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Charity performance reporting, regulatory approaches and standard-setting

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ABSTRACT

Internationally, there are strong calls for charities' formal annual reporting to include non-financial performance information. Without the international standards common in other sectors, national accounting standard-setters often regulate charities' reporting. Lacking evidence on approaches to encouraging/mandating charity performance reporting, and the effectiveness of these approaches, we ask: "How have different jurisdictions responded to calls for increasing performance reporting?"

We conduct a benchmarking study that indicates differences in current reporting practices between Australia, New Zealand, the United Kingdom and the United States. By discussing both current regimes and proposed projects, we develop and illustrate a typology of regulatory approaches to performance reporting. These range from command and control, where standard-setters mandate specific performance reporting standards, through to market regulation, where charities and/or sector bodies acting as regulatory entrepreneurs determine what is to be reported. Between these extremes, the typology describes new governance approaches, with standard-setters partnering and collaborating with other actors. These approaches lead to different requirements with potentially significant implications for performance accountability in the respective jurisdictions. We argue that our regulatory typology contributes useful insights for the many jurisdictions grappling with how to regulate their charity sector and encourage performance reporting.

1. Introduction

Increasingly, charities in many countries are subject to regulation. A key purpose is to increase the public's trust and confidence and therefore, to increase philanthropy (Cordery et al., 2017). In order to ensure this trust is not misplaced, among other actions, governments and regulators require annual reporting by charities, often drawing on accounting standards that regulate such reporting. Hence, the development of reporting requirements and recommendations sits at the intersection of accounting and public policy.

In for-profit entities, the financial result is the primary signal of performance to the providers of capital, however this is not the case in charities (Kendall and Knapp, 2000). Providers of funds to charities usually do so in expectation not of personal benefit, but of positive impact on society and the lives of beneficiaries. Accordingly, charity accountability requires not merely financial accountability, but also accountability for their performance towards mission (Cordery and Sinclair, 2013; Dhanani and Connolly,

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2012). Therefore, there has been an increasing interest, over a number of years and internationally, for charities to 'tell their story' in terms of their performance, in addition to traditional financial (accounting) disclosures (Connolly and Hyndman, 2003; Cordery and Sinclair, 2013). Support for such an approach is evidenced by 72% of respondents to an international study stating that performance reporting should be included in any international accounting standards developed for charity reporting (Crawford et al., 2014).

Despite a strong rhetoric in support of performance reporting, such information is not necessarily included in publicly-available annual reports (Hyndman and McConville, 2018, 2016; Morgan and Fletcher, 2011). There may be a disconnection between advocated benefits of performance reporting and charities' challenges, which are seldom aired in public (MacIndoe and Barman, 2013; McConville, 2017). Standard-setters' differing approaches to encouraging or mandating charities to report on their performance, and the effectiveness of these approaches, have not been previously explored. This is an important research topic, as Sunder (2016) suggests that even developing 'better' financial reporting can be challenging due to different approaches to quality. Therefore, we assume that the development of standards for non-financial reporting will also face challenges.

In this paper we ask, 'how have different jurisdictions responded to public calls for increasing performance reporting?' Our response is twofold: firstly, we conduct an exploratory, benchmarking content analysis which highlights differences in current reporting practices in the four jurisdictions under study: Australia, New Zealand (NZ), the United Kingdom (UK) and the United States (US). Among these Anglo-American jurisdictions, only the UK currently mandates performance reporting and our empirical data identifies more extensive, more transparent, performance reporting in this jurisdiction than in any other. We then conduct a cross-jurisdictional analysis of current and proposed regulatory projects on performance reporting. Combining this with literature on regulatory approaches and the charity sector, we develop and illustrate a typology of regulatory approaches. As noted by Morley (2016) 'bad rules' can emerge from standard-setting and therefore the regulatory approach is important to ensure that reporting improves, rather than declines in quality. Our typology contributes both to regulatory theory and to practice by showing the impact of regulatory policy on this emerging area of performance reporting.[1]

This paper continues as follows. Following an introduction to performance reporting, why it is important and the challenges it brings (Section 2), we explore the previous literature on regulatory approaches and the charity sector (Section 3). The method and our benchmarking study of current reporting practice follows in Sections 4 and 5. The discussion and conclusions are presented in Sections 7 and 8, and include limitations and opportunities for further research.

2. Charity performance reporting

2.1. Exploring charity performance reporting

Charity performance has been explained using production terms: receiving inputs and carrying out a process to produce outputs, with these outputs having a broader outcome, impact or result. Inputs are defined as the resources used in providing products or services, including monetary cost or staff hours (Connolly and Hyndman, 2003). Outputs are the immediate or direct products and services generated by the organisation, such as the number of children fed, or research projects completed (Connolly and Hyndman, 2003).[2] Outcomes, and the associated terms of results and impact, describe the impact or effect of charitable activities on individual beneficiaries or groups, or on society as a whole (Connolly and Dhanani, 2009). These can be referred to as individual and societal outcomes (Hyndman and McConville, 2018). Based on this production model, efficiency is described as the relationship or ratio between inputs and outputs, while effectiveness compares what has been achieved (either in terms of outputs or outcomes) to the objectives that were previously set (Connolly and Hyndman, 2003). Similar bases are often used in large funders' monitoring frameworks: referred to as 'intervention logic', 'results-based accountability' (RBA) and 'logical frameworks' (logframes) (Cordery and Sinclair, 2013) or 'theory of change' approaches (Inspiring Impact, 2013).

Beyond the production model, conversion ratios have long been used as proxies for efficiency, expressing charitable activity, fundraising or administration/support/governance costs as a proportion of total costs or revenue (or cost per dollar raised for fundraising cost ratios) (Tinkelman, 1998; Tinkelman and Mankaney, 2007). Recent years have also seen greater experimentation with single measure valuation methods, including social return on investment (SROI) and contingent valuation (Lyon and Arvidson, 2011). Some larger charities have used balanced scorecards based on multiple measures and dimensions of performance as a means to control performance (Saj, 2013; Tucker and Thorne, 2013). It is important that users of performance reporting understand what these measures mean and how they are calculated.

2.2. Importance and challenges of public reporting on performance

As indicated, charities in many jurisdictions have faced calls to publish information on their performance. Often these calls suggest that such information is useful to, and demanded by, the range of stakeholders on which charities depend to carry out their charitable mission. As examples, performance information has been suggested as being useful to those making substantial funding decisions (Lumley et al., 2011), as well as smaller donations (Tinkelman and Mankaney, 2007). Research shows that donations are positively influenced by impact-related information (McDowell et al., 2013) and conversion ratios (Tinkelman, 1998). Surveys of the general public (who may also be beneficiaries, donors and taxpayers) across a range of jurisdictions also indicate the importance of

[1] Such a typology could also be applied to other areas of not-for-profit regulation, for example, governance disclosures.

[2] Examples of these and other measures are provided in Table 1.