THIRD SECTOR ACCOUNTING AND ACCOUNTABILITY IN AUSTRALIA:

ANYTHING BUT A LEVEL PLAYING FIELD

Abstract

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All entities in Australia have to comply with the disclosure requirements of the Australian Accounting Standards Board. However, the privilege accorded to some NFPs exempts them from any duty of general disclosure. Most NFP entities make voluntary disclosures above and beyond their basic statutory obligations. The research which the presenters have begun is designed to find out what are the factors that drive additional disclosure to be made.

After a search of the disclosure literature in the commercial sector, we found institutional and stakeholder theories to offer the greatest promise of insight, partly because their applicability is not dependent on any one governance or managerial structure.

The presentation will convey the key findings in the desk research and will outline the design of the empirical phase and seek feedback on our proposed hypotheses and their testing.

INTRODUCTION

This paper surveys previous work on voluntary information disclosures in accounting reports of Australian Not-for-Profit organisations (NFPs). This is new research and is a part of a project to evolve a comprehensive explanation of why Australian NFPs disclose what they do disclose; and to capture and explain patterns of variations between NFPs between what they regard to disclose and the type of information they disclose.

To accomplish this, first some background information about the NFP sector are considered. Then, the Australian NFP sector is reviewed. Third, the information needs of some key stakeholders are briefly discussed. Next, the research methodology where a literature survey which looks at not just disclosures to NFPs but to the commercial sector that are plausibly relevant to the NFP sector as well is outlined, followed by a conclusion.

Background Information

Over the past few years, public interest in the Not-for-Profit (NFP) sector has increased. First, different stakeholders have become more aware of the economic and social importance of the sector (UN 2003). Second, there have been a lot of concerns about the accounting methods adopted by NFPs (Weinstein 1978; Bird & Morgan Jones 1981; Newberry 1993); their reporting practices (Najam 1996; Edwards & Hulme 1996; Brown & Moore 2001; Goetz & Jenkins 2002; Ebrahim 2003a, 2003b, 2005) and the extent to which NFPs are transparent and accountable (Chetkovich & Frumkin 2003; Ebrahim 2003a; Szper and Prakash 2011) about their expenditure allocation between their mission and other expenses such as administration and fundraising (Hager & Flack. 2004; Gettler 2007; Gonzalez 2010). Third, in recent years, the NFP sector has experienced high profile scandals relating to the misappropriation of funds (Brody 2001; Beattie et al.2002; Home Office 2003; Charity Commission 2004), raising concerns about the accountability and the transparency of the sector (Ryan & Irvine 2012). Another factor which has attracted attention to the NFP sector is the absence of sector consistent reporting and disclosures guidelines (The Age 2013). The main concerns raised by NFPs' stakeholders are fraud and financial crime (ACNC 2013). These concerns have adversely affected trust and confidence in NFPs (Ebrahim 2003a; Chetkovich & Frumkin 2003; Szper & Prakash 2011) in terms of how effectively and efficiently these organisations employ their contribution income to maximise their mission-related outputs (Choice 2008; Australian Government Productivity Commission 2010; Rowley 2011; Charities Aid Foundation 2011).

AUSTRALIAN NFP SECTOR

Definition of NFPs

In Australia, NFPs do not have a clear and tight definition. Effective from 1 January 2014, the Charities Act 2013 (Cth) in Australia defined charities but not NFPs. Attempts to broadly define NFPs, in Australia, have been made by some of the main regulators in Australia. The AASB states that a NFP is 'an entity whose principal objective is not the generation of profit' (AASB 2010; Aus. 6.1). The ABS identifies a NFP as a legal or a social organisation which has been created to produce particular goods or services, and which has a non-distribution constraint, that is, it cannot distribute 'income, profit or financial gains' with those entities which establishes, controls or finances it (ABS 2008). Australian Charities and Not-for-Profits commission (ACNC) defines a NFP as an organisation whose main objective is not the generation of economic gains or financial benefits for its members, managers or the members' and managers' acquaintances, while it is in operation or when it winds up. A NFP can make economic surpluses, and any profit generated must be used exclusively to serve its charitable mission (ACNC 2014).

NFP Resources

NFPs need resources to be able to maintain their operational sustainability (Bac & Bag 2003). To attract resources, NFPs engage in fundraising activities (Bendapudi & Bendapudi 1996; Hibbert & Horn 1996; Billitteri 2000). Fundraising is a competitive process (Groom 1995; Hibbert & Horn 1996; Mathur 1996; Sargeant, 1999; Louie & Obermiller, 2000; Shelley & Polonsky, 2002) which requires NFPs to make themselves appealing to donors by adopting some practices similar to the commercial sector (van Niekerk 2007): gather information about the donors (current and potential), attract them, and form relationships with them (Maple & Murdock 2013). In this process, most NFPs devote an enormous proportion of their resources to fundraising activities (Kelly 1997; Aldashev & Verdier 2010; Huck & Rasul 2011). To ensure enough resources are devoted to mission-related activities, stakeholders pressurize NFPs to demonstrate accountability (Ebrahim 2003a; Gettler 2007; Tinkelman & Donabedian 2009; Australian Government Productivity Commission 2010; Cordery & Baskerville 2011; Valentinov, 2011; van der Heijden, 2013).

NFPs & Accountability

In the third sector, accountability is not clearly defined (Munro & Mouritsen 1996; Ebrahim 2003a, b; Geer et al. 2008) and can have different interpretations (Sinclair 1995; Ebrahim & Weisband 2007; Alexander et al. 2010). In general, accountability of the NFP sector refers to the need to provide information on the activities of the NFP and on how well the organisation has achieved its stated objectives (Connolly et al. 2011). Accountability can be considered in terms of how well the NFP responds to its key stakeholders' information needs (Connolly et al. 2013). A NFP's accountability level directly affects its stakeholders' trust level (Stewart 1984; Lawry 1995; Tinkelman & Donabedian 2009; Alexander et al. 2010), its credibility and its stakeholders' ability to make informed decisions (McGann & Johnstone 2006). To ensure the efficient use of resources, accountability should be provided irrespective of whether stakeholders use the information or not (FASB 1980; Kilcullen et al. 2007).

Accountability can be discharged in several ways (Ryan & Irvine 2012b), but the most common method is producing financial reports (Mulgan 1997; Kilcullen et al. 2007) which enable stakeholders to evaluate the activities of the NFP (Buckmaster et al. 1994; Buckmaster 1995; Mulgan 1997; Gordon & Khumawala 1999; Charity Commission 2004; Flack & Ryan 2005; Greenlee & Tuckman 2007; Kilcullen et al. 2007). NFPs are required by Financial Accounting Standard (SFAS) No. 117 and Statement of Financial Accounting Concepts No. 1, to produce financial reports which address the information needs of its financial statement users (FASB 1978) with adequately broad and adequately justified explanations of the NFP's actions in the period (Connolly & Hyndman 2004; Beattie et al. 2004; Connolly & Dhanani 2009; Agyemang et al. 2009; Jetty & Beattie 2009; Cordery 2011; IIRC 2011).

Reporting and disclosure requirements for NFPs in Australia

Much attention has not been given to the reporting and disclosure requirements of the third sector in Australia (Palmer 2013). Unlike the accounting standard setting bodies in the USA, UK and Canada, the standard setters in Australia have not created separate reporting standards for the NFP sector (Leo 2000; Cummings et al. 2007). The Australian accounting standard setters maintain a sector-neutral approach. This means that the reporting guidelines introduced by the Australian Accounting Standards Board (AASB) are used for financial reporting purposes by all reporting entities (Palmer 2013), making no distinction between profit maximisers and non-profit seekers (Van Staden & Heslop 2009; McGregor 1999; Sinclair & Bolt 2012).

NFP's fundraising and reporting requirements vary between states and territories in Australia (Flack 2007), as shown in the tables below:

Table 1: State and territory fundraising legislation and regulators

Jurisdiction	Legislation	Regulator
New South Wales	Charitable Fundraising Act 1991 Lotteries and Art Unions Act 1901	Office of Liquor, Gaming and Racing
Victoria	Fundraising Appeals Act 1998 Gambling Regulation Act 2003	Consumer Affairs Victoria Victorian Commission for Gambling Regulation
Queensland	Collections Act 1966 Charitable and Non-Profit Gaming Act 1999	Office of Fair Trading Office of Gaming Regulation
South Australia	Collections for Charitable Purposes Act 1939 Collection for Charitable Purposes Act 1939 — Code of Practice Lottery and Gaming Act 1936	Office of Liquor and Gambling Commissioner
Western Australia	Charitable Collections Act 1946 Gaming and Wagering Commission Act 1987	Department of Commerce Office of Racing, Gaming and Liquor
Tasmania	Collections for Charities Act 2001 Gaming Control Act 1993	Consumer Affairs and Fair Trading Tasmanian Gaming Commission

Australian Capital Territory	Charitable Collections Act 2003 Lotteries Act 1964	Office of Regulatory Services ACT Gambling and Racing Commission
Northern Territory	Gaming Control Act 1993	Racing, Gaming and Licensing Division, Department of Justice

Source: Productivity Commission, Contribution of NFP Report 2010: 137; ATO 2009

Table 2: Main NFP entity legislation and regulators across

Jurisdiction	**Legislation**	**Regulator**
Commonwealth	Corporations Act 2001 Corporations (Aboriginal and Torres Strait Islander) Act 2006	Investments Commission Office of the Registrar of Indigenous Corporations
New South Wales	Associations Incorporation Act 1984 (Associations Incorporation Act 2009 was passed in March 2009 and will come into operation in early 2010) Cooperatives Act 1992	Office of Fair Trading
Victoria	Associations Incorporation Act 1981 Cooperatives Act 1996	Consumer Affairs Victoria
Queensland	Associations Incorporation Act 1981 Cooperatives Act 1997	Office of Fair Trading

South Australia	Associations Incorporation Act 1985 Cooperatives Act 1997	Office of Consumer and Business Affairs
Western Australia	Associations Incorporation Act 1987 Companies (Cooperative) Act 1943 Cooperative and Provident Societies Act 1903	Department of Commerce
Tasmania	Associations Incorporation Act 1964 Cooperative Act 1999	Consumer Affairs and Fair Trading
ACT	Associations Incorporation Act 1991 Cooperatives Act 2002	Office of Regulatory Services
Northern Territory	Associations Act 2003 Cooperatives Act 1997	Consumer and Business Affairs

Source: Productivity Commission, Contribution of NFP Report 2010: 116; ATO 2009

STAKEHOLDER THEORY

Stakeholder theory argues that organisations owe certain responsibilities to different stakeholder groups (Freeman & Reed 1983; Goodpaster 1991; Donaldson & Preston 1995); where a stakeholder represents an organisation, a group or an individual with direct interests in the entity's activities (Donaldson & Preston 1995) and who is able to influence or be influenced by those activities (Freeman 1984; Donaldson 1999; Friedman & Miles 2002; Palmer 2013).

An organistion owes two types of accountability to its stakeholders: upward and downward accountability (Christensen & Ebrahim 2006; Unerman & O'Dwyer 2006; Kreander et al. 2009). In upward accountability, the dominance (power, legitimacy and urgency) is with the stakeholders to whom the organisation is accountable (Najam 1996; Sinclair 1995; Ebrahim 2005; Christensen & Ebrahim 2006). Downward accountability is owed less formalised discretionary stakeholder groups who have legitimacy but no power or urgency (Mitchell et al. 1997; Ebrahim 2005; Christensen & Ebrahim 2006; Kilby 2006; Unerman & O'Dwyer 2006; Barman 2007).

NFPs have different stakeholder groups with different objectives (Balser & McClusky 2005) and information needs, as discussed below.

Resource Providers

Resource providers refer to one key stakeholder group (Gras & Mendoza-Abarca 2014). The latter includes a range of other subgroups which provide resources to a NFP, such as private donors, charitable organisations, the state and trusts (Hyndman & McMahon 2010). Donors are interested in information related to the mission-related output generated by a NFP (Edwards & Hulme 1995; Salamon & Anheiner 1997; Greenlee & Brown 1999; Trussel & Parsons 2008; Khumawala et al. 2010; Gandia 2011) and how the organisation expenses its collected income (Ebrahim 2003a, b; Keating & Frumkin 2003; Schaefer 2004) to make future donation decisions (Hyndman 1990; Saxton et al. 2012).

Volunteer and Employees

Volunteers and employees use disclosures to assess the legitimacy of the NFP’s activities and to make future decisions about their volunteer and employment services to the organisation (Huck et al. 2009).

Government

Government relies on NFPs for the provision of some public goods and services (Shergold 2011). The state funds NFPs to support their mission-related activities (Smyth 2008). In 2007/08 the government funded 75% of the community and welfare services provided by NFPs in Australia (ACOSS 2009). NFPs owe accountability to the Government as they have a duty to make decision-useful information available to their contributors including the public sector (Institute of Chartered Accountants of New Zealand 1999).

The government might also be a regulator or standard setter of important legislations like the Charities' Act (Hyndman & McMahon 2010). As a regulator, it needs information about the NFP's activities to assess how potential changes in policies and regulatory arrangements might affect the NFP market, the society and the economy as a whole (ACNC 2013).

Members

In Australia, irrespective of its corporate structure, a NFP can have a board, of any size and the board is managed by board members or any other person involved in running the organisation (ACNC Act (Cth) 2013). Most NFP board members take the position on a voluntary basis (CCPA 2008). As part of their common roles, board members give direction to an organisation (Joint Committee on Corporate Governance 2001). Members need information which enables them to identify and assess the effectiveness of the strategies adopted to achieve the organisation's mission (Bart & Deal 2006).

METHODOLOGY

Research Questions

The main research question is: *What factors are associated with the accounting disclosures adopted by Australian NFPs, in their annual reports?* This focal question implies a list of sub-questions, as follows*: Are accounting disclosures in NFPs' annual reports affected by*

(1) factors created by the sector in which the NFPs operate?

(2) the allocation of resources to different expenditure items?

(3) factors determining the characteristics of individual NFPs?

From these questions we posit the hypotheses below.

Hypotheses

Legitimacy Theory

NFPs need to legitimise its activities, to ensure its long term survival and the support of its constituencies (Roberts 1991; Lindblom 1994). To legitimise their operations, organisations adopt behaviours and practices which align with society's expectations, beliefs and norms (Anderson 2013).

Stakeholders use the information produced by the media to compare an organisation's actual performance with expected performance (Suchman 1995) and to decide whether to maintain or withdraw their support to that organisation (Zuckerman 1999; Pollock & Rindova 2003; Kennedy 2008; Jonsson et al. 2009; Desai 2011). Accordingly, the first hypothesis is developed as follows:

H1: The greater the media attention to a NFP entity, the greater will its volume of disclosures be.

Institutional Theory

Organisations which share one business environment, end up adopting similar practices and become isomorphic to each other (Kostova & Roth 2002; Claeyé & Jackson 2012). In terms of accounting disclosures in annual reports, isomorphism implies similarity in and standardisation of reporting practices rather than diversity (Roberts & Greenwood 1997). In the NFP sector, organisations are influenced by institutional pressures, given the ambiguity about how to measure mission-related outputs (Zorn et al. 2011). Some NFPs' mission statements tend to resemble the mission statement of other organisations in the industry (Peyrefitte & David 2006; White & Dandi 2009) in trying to legitimise their activities (Suchman 1995).

Based on these arguments, the next hypothesis is:

H2: Isomorphism can be seen to drive the content and style of the annual reports of different NFPs operating in similar contexts to converge over time.

Impression Management Theory

Organisations influence stakeholders' perceptions about their performance by using disclosure tactics (Nagy et al. 2012; Brennan & Merkl-Davies 2013), such as using narratives, to communicate their financial information (Spear & Roper 2013) and to misrepresent the performance of the organisation to mislead key stakeholders (White & Hanson 2002; Aerts 2005; Skaerbaek 2005; Merkl-Davies & Brennan 2007; Brennan et al. 2009; Merkl-Davies et al. 2011). NFPs sometimes produce Income Statements, Balance Sheets and explanatory notes, as a marketing tool rather than as a means of being transparent (Hines & Jones 1992; Burger & Owen 2010).

These arguments lead to the next two hypotheses:

H3: The greater the proportion of NFP expenses devoted to marketing, fundraising and PR in its accounts, the higher the proportion of impression management disclosures.

H4: The lower the proportion of NFP expenses devoted to mission-related activities in the accounts, the lower the proportion of impression management disclosures.

Resource Dependency Theory

An organisation's ability to survive depends on its ability to raise funds and to attract resources (Pfeffer & Salancik, 1978); which in turn is dependent on its ability to interact with different stakeholders (Barringer & Harrison, 2000).

NFPs might window-dress financial reports to attract donation inflows (Trussel 2003; Jegers 2009), and/or might modify their mission statement (Kelly 1998) to appear more attractive to salient stakeholders (Boris & Odendahl 1990). Stakeholder salience refers to the importance an organisation attributes to its different stakeholders and the priority it gives to the claims of each stakeholder group (Mitchell et al. 1997; Neville et al. 2011).

These arguments lead to the next hypothesis:

H5: The content and style of a NFP's report is demonstrably affected most by the stakeholder providing the most financially valuable resources.

Stewardship Theory

Managers have stewardship duties (Paton & Littleton 1940; Ijiri 1975); and they have a 'high identification' with the organisational mission (Caers et al. 2006; Van Puyvelde 2012). Managers act in principals' best interests (Davis et al. 1997). Stewards display their performances by making disclosures (Block 1993) to align their goals with different stakeholders' objectives and to foster long-term relationships with them (Davis et al. 1997; Van Slyke 2007; Wong 2007).

The next hypothesis is:

H6: The greater the explicit emphasis in a NFP's report on the stewardship aspect of its managerial duties, the higher the volume of disclosure in the report will be.

Agency Theory

An agent (the manager) is expected to act in the best interest of the principal (the owner), but use inside information and disclosure practices which promote their self-interests (Kitching 2009; Carey et al. 2013), that is, engage in earnings management (Jegers 2013), to the principals' detriment (Jensen & Meckling 1976; Watts & Zimmerman 1986).

Unlike individual donors and beneficiaries who might not be easily identifiable principals, institutional donors, is a clearly identifiable principal group. Institutional donors are considered to be principals of a NFP because they provide resources to support the causes promoted by the organisation. The most important sources of income to NFPs are donations and state funding (Marudas & Jacob 2010 state as a major principal implies reduced volumes of disclosures given that Government has the ability to access and request inside information.

The presence of faith-based affiliations also affects disclosure behaviours of a NFP. Faith-based NFPs include both religious organisations and those which are not mainstream religious entities (Yasmin et al. 2013). Principals (resource providers, beneficiaries and society at large) presume that, in faith-based NFPs, agents (managers) have enough financial responsibility to not provide full accountability of their activities (Mohon 1999; Irvine 2002); and not be required to demonstrate accountability (Irvine 2002).

These arguments imply:

H7: The greater the level of government control and sponsorship, the lower the volume of disclosure by the NFP.

H8: A NFP with religious identities will have lower volumes of disclosures compared to a NFP without religious affiliations.

Governance

Steane & Christie's (2001) work demonstrate that governance literature applies to the NFPs. The board members of NFPs can be grouped in two main categories: insiders and outsiders (Romano 2013). Insiders are the executive managers employed by the NFP and, are directly involved in the daily activities of the entity (Baysinger & Hoskinsson 1990). Outside members refer to independent or non-executive directors who are not affiliated with the organisation in any form other than as directors (Clifford & Evans 1997; Romano 2013).

Non-executive directors have limited access to inside information, unlike executive directors, and are less likely to be involved in earning management Outside directors are more likely to encourage disclosures through greater monitoring (Fama 1980; Fama & Jensen 1983; Adams & Hossain 1998; Peasnell et al. 2000; Klein 2002; Cheng & Coutenay 2006).

The next hypothesis is:

H9: The higher the proportion of outside directors, the higher the volume of disclosures.

Exploratory Model

Based on the hypotheses developed in the previous section, an exploratory model is conceptualised as:

Accounting Disclosures = (Impression management disclosures, legitimacy pressures, institutional forces, resource dependency, stewardship responsibilities, agency influences, governance characteristics) + e ... (1)

$$= \mu + \lambda 1 \text{ IMD} + \lambda 2 \text{ CONSTY} + \lambda 3 \text{ DISCVOL} + \varepsilon \qquad \text{... (2)}$$

The variables in this model are specified as:

$$\text{IMD} = \alpha + ß1 \text{ FUNDRAT} + ß2 \text{ PROGRAT} + e \qquad \text{… (3)}$$

Where,

IMD = Proportion of Impression Management Disclosures

FUNDRAT = Fundraising Ratio

PROGRAT = Program Ratio

$$\text{CONTSTY} = \alpha + ß1\text{STAKESAL} + ß2 \text{ ISOMOR} + e \qquad \text{… (4)}$$

Where,

CONTSTY = Reports' contents and style

STAKESAL = Stakeholders' Salience

ISOMOR = Isomorphic pressures

$$\text{DISCVOL} = \alpha + ß1\ \text{MEDIATT} + ß2\ \text{STEWDU} + ß3\ \text{GOVTCTSP} + ß4\ \text{RELIND} + ß5\ \text{ROLEDL} + ß6\ \text{OUTDIR} + \varepsilon \qquad \text{…(5)}$$

Where,

DISCVOL = Volumes of disclosures

MEDIATT = Level of media attention

STEWDU = Level of stewardship emphasis on managerial duties

GOVTCTSP = Level of government control and sponsorship

RELIND = Religious Identities

ROLEDL = Role Duality

OUTDIR = Proportion of outside directors

So the exploratory model in its expanded format would be:

$$\text{Accounting Disclosures} = \mu + \lambda 1\ \text{FUNDRAT} + \lambda 2\ \text{PROGRAT} + \lambda 3\ \text{STAKESAL} + \lambda 4\ \text{ISOMOR} + \lambda 5\ \text{MEDIATT} + \lambda 6\ \text{STEWDU} + \lambda 7\ \text{GOVTCTSP} + \lambda 8\ \text{RELIND} + \lambda 9\ \text{OUTDIR} + \varepsilon \qquad \text{…(6)}$$

VARIABLES

Dependent Variables

IMD

IMD refers to the proportion of impression management disclosures. This variable is gauged using content analysis (Merkl-Davies et al. 2011; Schleicher 2012) and DICTION (Parhankangas & Ehrlich 2014)

DISCVOL

DISCVOL refers to the volume of disclosures in a report. Different metrics are used to calculate an overall index of volumes of disclosures (Zainon et al. 2012). These measures include content analysis (Dagiliene 2010), assessment of the presence or absence of specific information (Dhanani & Connolly 2012), number of sentences and pages (Dagiliene 2010) and a seven-point weighting scale (Atan et al. 2010; Whittaker 2013).

CONSTY

CONSTY represents a report's contents and style of a report. This variable is quantified using content analysis (Dagiliene 2010; Babnik et al. 2014), a nominal scale, DICTION (Broberg et al 2010; Davis et al. 2012), and Fog Index (Lehavy et al. 2011; Loughran & McDonald 2011).

Information Source:

Annual reports being the principal reporting mechanism used by organisations (Dhanani & Connolly 2012), is the main source of information to quantify the above dependent variables. Non-financial information are as important as financial information (Flack 2007; Cummings et al. 2010), and hence will be considered as well when measuring different variables. Survey questionnaires are used to determine the weights to assign to different disclosure items when measuring volumes of disclosures. University students will serve as proxy for donors in this data collection process, following McDowell et al. (2013).

INDEPENDENT VARIABLES

FUNDRATIO

FUNDRAT is used to represent resources devoted to marketing, fundraising and PR, given that all these three expenditure items are part of the expenses incurred to build the brand image of a NFP. The fundraising ratio is the total amount of expenses which are devoted to raise funds divided by the total funds raised by the organisation (van der Heijden 2013):

Fundraising Ratio = Total Fundraising Expenses / Total Revenue *(Tinkelman 1998)*

PROGRAT

PROGRAT, on the other hand, represents the proportion of resources, a NFP devotes to its mission-related activities. The program ratio refers to the proportion of resources spent on the organisation's mission to total expenses (van der Heijden 2013) and is calculated as:

Program Ratio = Program-related expenses/Total Expenses *(Im 2011)*

Information Source

Fundraising and program ratio are calculated based in annual report information.

ISOMOR

ISOMOR represents isomorphic pressures and is determined using an overall index of coercive, mimetic and normative isomorphism (Leiter 2013).

Coercive isomorphism will be gauged using a binary scale of partial measures related mainly to a strong influencer in the form of unionised labour or major resource provider. Mimetic isomorphism is measured using proxies such as decline in performance, levels of changes and goal ambiguity (Leiter 2013). Normative isomorphism is calculated using two indices: proportion of trained managers within the NFP and proportion of managers involved in professional communities (Papadimitriou & Westerheijden 2011).

Information Source

The main sources of data for coercive isomorphism are Australian sector neutral accounting guidelines, annual reports and surveys. Mimetic and normative isomorphisms are measured using information collected from a survey emailed to NFP managers. Mimetic isomorphism is also assessed using annual reports.

MEDIATT

MEDIATT measures the level of media attention. This variable will be quantified using two factors: extent to which the industry is covered in the media and the extent to which the media uses positive and negative language with respect to the industry. The first factor is calculated as follows:

$$\text{Media Coverage Index}_{i,n} = \text{Actual Media Coverage}_{i,\,n} / \text{Total Media Coverage}_{n}$$

where,

i = the industry where the NFP operates

n = 1,2,3…..n, representing different time periods, (Desai 2011).

The second factor indicates the extent to which the industry attracts greater stakeholders' attention and is under the scrutiny of both key stakeholders and the media. Linguistic Inquiry and Word Count (LIWC) is used to assess the extent of positive and negative language

(Pennebaker et al. 2007) and to calculate the proportion of negatively toned articles to total articles, known as the industry sensitivity ratio (Desai 2011).

Information Source

Press releases, with different labels associated with the Australian NFP sector (Beetz 2014),are collected as the information source for media coverage and attention (Desai 2011), using searches conducted on Lexis-Nexis and Factiva media databases (Zavyalova et al. 2012; Beetz 2014)

GOVTCTSP

GOVTCTSP represents the level of government control and sponsorship in the NFP and is gauged as:

GOVTSTSP = Total resources received from the Government / Total resources received

RELIND

RELIND represents whether an organisation has any religious identifies or not. RELIND is measured by a dummy variable, where 1 will symbolize the presence of religious affiliations and 0, otherwise.

OUTDIR

OUTDIR refers to the proportion of outside directors on the board and is measured as:

Number of outside directors / Total Number of directors

(Hwang et al. 2013; Jeong et al. 2013)

Information Source

Data on GOVTCTSP, RELIND and OUTDIR are collected from NFPs' annual reports.

Sample

This study focuses exclusively on large NFPs, since the latter are under greater scrutiny and hence are more likely to engage in reporting and disclosure practices, than smaller sized organisations (Ingenhoff & Fuhrer 2010; Dellaportas et al. 2012). Organisational size is determined using a composite measure of four indices: annual revenue (Khanna & Irvine 2012; Wicker et al. 2014), total assets (An et al. 2011; Elzahar & Hussainey 2012), number of employees (Roca-Puig et al. 2011; Jung 2013), and amount of expenditures on the mission of the NFP.

Based on the sample sizes used by previous NFP-related studies and disclosure-related studies (Saxton & Guo 2011; Lin et al. 2012; Rice & Weber 2012; Zainon et al. 2013; Lee & Blouin 2014), the sample size used is between 100 and 3323 organisations. To avoid the risk of having a Type 1 error, a too large sample will not be used. This study proposes to use an initial sample size of 500 NFPs operating all across Australia, in order to keep the research manageable, given the range of variables to be explored and analysed in the regression model used to answer the main research question.

Grounded Theory

The different theories and hypotheses developed in the previous section justify the ingredients of the exploratory model. To evolve the model, grounded theory will be used with the intent of assembling disclosure factors from constituent theories, to have a transcendent explanation of NFP disclosures.

Grounded theory is a research method where data is gathered and analysed to identify concepts and potential theories (Strauss 1987; Parker & Roffey 1997), unlike traditional research methods where the theory explaining a phenomenon is identified first and then data is collected to verify that theory (Dey 1999; Goulding 1999; Goddard 2005; Walker and Myrick 2006).

Schools of Grounded Theory

There are 2 main schools of grounded theory: Glaser and Strauss (1967) (the original version) and Strauss and Corbin (1990). Glaser's version of grounded theory is made up of two levels (open and selective coding) and is more descriptive than the version proposed by Strauss which has three stages (open, axial and selective coding) and is more prescriptive (Health & Cowley 2004; Amsteus 2014).

The Grounded Theory School to adopt

Only one of the two schools of grounded theory can be adopted in a study. Glaser and Strauss' original version of grounded theory concentrates on the discovery of theory through the identification of categories within the data (Timmermans & Tavory 2012). This school of grounded theory ignores existing literatures to avoid the influence of existing concepts on the theory identification and development processes (Glaser & Strauss 1967). Strauss's school of thought details the procedures to follow in a more systematic manner, to develop theory, than the Glaserian school (Parker & Roffey 1997; El-Tawy & Adbel-Kader 2012).

The Glaserian approach is considered more appropriate for 'field of practice' researches, such as nursing and medicine (El-Tawy & Adbel-Kader 2012: 801); while the Straussarian grounded theory approach is more relevant and appealing to accounting studies because it outlines a very detailed structure and technique (Gurd 2004) and allows accounting researchers to be more familiar with quantitative data and conceptual frameworks (Gurd 2008).

Prior Research which has adopted Grounded Theory

Grounded theory has the potential of generating theories about phenomenon in complex environments such as those related to accounting and management (Parker & Roffey 1997). There are limited number of accounting studies which have adopted a grounded theory approach, even though this methodology has been introduced a long time back (Parker & Roffey 1997; Goddard 2004). Some of the business researches which have adopted a grounded theory approach are related to marketing (Baines & Egan 2001), consumer experience (Daengbuppha et al. 2006), buyer decision (Sternquist & Chen 2006) and management (Jones & Noble 2007). Business related studies which have adopted grounded theory are summarised in the following table:

Table 5: Prior studies which have adopted a grounded theory methodology

Author(s)	*Paper Title*	*Purpose of the study*	*Grounded Theory Approach*
Gibbins et al. (1990)	The management of Corporate Financial Disclosure: Opportunism, Ritualism, Policies and Processes.	To develop an empirical structure explaining and forecasting corporate financial disclosures	Glaser & Strauss (1967; 1978).
Parker & Roffey (1997)	Back to the drawing board: revisiting grounded theory and the everyday accountant's and manager's reality	To investigate grounded theory and its potential application to accounting and management studies.	Glaser & Strauss (1967)
Abdul-Rahman & Goddard (1998)	An interpretive inquiry of accounting practices in religious organisations	To explore accounting practices among two religious organisations in Malaysia.	Strauss &Corbin (1990)
Holland (1998)	Private disclosure and financial reporting	To observe the role of financial reports in the communication of information, by large UK	Glaser & Strauss (1967)

Baines & Egan (2001)	Marketing and political campaigning: mutually exclusive and exclusively mutual?	To analyse the role and use of marketing methods in political campaigns.	Glaser & Strauss (1967)
Dart (2004)	Being 'Business-Like' in a Non-profit Organisation: A Grounded and Inductive Typology	To considers the meaning of being 'business-like' in the context of non-profit organisations.	Strauss & Corbin (1990)
Goddard (2004)	Budgetary practices and accountability habitus	To identify the relationship between budgetary practices in four local government organisations in the UK and stakeholders' perceptions, with particular focus on governance, accounting and accountability.	Strauss & Corbin (1990, 1998)
Goddard (2005)	Accounting and NPM in UK local government - contributions towards governance and accountability	To understand how accounting, accountability and governance are interrelated in the UK local government.	Strauss & Corbin (1990, 1998)

Holland (2005)	A grounded theory of corporate disclosure	To develop a grounded theory which explain corporate behaviour in the UK.	Strauss & Corbin (1998)
Hussey & Ong (2005)	A substantive model of the annual financial reporting exercise in a non-market corporate.	To develop a model of annual financial reporting process while considering the context in which the information is created and communicated and the consequences related to such disclosures.	Glaser & Strauss (1967)
Dias & Maynard-Moody (2006)	For-profit welfare: contracts, conflicts, and the performance index.	To investigate how financial incentives in performance contracts affect the relationship between the management team and the line staffs as well as the way in which customers are treated, in for-profit welfare organisations	Glaser & Strauss (1999)
Sternquist & Chen (2006)	Food retail buyer behaviour in the People's Republic of China: a grounded theory model	To build a model which facilitates understanding of the interaction between retailers and suppliers in China, taking into	Not specified, but it appears more like Glaser &Strauss (1967).

		account Chinese culture and changing economic factors.	
Jones & Noble (2007)	Grounded theory and management research: a lack of integrity?	To explore the methodological development of grounded theory since its introduction in 1967 and the application of this methodology by management researchers.	
McLachlin et al. (2009)	Not-for-Profit supply chains in interrupted environments The case of a faith-based humanitarian in interrupted environments - The case of a faith-based humanitarian relief organisation	To observe whether managerial tools designed for for-profit organisation apply to not-for-profit entities.	Strauss & Corbin (1998)
Broad et al. (2007)	Performance, Strategy and Accounting in Local Government and Higher Education in the UK	To explore how and why performance measures impact on organisational management, with regards to account performance measurement systems, strategic planning and accounting.	Strauss & Corbin (1998)

Conaway & Wardrope (2010)	Do their words really matter? Thematic analysis of U.S and latin american CEO letters	To compare CEO letters provided in annual reports of 30 companies based in the US and Latin America.	Corbin & Strauss (1990)
Hoffman & Fieseler (2012)	Investor relations beyond financials: Non-financial factors and capital image building	To identify the non-financial factors which affect the image of a company and its ultimate capital market value.	Strauss & Corbin (1998)
He & Balmer (2013)	A grounded theory of the corporate identity and corporate strategy dynamic	To investigate senior management's understanding of corporate strategy or identity interface.	Strauss & Corbin (1998)
Paulus & Lejeune (2013)	What do board members in art organisations do? A grounded theory approach	To identify the activities and characteristics of board members of art organisations; and the performance of these organisations.	Glaser & Strauss (1967)

Based on the above arguments and prior studies, this research adopts the Straussarian school of grounded theory.

Credibility of Grounded Theory Research

Credibility of a research finding refers to the 'trustworthiness' of the research outcomes (Carpenter Rinaldi 1995; Chiovitti & Piran 2003: 403) and it will depend on how well the grounded theory methodology is adopted. There are four canons to follow to have grounded theory, rather than any iterative method which is labelled as grounded theory (Gurd 2008). These rules will be observed in this study and they are:

(1) Date is gathered and analysed simultaneously, following an iterative process (Glaser & Strauss 1967; Charmaz 1994; Parker & Roffey 1997; Goulding 2002).

(2) Theoretical sampling is used, that is, the categories identified from the initial data collected, determines the subsequent data to be gathered, with the objective of strengthening the emerging theory (Bowers 1988; Locke 2001).

(3) The research uses 'constant comparative method'. This means that data are compared throughout the grounded theory process, to strength the emergent theory (Gurd 2008: 128).

(4) Coding is used to build theory (Bryman & Burgess 1994; Morse 1994).

Conclusion

This paper has summarised the main work done by previous scholars to explain voluntary disclosure behaviours in annual reports with special reference to the NFP sector. The paper also presented a set of linked hypotheses to explain such behaviour and a proposed model to be tested which will be empirically tested against primary Australian NFP data. The paper concluded by discussing the role of grounded theory in strengthening the fit and the anchorage of the proposed model and the Strauss rather than Glaser version of grounded theory was argued to be more suitable.

Thus, this paper has had two aspects. One was by way of a research project proposal summary and the other was by way of a survey of all the principal work done so far to explain voluntary disclosures in NFP disclosures.

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