sector before the primary research is carried out.** **Second, face to face interviews will be held with those working in third sector organisations to gain a greater understanding of how**

	they interpret the issues of accounting, accountability and entrepreneurial thinking. **Third, this will be supported by a questionnaire sent to non-profit organisations across the UK, the majority of which will be distributed online**.

5. **Nature of the participants:**	Do you consider it possible that participants will come to any harm or suffer any distress as a result of your study? Yes ☐ No ☒ If 'yes' please detail: -

6. **What consents will be sought and how**	Do you consider it possible that participants will have reasonable grounds to require advance notice of any questions? Yes ☒ No ☐ If 'yes' please indicate how participants will be informed of the nature of the investigation and how that will be documented: **Participants will be contacted formally by email in order to establish a date and time that is convenient to them. Where this is not possible, participants may instead by contact by telephone. Participants will also be offered the opportunity to review the topics to be covered, so that they are aware of what the study will entail. This will also allow them to consider if there are other individuals within their organisation who would be suitable for an interview.**

7. **Data collection, storage and security:**	Explain how data are handled, specifying whether it will be fully anonymised, pseudo-anonymised, or just confidential, and whether it will be securely destroyed after use. Explain how and where it will be stored, who has access to it, and how long it will be stored (NB data relating to dissertations should be retained at least until the exam board has met and agreed a mark).

Will anyone other than the named investigators have access to the data?
If 'yes' please explain.

Both interviewees and questionnaire recipients will have the option to remain completely anonymous if they choose to. The role of individuals and the name of organisations will be important for analysis; the names of participants will not be necessary for the study.

Interviews will be recorded by hand initially, before being transcribed in Word. Questionnaires gathered online will be gathered and saved, along with the transcribed interviews, on the researcher's personal computer. Paper copies of interviews and postal questionnaires will be stored securely at Strathclyde University. The data will be stored until after submission of the thesis in October 2016. No one else will have access to the data collected.

Appendix E: Interview Request Email Cover Letter

University of Strathclyde Business School

DEPARTMENT OF ACCOUNTING & FINANCE

Date:

Mr Tom Neal
University of Strathclyde
Department of Accounting and Finance
Curran Building
100 Cathedral Street
Glasgow G4 0LN

Dear XXXX

I am a doctoral student in the Accounting and Finance department at Strathclyde University, exploring the extent and nature of accounting, accountability and entrepreneurship in the UK third sector. Working with my supervisor Dr Julia Smith, my research examines a number of topics, including: the current reporting practices of non-profit organisations, stakeholders and accountability and the role of entrepreneurship. Through interviews and questionnaires, I am gathering the views of individuals who work within the sector. It is hoped that the results of this research will ultimately inform policy matters and make the running of organisations such as yours easier. Previous experience suggests that thinking about the way your organisation operates, in a structured way such as this, can be beneficial. We are happy to provide a summary report of our findings, if that would be of interest to you.

We hope that you, or a representative of your organisation, are willing to assist us with this study. This will be done at date and time that is suitable to you. We would be happy to answer any questions you have concerning the study.

Sincerely,

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The place of useful learning

THE UK Entrepreneurial University of the Year 2013/14
UK University of the Year 2012/13

Appendix F: SORP 2005 Extracts – Objectives and Performance P.8-9[2]

(d) The organisational structure of the charity and how decisions are made. For example, which types of decisions are taken by the charity trustees and which are delegated to staff.

(e) Where the charity is part of a wider network (for example charities affiliated within an umbrella group) then the relationship involved should also be explained where this impacts on the operating policies adopted by the charity.

(f) The relationships between the charity and related parties, including its subsidiaries (see paragraphs 221 to 229 and Glossary GL 50) and with any other charities and organisations with which it co-operates in the pursuit of its charitable objectives.

45 A statement should be provided confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks.

46 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to those set out in paragraph 44 (a) and (b) above. The additional disclosures of this section are encouraged as a matter of good practice.

Objectives and Activities

47 The report should help the reader understand the aims and objectives set by the charity, and the strategies and activities undertaken to achieve them. The report may also, where relevant, explain how the objectives set for the year relate to longer term strategies and objectives set by the charity. Where significant activities are undertaken through subsidiary undertakings, these should be explained in the report. In particular the report should provide:

(a) A summary of the objects of the charity as set out in its governing document.

(b) An explanation of the charity's aims including the changes or differences it seeks to make through its activities.

(c) An explanation of the charity's main objectives for the year.

(d) An explanation of the charity's strategies for achieving its stated objectives.

(e) Details of significant activities (including its main programmes, projects, or services provided) that contribute to the achievement of the stated objectives.

48 The details of significant activities provided should focus on those activities that the charity trustees consider to be significant in the circumstances of the charity as a whole. The details of activities should, as a minimum, explain the objectives, activities, projects or services identified within the analysis note accompanying charitable activities in the Statement of Financial Activities (see paragraphs 191 to 194).

49 Where the charity conducts a material part of its activities through grantmaking, a statement should be provided setting out its grantmaking policies.

50 Where social or programme related investment (Glossary GL 47) activities are material in the context of charitable activities undertaken, the policies adopted in making such investments should be explained.

51 Where a charity makes significant use of volunteers in the course of undertaking its charitable or income generating activities this should be explained. Whilst measurement issues, including attributing an economic value to such unpaid voluntary contributions, prevents the inclusion of such contributions within the Statement of Financial Activities (see paragraph 133), it is nevertheless important for readers to be provided with sufficient information to understand the role and contribution of volunteers. Such information may, for example, explain the activities that volunteers help provide, quantify the contribution in terms of hours or staff equivalents, and may present an indicative value of this contribution.

52 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to that set out in paragraph 47(a) above, together with providing a summary of the main activities undertaken in relation to those objects. The additional disclosures of this section are encouraged as a matter of good practice.

[2] http://forms.charitycommission.gov.uk/media/90634/sorp05textcolour.pdf

Achievements and Performance

53 The report should contain information that enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings in the year. It should provide a review of its performance against objectives that have been set. The report is likely to provide both qualitative and quantitative information that helps explain achievement and performance. It will often be helpful to identify any indicators, milestones and benchmarks against which the achievement of objectives is assessed by the charity. In particular, the report should contain:

(a) A review of charitable activities undertaken that explains the performance achieved against objectives set. Where qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievement should be included.

(b) Where material fundraising activities are undertaken, details of the performance achieved against fundraising objectives set, commenting on any material expenditure for future income generation and explaining the effect on the current period's fundraising return and anticipated income generation in future periods.

(c) Where material investments are held, details of the investment performance achieved against the investment objectives set.

(d) Comment on those factors within and outside the charity's control which are relevant to the achievement of its objectives; these might include relationship with employees, users, beneficiaries, funders and the charity's position in the wider community.

54 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to providing a summary of the main achievements of the charity during the year. The additional disclosures of this section are encouraged as a matter of good practice.

Financial Review

55 The report should contain a review of the financial position of the charity and its subsidiaries and a statement of the principal financial management policies adopted in the year. In particular, the report should explain the charity's:

(a) Policy on reserves (Glossary GL 51) stating the level of reserves held and why they are held.

Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure.

(b) Where any fund is materially in deficit, the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit.

(c) Principal funding sources and how expenditure in the year under review has supported the key objectives of the charity.

(d) Where material investments are held, the investment policy and objectives, including the extent (if any) to which social, environmental or ethical considerations are taken into account.

56 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to those set out in paragraph 55(a) and 55(b) above.

Plans for Future Periods

57 The report should explain the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them.

58 Charities that are not subject to a statutory audit requirement may omit this disclosure although disclosure of this matter is encouraged as a matter of good practice.

Funds Held as Custodian Trustee on Behalf of Others

59 Where a charity is, or its trustees are, acting as custodian trustees, the following matters should be disclosed in the report:

(a) A description of the assets which they hold in this capacity.

(b) The name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within their own objects.

(c) Details of the arrangements for safe custody and segregation of such assets from the charity's own assets.

Appendix G: SORP 2015 (FRS 102) Extracts – Objectives and Performance P.14, 17-19[3]

Accounting and reporting by charities

The content of the trustees' annual report required of all charities

1.14. The SORP's requirements that all charities must follow are set out in the following headings:

- objectives and activities;
- achievements and performance;
- financial review;
- structure, governance and management;
- reference and administrative details;
- exemptions from disclosure; and
- funds held as custodian trustee on behalf of others.

1.15. The headings used in the report may be amended to fit the preferences of the charity provided the information required by this module is clearly presented in the report.

1.16. Larger charities must also refer to the section 'The additional content required of larger charities' for their report to be compliant with the SORP.

Objectives and activities

1.17. The report provides information intended to help the user understand how the charity's aims fulfill its legal purposes, the activities it undertakes and what it has achieved. All charities must provide a summary of:

- the purposes of the charity as set out in its governing document; and
- the main activities undertaken in relation to those purposes.

1.18. Charities in England and Wales must also:

- explain the main activities undertaken to further the charity's purposes for the public benefit; and
- include in their report a statement confirming whether the trustees have had regard to the Charity Commission's guidance on public benefit.

1.19. The report should explain the activities, projects or services identified in the accompanying accounts. As far as practicable, numerical information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the accounts.

Achievements and performance

1.20. The report must contain a summary of the main achievements of the charity. The report should identify the difference the charity's work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society as a whole.

[3] http://www.charitysorp.org/media/619101/frs102_complete.pdf

The additional content required of larger charities

1.34. A greater degree of public accountability and stewardship reporting is expected of larger charities. Larger charities in compiling their report must meet the requirements placed on all charities as set out above and also provide the additional information detailed under the following headings:

- objectives and activities;
- achievements and performance;
- financial review;
- plans for future periods;
- structure, governance and management; and
- reference and administrative details.

Objectives and activities

1.35. Good reporting provides a coherent explanation of the charity's strategies for achieving its aims and objectives and explains how the activities it undertook contributed to their achievement.

1.36. In particular, the report of larger charities must provide an explanation of:

- its aims, including details of the issues it seeks to tackle and the changes or differences it seeks to make through its activities;
- how the achievement of its aims will further its legal purposes;
- its strategies for achieving its stated aims and objectives;
- the criteria or measures it uses to assess success in the reporting period; and
- the significant activities undertaken (including its main programmes, projects or services provided), explaining how they contribute to the achievement of its stated aims and objectives.

1.37. Larger charities in their report should also provide the user with a more detailed understanding of their short-term and longer-term aims and objectives. A charity with longer-term aims and objectives should explain how the aims and objectives set for the reporting period relate to its longer-term aims and objectives. When explaining activities, it is important for the user to understand their scale and the resources used in their delivery; for example, it may be helpful to provide details of the amount spent on, or the number of staff engaged in, undertaking a particular activity.

1.38. The report must include an explanation of the use the charity makes of the following:

- Social investment, when this forms a material part of its charitable and investment activities. In particular, the report must provide an explanation of its social investment policies and explain how any programme related investments contributed to the achievement of its aims and objectives.

- Grant-making, when this forms a material part of its charitable activities. In particular, the report must explain the charity's grant-making policy and explain how its grant-making activities contribute to the achievement of its aims and objectives.
- Volunteers, when their contribution is significant to a charity's ability to undertake a particular activity. The explanation should help the user to understand the scale and nature of the activities undertaken. However, measurement issues, including attributing an economic value to the contribution of general volunteers, prevent the inclusion of their contribution in the statement of financial activities (see the SORP module 'Donated goods, facilities and services, including volunteers').

1.39. Charities reporting on the contribution of general volunteers may provide:

- an explanation of the activities that volunteers support or help to provide; and
- details of the contribution in terms of volunteer hours or staff equivalents.

Achievements and performance

1.40. Good reporting sets out how well the activities undertaken by the charity and any subsidiaries performed and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period. Good reporting provides a balanced view of successes and failures along with the supporting evidence, and demonstrates the extent of performance and achievement against the objectives set and the lessons learned.

1.41. In particular, the report must review:

- the significant charitable activities undertaken;
- the achievements against objectives set;
- the performance of material fundraising activities against the fundraising objectives set;
- investment performance against the investment objectives set where material financial investments are held; and
- if material expenditure was incurred to raise income in the future, the report must explain the effect this expenditure has had, and is intended to have, on the net return from fundraising activities for both the reporting period and future periods.

1.42. The report should provide a balanced picture of a charity's progress against its objectives. For example, it may explain progress by reference to the indicators, milestones and benchmarks the charity uses to assess the achievement of objectives.

1.43. In reviewing achievements and performance, charities may consider the difference they have made by reference to terms such as inputs, activities, outputs, outcomes and impacts, with impact viewed in terms of the long-term effect of a charity's activities on both individual beneficiaries and at a societal level. Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations.

1.44. In reviewing its achievements and performance, the charity should include a summary of the measures or indicators used to assess performance when it provides evidence of the achievements in the reporting period. Explaining the outputs achieved by particular activities can be helpful, particularly when numerical targets have been set. Examples of such targets include the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity. However, information on activities, outputs, and outcomes (or impacts) should always be put in the context of how they have contributed to the achievement of the charity's aims and objectives.

1.45. The report should comment on those significant positive and negative factors both within and outside the charity's control which have affected the achievement of its objectives and, where relevant, explain how this has affected future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community.

Financial review

1.46. The report must also comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular the report must explain:

- the financial effect of significant events;
- where the charity holds material financial investments, the investment policy and objectives set;
- a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks; and
- any factors that are likely to affect the financial performance or position going forward.

1.47. The financial review should also explain:

- the principal funding sources of the charity in the reporting period and how these resources support the key objectives of the charity;
- the impact, if any, of a material pension liability arising from obligations to a defined benefit pension scheme or pension asset on the financial position of the charity; and
- where the charity holds material financial investments, the extent (if any) to which it takes social, environmental or ethical considerations into account in its investment policy.

1.48. The review of the charity's reserves should:

- state the amount of the total funds the charity holds at the end of the reporting period;
- identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;

Appendix H: Charity Statistics – House of Commons Briefing Paper P.3[4]

Summary

There are different estimates for the size, income and activities of the voluntary sector. According to the NCVO there were around 160,000 voluntary organisations in the UK in 2012/13. In contrast the Charity Commission estimates there were 164,000 charities in England and Wales as of 30 September 2014.

The most common activity of UK voluntary organisations was the provision of social services (18%), followed by cultural and recreational services (14%) and religious activities (8%).

The estimated income of the UK voluntary sector was £40 billion in 2012/13, according to the NCVO. Earned income contributed 56% of this total, voluntary income 37% and investments 7%. Total income has fallen, in real terms, each year since 2009/10. Alternatively, according to the Charity Commission the estimated income of charities in England and Wales was £64 billion as of 30 September 2014. Two fifths of charities earned less than £10,000 per annum.

Voluntary sector income from government was £13 billion in 2012/13, according to the NCVO. 30% of this income went to organisations performing social services, 14% to health.

Social investment is the provision of repayable finance – such as various loan types, mortgages and other secured investments – to charities and social enterprises in order to fund social as well as financial returns. Social investment was central to the government's conception of the Big Society. In 2011/12 the market was valued at £202 million. 756 investments were made by 29 existing social banks or other investor types. Of these organisations, four social banks accounted for 82% of market value.

In 2014/15 the National Lottery granted £1.9 billion to its good-causes distributors. This included £0.3 billion to the Arts, £0.4 billion to Sports, £0.3 billion to the Heritage Lottery Fund and £0.8 billion to the Big Lottery Fund. According to the NCVO, the National Lottery accounted for about 1.2% of UK voluntary sector income in 2012/13.

75% of adults in England had, in 2014/15, given to charity in the four weeks prior to survey. Of those who had given to charity, 17% had given less than £4 and 14% over £50. Around £7.0 billion was received from donations, gifts and legacies by the UK voluntary sector in 2012/13.

In 2014/15 approximately 47% if adults in England volunteered at least once a month on either a formal or informal basis.

[4] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05428