TOWARD AN INTEGRATED ACCOUNTABILITY MODEL FOR NONPROFIT ORGANIZATIONS

Michele Andreaus and Ericka Costa

ABSTRACT

Purpose – *By contributing to the burgeoning debate regarding "for what" nonprofit organizations should be accountable, this article aims to develop and present an Integrated Accountability Model (IAM) that considers three dimensions of accountability.*

Methodology/approach – *After highlighting the limits of conventional accounting for NPOs and reframing the role of profit within them, the article presents a complete literature review on "to whom" and "for what" NPOs have to be accountable while further developing the IAM of integrated accountability.*

Findings – *The integrated accountability model developed in this article proposes three categories of NPO accountability: (i) the economic and financial dimension or the capability/ability to be economically sustainable in the long term; (ii) the mission-related dimension or the* raison d'être *of an NPO, that is, the purpose for which the NPO has been set up, its mission; and (iii) the social-related dimension or the relationship*

Accountability and Social Accounting for Social and Non-profit Organizations
Advances in Public Interest Accounting, Volume 17, 153–176

ISSN: 1041-7060/doi:10.1108/S1041-706020140000017006

with the stakeholders, that is the impact of NPO activities on its stakeholders in terms of the social contract between them.

Originality/value – *Broadly, this article makes a contribution to the literature on accountability for NPOs. In particular it sheds light on two points: the importance of separating the mission-related dimension from the social-related one and the potential to open avenues for expansion of the IAM model to for-profit organizations.*

Keywords: Accountability; NPOs; economic and financial dimension; mission-related dimension; social-related dimension

INTRODUCTION

The nonprofit sector is an important and rapidly growing part of the European and US economies (Anheier, 2009). It includes several organizational forms, such as cooperatives, nongovernmental organizations (NGOs), social enterprises and associations (Defourny & Nyssens, 2010). The worldwide emergence of the nonprofit sector has been recognized in the promotion of social values and civil integration while creating a strata of global civil society that often can influence the practices and policies of national and international governments. The increased significance of nonprofit organizations (NPOs) has necessitated urgent attention be given to the transparency and accountability mechanisms able to measure the impact of NPO activities on society at large (Ball & Osborne, 2011).

Even though the concept of accountability has been widely discussed in academic literature (Edwards & Hulme, 1996; Gray, Adams, & Owen, 1996; Kearns, 1994), it remains a complex and multifaceted concept requiring further investigation, especially with reference to NPOs (Gray, Dillard, & Spence, 2011). Indeed, NPO accountability cannot solely be connected to or based on its economic and financial performance because this information could be misleading. NPO accountability cannot be reduced only to economic and financial aspects; it also has to consider the relationship with the stakeholders, and undoubtedly, the NPO's ability to reach its determined objectives, which are by definition not only financial but also relevant to the social dimensions of people's lives.

Scholarly descriptions of accountability are not uniform, and there is no unique approach to NPO accountability. However, there exists a relatively high level of agreement as to the basic questions relating to the accountability framework: *who should be held accountable*, *to whom*, *for what*, *how*, and *with what consequences* (Acar, Guo, & Yang, 2012). Many researchers have used one or more of these questions in their studies on accountability (Ebrahim, 2009; Kearns, 1994; Najam, 1996). However, two of these questions have attracted (and still attract) the attention of a considerable number of scholars: *accountability to whom* (e.g., Ebrahim, 2003), *accountability for what* (e.g., Quarter, Mook, & Armstrong, 2009) or both of them combined (e.g., Acar et al., 2012).

The "accountability to whom" question deals primarily with stakeholders affected by the NPO activities, namely donors, funders, beneficiaries, workers, volunteers and the members themselves. By addressing the "accountability for what" agenda, scholars have reported on issues, categories and drivers in depth by identifying and describing the core area(s) to which the NPO should be accountable.

Within the aforementioned two questions of "to whom" and "for what" NPOs have to be accountable, this article aims to contribute to the second question by addressing an integrated accountability framework. This integrated framework will include three main areas of disclosure: (i) the economic and financial dimension or the capability to be economically sustainable in the long term; (ii) the mission-related dimension or the *raison d'être* of an NPO, that is, the purpose for which the NPO has been set up, its mission; and (iii) the social-related dimension or the relationship with the stakeholders, that is the impact of NPO activities on its stakeholders in terms of the social contract between them.

From a methodological point of view, the article presents a review of the literature regarding possible conceptual frameworks for designing accountability perspectives in NPOs and then it develops a model of integrated accountability for NPOs.

The remainder of the article is structured as follows: The first section explains the inadequacy of applying the conventional accounting framework to NPOs before moving into "Interpreting the Role of Profit in NPOs," which explores the different roles of profit in NPOs including its fundamental role as a means to driving the organization's economic activity. "Putting Stakeholders at the Core" introduces the concept of relational accountability for NPOs, which is related to stakeholder theory and the social contract perspective. "A Complex and Multifaceted Accountability System for NPOs" then points out the need to enlarge the accountability framework to multi-directional accountability before introducing accountabilities models. Finally, the article discusses an integrated accountability model (IAM), which brings together three fundamental dimensions of NPOs' daily management, namely the economic, mission-related and social-related dimensions. Based on this discussion, conclusions then are drawn.

THE LIMITS OF CONVENTIONAL ACCOUNTING IN NPOS

The primary roles for accounting information are as applicable in the nonprofit sector as in the for-profit sector. In a nonprofit context, donors want to be kept informed regarding the use of their financial contribution, which (hopefully) should be employed in effective and efficient ways. Similarly, in a for-profit organization, funders are interested in comprehending the efficiency and effectiveness of fund use.

This demand for accounting information has two primary theoretical foundations (Hofmann & McSwain, 2013): firstly, an information asymmetry emerges between the organization (nonprofit or for-profit) and its stakeholders and secondly, an agency problem occurs from the property and the managers (both nonprofit and for-profit organizations). The combination of information asymmetry and agency problems creates an increasing demand for accountability, which primarily responds with ex post accounting information, providing motives and opportunities for financial disclosure management.

When NPOs deal with financial accounting and draw up the conventional financial statement and balance sheet, they usually adopt formats that have been designed for for-profit organizations. Indeed, the conventional accounting framework historically has been designed to identify, gather, measure and report economic and financial data (profit or loss) in order to support managerial decision-making. Thus, conventional accounting frameworks primarily reflect the need of stockholders to be informed regarding the organization's economic and financial performance.

This traditional approach to accounting has attracted criticisms that call into question its assumptions. Such criticisms highlight the inability of the traditional approach to consider the inconsistencies, injustices, invisibilities and inequalities of modern western life, and thus, to deliver social change (Gray, 2002; Mathews, 1997). "Critical accounting" scholars argue that accounting should serve as an intermediary between (and within) *organizations* and *society*, thus considering its role within the societal context in a broader sense (Lehman, 1992). According to critical theorists, accounting should be grounded on the principles of *democracy* and *accountability*; in other words, organizations have to provide accountability not only to shareholders, but also to a wide range of stakeholders affected by the organization's activities (Gray et al., 1996). Moreover, accountability for a broad range of stakeholders must go beyond a financial orientation and include social impacts as well. The basis for making organizations accountable becomes the empowerment of the democratic process of accountability.

When applied to NPOs, the conventional accounting framework becomes even more meaningless because of the multi-stakeholder nature of these organizations and their roles within society in promoting and fostering the well-being of the people they serve. NPOs do not aim at the maximization of shareholder wealth; they operate in society by seeking to enhance social value (Ebrahim, 2003; Moore, 2000).

With regard to NPOs, various studies have pointed out the limitations of conventional accounting (Reheul, Caneghem, & Verbruggen, 2014; Vermeer, Raghunandan, & Forgione, 2009) by also highlighting the function and effects of accounting and reporting in such organizations. Palmer and Vinten (1998) detail three main approaches to accounting for NPOs: (i) positivist, where accounting is used to describe what happens in the real world (Watts & Zimmerman, 1979; Whittington, 1986); (ii) critical, which embraces a historical, economic and policy context for accounting (Power & Laughlin, 1996); and finally, (iii) interpretive, where accounting is seen as a symbolic mediator between various social groups in order to arrive at a negotiated social order (Ryan, Scapens, & Theobald, 1992).

These approaches, in different ways and with different epistemic methods, question traditional conventional accounting for NPOs, which remains too exclusively focused on financial measurements (Reheul et al., 2014). Financial measurements emphasize NPO financial performance and evaluate how the funds are acquired or spent. However, as highlighted by Maddocks (2011), financial measurements present only an incomplete picture of the organization because information regarding success, performance and impact are often missing or underdeveloped.

Epstein and McFarlan (2011) describe the critical importance of considering both financial and nonfinancial measures when assessing NPOs. They argue that financial and nonfinancial measures are closely related because, on the one hand, financial resources are meaningless if not employed to achieve the mission. On the other hand, it is not possible to achieve a social purpose without efficient employment of financial resources. Epstein and McFarlan (2011) thus emphasize the role of financial resources and profit within the nonprofit sector.

INTERPRETING THE ROLE OF PROFIT IN NPOS

NPOs focus on creating social value and their mission is not oriented to economic value but wealth for public good. However, this focus does not exclude NPOs from needing to undertake strategies to guarantee an adequate level of net income earnings; on the contrary, NPOs must continually create economic value to survive over time. The creation of economic value ensures that the NPO will be able to continue its mission to create social value over time.

For-profit organizations consider profit as the vehicle to assess their activities, which by definition are oriented to the creation of economic and financial wealth. In NPOs, the role of profit differs because it represents a means and not an ends in itself (Dees, 1998). In other words, in NPOs profit is a vehicle to the achievement of socially oriented purposes, that is the mission and thus, it can be interpreted as a constraint required for the efficient achievement of social value.

Mission performance assessment is essential for NPOs because of its role in the board's decision-making; however, mission performance is difficult to measure and often has a long-term perspective. At the same time, financial performance is somewhat meaningless and often demands immediate attention and a short-term focus (Epstein & McFarlan, 2011). Therefore, the competing demands to measure both social value creation and financial aspects make NPOs "double bottom line" organizations (Dart, Clow, & Armstrong, 2010) as they pursue social and economic value simultaneously (Dees & Economy, 2001).

Since profit in NPOs is a constraint that organizations have to respect in order to pursue their primary socially oriented purposes, what does *efficiency* and *effectiveness* mean for NPOs?

Efficiency "requires revenues covering operational and capital costs with downsized margins in order to limit distortions such as the deadweight loss" (Le Lannier & Porcher, 2014, p. 557). Efficiency is not an absolute concept because it refers to the relationships between inputs and outputs, which in turn, depend upon the characteristics of the environment in which NPOs operate to deliver their services.

Effectiveness reflects the ability to realize strategies and activities aimed at achieving and maximizing social value creation. The monitoring and assessment of NPOs' effectiveness links strategically to the evaluation of organizational success, which is not measurable by financial accounting. Even though financial accounting and financial data certainly represent one key criteria in determining NPO efficiency, they are unimportant when considering effectiveness and this implies meeting the social needs the NPO has been designed to address (Bagnoli & Megali, 2011). Effectiveness thus depends upon beneficiaries' perceptions regarding the services from which they are benefitting, which are by definition intangible and difficult to measure.

Manetti (2014) proposes several nuanced views in defining effectiveness for NPOs:

- "in relation to a standard (quality);
- as the gap between actual service provided and the end-user's perception of its quality (external effectiveness);
- as a correlation of results achieved with those expected (internal effectiveness);
- in comparison with services provided by alternative agents (relative effectiveness);
- by measurement against the situation that would have occurred if services had not been provided (impact)" (p. 449).

In short, since effectiveness in NPOs cannot be evaluated by conventional accounting measurements, the need has emerged to enlarge the required accountability systems. These systems should be anchored not only in economic and financial performance, but also in the social impact for a variety of stakeholders (Ebrahim, 2009, 2010).

PUTTING STAKEHOLDERS AT THE CORE

The inadequacy and meaningless of the conventional accounting framework for NPOs has been highlighted by different authors and as a result there has been an urgent call for a better/clearer understanding of the concepts and meanings of accountability in NPOs (Gray et al., 2011).

Generally, Gray et al. (1996) define accountability as "the duty to provide an account (by no means necessarily financial) or reckoning of those actions for which one is held responsible. In other words, accountability involves two responsibilities or duties: a) responsibility to undertake certain actions; b) responsibility to provide an account for these action" (p. 38). In order to encourage an efficient and sensible approach to accountability, SustainAbility (2003) lists several potential drivers for accountability:

morality where accountability is right in principle; performance (accountability improves effectiveness); political space (accountability increases credibility and thus influence); and wider democratization (accountability of NGOs improves democracy in society) (Gray, Bebbington, & Collison, 2006, p. 337).

Accountability can be conceived of as a relational concept primarily based on a stakeholder approach, according to which any organization has the moral duty to answer to stakeholders upon whom their actions and strategies have (or may have) an impact (Ebrahim, 2005; Edwards & Hulme, 1996; Najam, 1996; Unerman & O'Dwyer, 2006; William & Taylor, 2012).

Closely related to the concept of accountability, therefore, is the stakeholder perspective. In his well-known definition of stakeholders, Freeman (1984) refers to them as "any group or individual who can affect or is affected by the achievement of an organization's objectives" (p. 46). The managerial perspective of stakeholder theory goes a step beyond neoclassical profit maximization because it calls for fiduciary responsibility towards all the stakeholders, owners or not, because of their legitimate interests (Donaldson & Preston, 1995). Indeed, most of the normative basis of stakeholder theory[1] considers business organizations as a means to coordinating and balancing stakeholders' requirements (Evan & Freeman, 1988). In order to manage, coordinate and balance different stakeholders' claims, the organizations rely on an implicit or explicit "social contract" (Donaldson & Dunfee, 1994) that should manage and govern the relationship between the business and society: "The firm-as-contract view holds that legitimate stakeholders are identified by the existence of a contract, expressed or implied, between them and the firm. Direct input contributors are included, but environmental interests such as communities are also believed to have at least loose quasi-contracts (and, of course, sometimes very specific ones) with their business constituents" (Donaldson & Preston, 1995, p. 85).

The concept of a social contract is also linked to legitimacy theory (Lindblom, 1993) because the social contract is used to represent the multitude of stakeholders' expectations while ensuring legitimate operation within the norms of society (Sinclair & Bolt, 2013). If society does not consider the organization legitimate, a *legitimacy gap* occurs, and organizations have to deliver different strategies to bridge the gap. Therefore, the existence of a social contract among business and society, which is closely linked to the concept of organizational legitimacy, demands the discharge of social accountability (Gray, Owen, & Maunders, 1988).

A COMPLEX AND MULTIFACETED ACCOUNTABILITY SYSTEM FOR NPOS

Through this discussion of stakeholder theory and organizations-as-a-contract, it becomes clear that accountability must be considered as a relational concept. In the relational approach to accountability, organizations are required to explain and take responsibility for their actions to stakeholders. Therefore, identification of stakeholders is a key element within relational accountability (Unerman & O'Dwyer, 2006), and consequently one of the first questions arising from this perceptive is *to whom* organizations should be or are held accountable.

Several studies state that NPOs are accountable to multiple actors: (i) to patrons, (ii) to clients, and (iii) to themselves as organizations (Ebrahim, 2005, 2009, 2010; Edwards & Hulme, 1996; Kearns, 1994; Najam, 1996). NPOs' accountability to the patron, or upwards accountability (Najam, 1996), usually refers to relationships with donors, foundations, and governments and are related to how NPOs spent the received funds for designated purposes. The accountability to clients, or downwards accountability, involves the relationships with people for whom NPOs provide services. Finally, accountability to themselves refers to the internal accountability of NPOs. Ebrahim (2005) argues that this kind of accountability "includes an NGO's responsibility to its mission and staff, which includes decision makers as well as field-level implementers" (p. 60).

These theoretical models also make evident that in developing this "multi-demands" accountability system NPOs should satisfy the competing claims of multiple stakeholders and thus NPOs have to prioritize their stakeholders within their own aims and expectations (Brown & Moore, 2001; William & Taylor, 2012). However, many practitioners and scholars have expressed concerns regarding the "difficulties [NPOs] face in prioritizing and reconciling these multiple accountabilities" (Edwards & Hulme, 1996, p. 968), especially in cases where accountability is "skewed to the most powerful constituency." In prioritizing stakeholders and stakeholders' claims, Unerman and O'Dwyer (2006) stressed the importance of also considering the stakeholders or rather the individuals, communities and/or regions who are indirectly (not just directly) impacted by NPO activities.

The applications of the *to whom* models and frameworks of accountability reveal that NPO accountability currently is strongest to boards and donors and weakest to communities and beneficiaries (Costa, Ramus, & Andreaus, 2011; Epstein & McFarlan, 2011; Murtaza, 2012). Murtaza

(2012) stresses the urgency of reconsidering current approaches to NPO accountability and strengthening accountability to communities in order to better achieve the two most important purposes of accountability, namely "converting acceptable performance into excellence and ensuring greater justice in the global economy and polity" (p. 123).

In rethinking the role of accountability *to whom*, several scholars have proposed a strategic approach to accountability in which they shed light on different areas that need to be covered by NPO accountability systems (Avina, 1993; Bagnoli & Megali, 2011; Brown & Moore, 2001; Moore, 2000). Avina (1993) has defined functional-strategic accountability by focusing on the two components where functional accountability focuses on short-term change in organizations, while strategic accountability focuses on long-term organizational change. Further, he notes that functional accountability is related to resource use and immediate impacts of social and political change, while strategic accountability focuses on the impacts of organizational activity on the environment and society.

Reflecting on the strategic worthiness of international NGOs' accountability, Moore (2000) proposes a "strategic triangle" to bolster leaders' calculations involving social value creation, sustainable support by donors and founders and organizational survival. Using this approach, Brown and Moore (2001) proposed a multilevel accountability model aimed at linking and balancing these three dimensions simultaneously because each of these issues can be seen as demanding accountability. They stated that "in this sense, the choice of organizational strategy is a negotiated deal among the stakeholders to whom an INGO owes accountability. A successful strategy would be one that aligns these different kinds of accountability" (p. 587).

When investigating social enterprises, Bagnoli and Megali (2011) propose a model of accountability for NPOs in which a three-level accountability process is developed: the social effectiveness dimension or the ability to achieve social goals, the institutional dimension or the respect of legal and self-imposed rules and the economic and financial dimension or the evaluation of performance and long-term sustainability.

Most of these accountability frameworks place the NPO mission at their core (Moore, 2000), but they somehow fail to consider mission as an explicit driver for accountability (Costa, 2014; Epstein & McFarlan, 2011; William & Taylor, 2012). Because accountability involves ensuring that the various informative needs of stakeholders are met, the NPOs' accountability framework should explicitly consider the NPO's mission as a category for which it must be answerable.

Considering the issues discussed in the previous sections regarding the role of profit for NPOs and the development of a "silent" social contract among different stakeholders, the next section contributes to the current debate concerning "*for what*" NPOs should be accountable. We now turn to present an integrated accountability framework for NPOs with the intent of contributing to the productive discussion of these accountability approaches.

TOWARD AN INTEGRATED ACCOUNTABILITY MODEL (IAM) FOR NPOS

NPOs are mission-oriented and multi-stakeholder organizations and as a result in the previous paragraphs we analyzed different accountability models that offer interesting insights regarding meeting the demands for accountability from different stakeholders. We analyzed and discussed the fact that donors or funders are not the primary stakeholders in NPOs like shareholders are in for-profit organizations. In addition, alignment with organizational objectives does not singularly guarantee the achievement of the organization's goals, or the satisfaction and consequent support of stakeholders. In fact, long-term survival of an NPO is based on its ability to maximize its social value as defined in the organizational mission and as perceived by the multiple stakeholders influencing and influenced by the NPO (Costa et al., 2011).

Therefore:

- Accountability cannot be focused only on the economic and financial dimensions (*efficiency*). These measurements certainly remain important, and NPOs devote significant effort to measuring their performance in relation to donor funds and budget achievement (Costa et al., 2011; Murtaza, 2012), but measuring organizational success focuses primarily on achieving the mission.
- Economic and financial dimensions, therefore, have to be integrated with measures that relate to achieving mission success (*effectiveness*). In for-profit organizations, the economic and financial dimensions and the mission dimension align but in NPOs, there are at least two stand-alone bottom lines. The first considers the *economic-financial* dimension of the activity, while the second relates to the *mission* dimension. The combination of economic and financial performance with the information

regarding mission achievement allows organizations to have a more informed view of their performance and a better understanding of the manner in which they affect the served communities (Epstein & McFarlan, 2011).

- Finally, by adopting a relational approach to accountability (Brown & Moore, 2001; Ebrahim, 2005; Edwards & Hulme, 1996; Najam, 1996; Unerman & O'Dwyer, 2006), NPOs also have to be answerable/accountable to all the stakeholders who are directly or indirectly affected by the organization's activity.

These three dimensions of accountability – economic and financial, mission-related and social-related – are interrelated. Therefore, in this article, we suggest an IAM for NPOs in order to avoid an "add-on" approach (Gray, 2002) in which some of this information is added to other existing organizational information. The IAM, which will be presented in detail later, is not intended to create a new set of instruments and reporting tools but rather, it should spontaneously emerge as an integration of instruments that are currently employed by NPOs in their daily management but not linked to each other. The intention is also to clarify possible reporting instruments which currently exist within the NPOs and which could be used to build a complete IAM accountability overview.

The IAM model considers three drivers of accountability for NPOs:

- *The economic and financial dimension* is a means to an end because NPOs have to be economically and financially sustainable over the long term in order to guarantee mission achievement over time. This dimension provides information regarding how the financial resources have been obtained or how they have been generated and employed.
- *The mission-related dimension* refers to accountability for the coherence of NPOs activities with the mission benchmark values. This dimension takes into account the objectives met through the mission statement. Unerman and O'Dwyer (2006) considers this dimension "identity accountability" since it "represents a means by which managers (or activists) running organizations take responsibility for shaping their organizational mission and values" (p. 356).
- Finally, *the social-related dimension* refers to the NPO's relational accountability to stakeholders by providing them with information needed to react to the organization's actions. This dimension meets the stakeholder's informative needs emerging from the "silent social contract" set up between the NPO and its stakeholders. NPOs thus have to

be accountable to all stakeholders who are directly or indirectly affected by the NPO's activity, not just the primary or financial stakeholders.

The IAM model is presented in Fig. 1.

The Economic and Financial Dimension

Economic and financial efficiency calls for the NPO to develop, implement and oversee a coherent economic and financial strategy to which organizations devote significant effort. In NPOs, this dimension represents more of a "constraint" than a purpose because they constantly have to guarantee proper economic and financial equilibrium in order to be sustainable in the long run and, therefore, also able to pursue the institutional dimension, that is, the mission. The more efficient an organization, the more economic and financial resources it has to direct to reach its mission. Because of the importance of economic and financial resources in supporting social services, without "healthy" NPO economic and financial management, it is impossible to reach the desired social outcomes. A lack in the economic and financial equilibrium could produce a dangerous situation which could

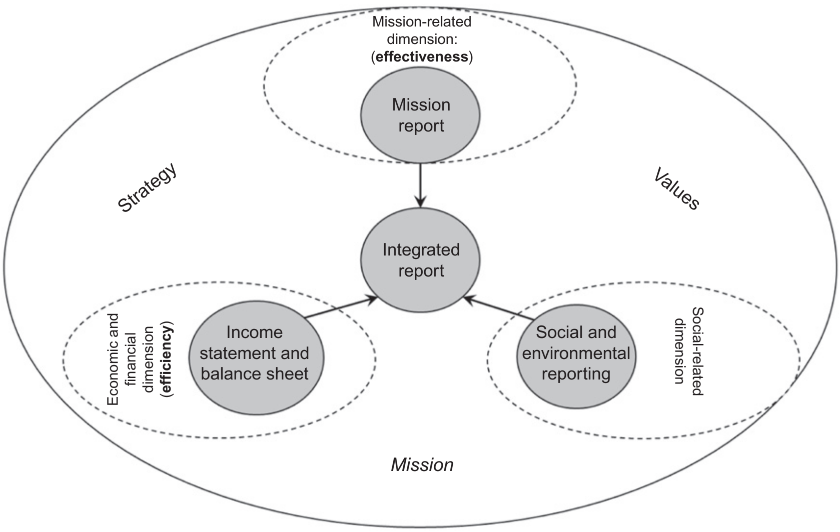

Fig. 1. The Integrated Accountability Model (IAM) for NPOs.

foster serious financial instability or heavy economic losses in the long run. Such imbalances eventually could destroy equity and compromise the NPO's survival. Therefore, the economic and financial dimension has to be considered a constraint in guaranteeing long-term NPO stability.

Within the broad conceptualization of NPOs (Defourny & Nyssens, 2010), the economic and financial dimension is where the most differences between social enterprises, social cooperatives, charities and NGOs emerge. By definition, social enterprises and social cooperatives are entrepreneurial activities that directly operate in the market as providers of health, social, educational and cultural services. On the contrary, NGOs and charities do not operate on the market and their activities mainly depend on external financial support. Therefore, two possible models for evaluating the economic and financial efficiency of NPOs can be suggested.

The first one refers to social enterprises and social cooperatives and contains three different levels of disclosure:

1. The economic disclosure
2. The financial disclosure
3. The investment-liabilities-equity disclosure

The *economic disclosure* refers to costs and revenues received for the delivered social services. This information is recorded primarily by the income statement with two ends: on the one hand, it measures and reports on the efficiency between inputs and outputs (getting the most out of resources) while on the other hand, it enables a first analysis of the value added of NPOs. The value added "is a much broader definition of wealth. [...] Value added looks beyond the wealth (profit) created for shareholders and includes the wealth for a wider group of stakeholders such as employees, creditors, government, and the organization itself" (Mook, Richmond, & Quarter, 2003, p. 286). The value added represents the wealth created by NPOs and distributed to a large group of stakeholders. It therefore reveals and represents "something about the social character of production, something which is occluded by traditional profit and loss accounting" (Burchell, Clubb, & Hopwood, 1985, p. 388). However, the value added and its statement are not flawless since the starting point for this type of analysis is based on the income statement, which is exclusively able to gather, elaborate, measure and report information that can be monetized. Mook et al. (2003) have proposed an Extended Value Added Statement (EVAS) that also includes social inputs which normally do not involve financial transactions.

The *financial disclosure* is based on the financial equilibrium or the equilibrium between invested capital and sources of collateral. This goal can be accomplished by defining a satisfactory financial statement which generally does not require special adaptations of the conventional statement used in the for-profit organizations. It follows the indications given by national and international accounting bodies.

Finally, similar considerations apply to the *investment-liabilities-equity disclosure* which makes reference to the capital information or the statement of financial position. It reports on the makeup of organizational investments, liabilities and equity at the end of the financial year. For this kind of analysis, conventional accounting frameworks can be applied.

The role of economic and financial dimension is somewhat different for NGOs and charities. NGOs and charities do not work for or produce goods and services for the market; rather, they deliver social services through external support from donors, governments and fundraising activities. Therefore, since the added value statement mainly involves how created value is employed, in NGOs and charities, there is no self-creation of value. Instead, the employment of financial resources is made available by external sources. Consequently, except in rare cases, the information is primarily of a financial nature and must be addressed by showing how funding is used. In these cases, the conceptual framework upon which the value-added statement is based is not coherent with the peculiarities of NGOs and charities and requires adaption. There are three main areas that should be considered (see Fig. 2):

(a) the funding area aimed at reporting how the organization is funded;
(b) the management area where management costs are summarized; and
(c) the destination area where remaining resources are accounted for, not only in relation to the activities carried out but also to the distribution of these resources to the organization's stakeholders.

The first part of the IAM model illustrates the critical importance and complexity of the economic and financial dimension: "Without financial resources, there's no mission. Conversely, all of the financial resources in the world are irrelevant if the company isn't focused on a well thought out mission" (Epstein & McFarlan, 2011, p. 28). Therefore, NPOs cannot be accountable only on their financial efficiency. They simultaneously have to consider their effectiveness in meeting organizational purposes, that is, the mission.

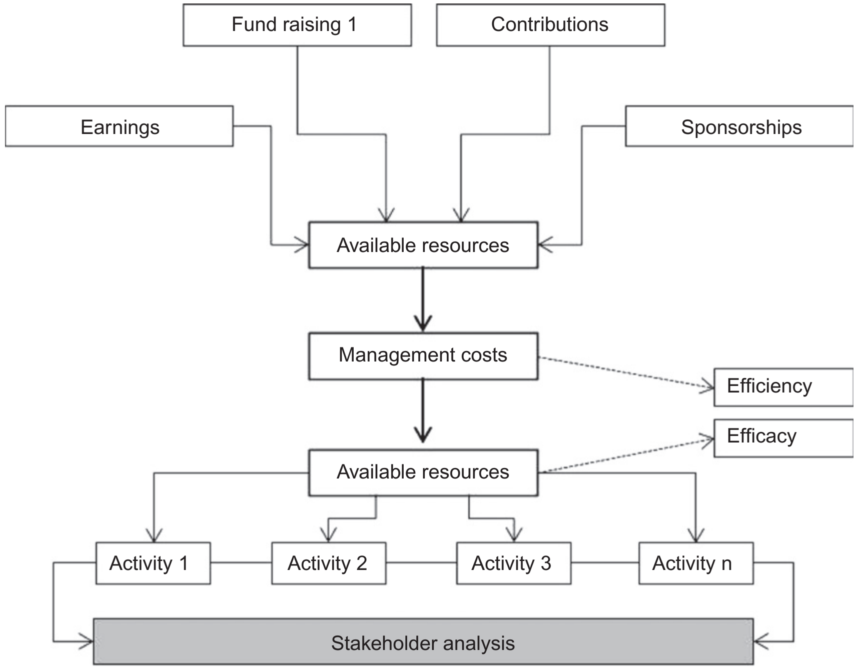

Fig. 2. The Economic and Financial Dimensions in NGOs and Charities.

The Mission-Related Dimension

The mission-related dimension refers to evaluating the effectiveness of the NPO's activities for members and beneficiaries. As Epstein and McFarlan (2011) put it, "To measure its effectiveness, a nonprofit must ask itself, 'Are we really delivering on our mission, not just meeting budget, and are we getting maximum impact from our expenditures?'" (p. 28).

An NPO's mission defines the set of values that the organization intends to produce for its stakeholders and for the broader society and refers to an "identity accountability" (Unerman & O'Dwyer, 2006) according to which "managers (or activists) running organizations take responsibility for shaping their organizational mission and values, for whether (and, if so, how) to open themselves to public or external scrutiny, and for assessing their performance in relation to their goals" (p. 356). Since the mission prominently represents the very core of NPO activities (Ebrahim, 2010) – similar to the position that maximization of shareholder wealth occupies for-profit organizations – it should be the metric that is used in evaluating and effectively assessing past performance and future activities. The mission-related dimension has informative significance closely linked to effectiveness in a narrow sense, vis-à-vis the organization's performance. For an NPO, this dimension cannot be measured in economic or financial terms since creation of social value is its reason to exist. Broadly, the missions of NPOs are set out in substantive rather than financial terms. These missions focus on particular societal problems that the NPOs seek to ameliorate or on desirable social conditions that the NPOs seek to encourage.

The mission statement is also related to values and principles that form the foundation of the NPO (Moore, 2000; Unerman & O'Dwyer, 2006). These values, together with the purposes that NPOs aim to achieve, become the NPOs' *visions*; thus, visions, missions and goals are strictly related. All three can be formulated broadly or narrowly, abstractly or concretely. However, they are frequently more substantive than for-profit organizations because they are not anchored to maximization of economic wealth (Moore, 2000), but present answers to various societal needs, which by definition are not financial in nature. Money may be needed to accomplish these goals but the ultimate goals are neither economic nor financial.

Fig. 3 represents a possible "strategic pyramid" which exemplifies the relationship between vision, mission and goals.

The vision and the mission statement therefore represent the starting point when defining the operational goals of NPOs. For example, a possible *vision* for an NPO could be "*to become the reference point for voluntary activities in the community reference group*." This vision could then generate the following *mission* statement: "*to sustain, promote and certify voluntary activity as well as organizations and their activities*."

The vision and mission have both to be long-term oriented and adaptable to change. First, the long-term view of vision and mission statements requires the ability to cope with uncertainty and changing circumstances. Nonprofit managers are unlikely to know how best to pursue their goals but repeated trials and critical scrutiny can lead to new insights and solutions (Ebrahim, 2010). Second, NPOs often feel that their identity rests on remaining committed to their original mission and they might lose legitimacy from members and beneficiaries when changing their mission due to changes in social conditions, resulting in a so-called "mission drift" (Moore, 2000).

Not only vision and mission statements but also organizational goals and strategies are subject to adaptation as managers learn more about the

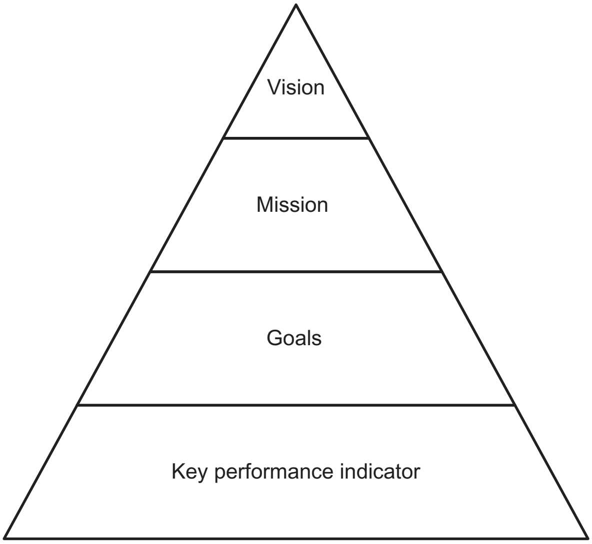

Fig. 3. The Strategic Pyramid of NPOs.

social problems that they are trying to understand and solve: "A central managerial challenge becomes putting in place processes that can engender systematic critical reflection and adaptation, while remaining focused on solving social problems" (Ebrahim, 2010, p. 10).

The strategic pyramid presented in Fig. 3 makes it clear that after defining the vision, mission and goals, NPOs need to consider key strategic indicators, or indicators to define preventive action and measure final outcomes. These indicators cannot fall within a conventional annual report since neither the vision nor the mission and goals can be based on economic and financial metrics.

The Social-Related Dimension

While the economic and financial dimension focuses on evaluating *efficiency* in managing NPOs, and the mission-related dimension concerns the *effectiveness* of reaching their objectives, the social-related dimension refers to the relational attitude of accountability, according to which NPOs have to engage in deliberative dialogue with all stakeholders. While the mission-related dimension refers to the internal dimension of accountability – to make NPOs answerable to themselves while pursuing their declared social aims (Ebrahim, 2010; Unerman & O'Dwyer, 2006) – the social-related dimension considers the external approach to accountability. This approach is primarily based on the existence of an implicit social contract between NPOs and their various stakeholders.

Private and public funders demand that NPOs be accountable for the efficiency and impacts of the social services they have funded. *Beneficiaries* press NPOs to be accountable for the development of their social welfare and for delivery of social services. *Workers* expect NPOs to guarantee their job while maintaining job quality. *Volunteers* demand to be involved in project design while receiving professional growth opportunities. *Communities* require NPOs to focus their energies on better understanding the societal impacts on the local contexts/environments (see Table 1). In short, different stakeholders call upon NPOs to account for their activities (Brown & Moore, 2001).

Even if an NPO's mission is oriented towards the creation of social value, it does not mean that NPOs are automatically accountable to, and

Table 1. The Accountability Expectations of NPO Stakeholders.

Workers	Involvement in management Job quality Protection of workers Equal opportunity Career progress
Members	Nonprofit institutional goals Democratic management Representation on the Board(s) No capital gains
Volunteers	Professional growth Involvement Reciprocal duties Transparency and accountability
Beneficiaries	Type of activity Level of professional response Transparency and disclosure
Funding bodies	Financial trustworthiness Transparency
Public bodies	Type of activity Social cost-benefit analysis
Community	Type of activity Transparency and disclosure Social cost-benefit analysis

thus responsible for, the broad variety of stakeholders and society as a whole. Focusing on the mission-related dimension could lead NPOs to overlook the accountability expectations of other stakeholders, which would result in not respecting the social contract between them.

NPOs have to consider the information needs of all stakeholders involved in their activity in order to satisfy their expectations and claims. Providing such information allows the NPO to maintain its legitimacy within its society of operation (Sinclair & Bolt, 2013). This consideration means that accountability to all the varied stakeholders does not represent the NPO's purpose – the creation of social value. Rather, accountability becomes a necessary constraint for strengthening the relationship with the stakeholders. As such it represents a necessary but deficient condition necessary for long-term effectiveness for without legitimacy from all stakeholders, NPOs assume the risk of a weakened ability to achieve the mission statement which is, by definition, socially oriented.

For example, even if an NPO does not place the well-being of certain stakeholders (e.g., the workers) as its ultimate aim, it has to support their demands for accountability. Indeed, NPOs have to be aware that workers are not really committed to the mission of the organization: "It is not true that they love the mission so much that they are willing to work long hours at low pay for the sake of the cause. They are really no different than those who work for for-profit firms. They, too, are motivated by the crass desire to stay employed. The evidence for such an indictment is that when the choice came down to staying true to their original mission or assuring their financial survival, they opted for financial survival" (Moore, 2000, p. 192).

CONCLUSIONS AND FURTHER DEVELOPMENT

This article has intended to contribute to the academic debate regarding NPO accountability by fostering the adoption of an IAM which identifies the three foremost areas of accountability for NPOs.

First, by questioning the application of the conventional accounting framework for NPOs and exploring its limitations, the article calls for attention to the critical importance and the complexity of the *economic and financial dimension* of accountability for NPOs (Epstein & McFarlan, 2011). NPOs cannot ignore strategies which are able to guarantee economic and financial stability in the long term because they have to constantly create economic value – and be accountable for it – in order to survive over time and to ensure that they can continue with their mission. When analyzing the efficiency of NPOs' economic and financial resources, the fact that the purpose of NPOs cannot be reduced simply to profit maximization or economic and financial wealth has to be taken into account because the purpose is linked to benefit maximization for the beneficiaries of NPOs' activities and for the broader community. NPOs' economic and financial performance cannot be measured with the traditional indicators used in the for-profit sector because the "bottom line" does not allow for the correct interpretation of real performance in these types of organizations.

Second, NPOs have also to consider an internal dimension of accountability, which refers to the ability to be accountable and transparent regarding the values and principles summarized in the mission statement. The IAM presented in this article considers the *mission-related dimension* as one explicit driver for accountability (Moore, 2000). The evaluation of mission performance is urgent for NPOs because it assists managers in delivering strategies that increase NPO effectiveness.

Finally, in light of the relational approach to accountability (Unerman & O'Dwyer, 2006), the IAM model described in this article makes it clear that NPOs cannot be considered as accountable (or responsible) a priori because of their orientation to pursuing social value. In order to be accountable and transparent to all stakeholders, NPOs have to respect the silent social contract that embodies stakeholders' claims and expectations for accountability. In doing so, NPOs answer the social-issue dimension of accountability.

These different dimensions of accountability should not be considered as "add-ons" (Gray, 2002) or as the sum of different, unrelated pieces. These dimensions have to come together consistently in order to address the accountability challenges of NPOs.

Future research could investigate whether or not the IAM model also is applicable to for-profit organizations because the primary roles for accounting information are as applicable in the nonprofit sector as in the for-profit sector. Broadly, there is considerable similarity in the core nature of accountability in for-profits and NPOs. Other research could investigate the possibility of transferring what we know about accountability in the nonprofit sector to the for-profit one. However, the underlying differences in mission, philosophy, structure and values between the two sectors – are considerable and one must bear in mind that the IAM presented in this article should be adapted accordingly.

NOTE

1. Rowan (2001) argues that the normative approach to stakeholder theory plays a significant role because of its applicability to empirical research and managerial scenarios. However, "purely normative approaches to business ethics, built on traditional moral theories such as consequentialism, Kantian deontology, and virtue ethics, are too detached from the real world to offer managers any real guidance in particular situations" (p. 379).

REFERENCES

Acar, M., Guo, C., & Yang, K. (2012). Accountability in voluntary partnerships: To whom and for what? *Public Organization Review*, *12*, 157–174.

Anheier, H. K. (2009). What kind of nonprofit sector, what kind of society? Comparative policy reflections. *American Behavioral Scientist*, *52*(7), 1082–1094.

Avina, J. (1993). The evolutionary life cycles of non-governmental development organizations. *Public Administration and Development*, *13*, 453–474.

Bagnoli, L., & Megali, C. (2011). Measuring performance in social enterprise. *Nonprofit and Voluntary Sector Quarterly*, *40*(1), 149–165.

Ball, A., & Osborne, S. P. (Eds.). (2011). *Social accounting and public management. Accountability for the common good*. New York, NY: Routledge.

Brown, L. D., & Moore, M. H. (2001). Accountability, strategy and international non-governmental organizations. *Nonprofit and Voluntary Sector Quarterly*, *30*, 569–587.

Burchell, S., Clubb, C., & Hopwood, A. G. (1985). Accounting in its social context: Towards a history of value added in the United Kingdom. *Accounting, Organizations and Society*, *10*(4), 381–413.

Costa, E. (2014). Social reporting for Italian social enterprises. Did the Italian legislator miss an opportunity? In Z. Hoque & L. Parker (Eds.), *Performance management in nonprofit organizations: Global perspectives* (pp. 93–131). New York, NY: Routledge.

Costa, E., Ramus, T., & Andreaus, M. (2011). Accountability as a managerial tool in non-profit organizations: Evidence from Italian CSVs. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *22*(3), 470–493.

Dart, R., Clow, E., & Armstrong, A. (2010). Meaningful difficulties in the mapping of social enterprises. *Social Enterprise Journal*, *6*(3), 186–193.

Dees, J. G. (1998). *The meaning of social entrepreneurship*. Working Paper. Stanford University – Graduate School of Business, Stanford, California.

Dees, J. G., & Economy, P. (2001). Social entrepreneurship. In J. G. Dees, J. Emerson, & P. Economy (Eds.), *Enterprising nonprofits: A toolkit for social entrepreneurship* (pp. 1–18). New York, NY: Wiley.

Defourny, J., & Nyssens, M. (2010). Conceptions of social enterprise and social entrepreneurship in Europe and the United States: Convergences and divergences. *Journal of Social Entrepreneurship*, *1*(1), 32–53.

Donaldson, T., & Dunfee, T. W. (1994). Toward a unified conception of business ethics: Integrative social contracts theory. *The Academy of Management Review*, *19*(2), 252–284.

Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *The Academy of Management Review*, *20*(1), 65–91.

Ebrahim, A. (2003). Making sense of accountability: Conceptual perspectives for northern and southern nonprofits. *Nonprofit Management & Leadership*, *14*(2), 191–212.

Ebrahim, A. (2005). Accountability myopia: Losing sight of organizational learning. *Nonprofit and Voluntary Sector Quarterly*, *34*(1), 56–87.

Ebrahim, A. (2009). Placing the normative logics of accountability in "Thick" perspective. *American Behavioral Scientist*, *52*(6), 885–904.

Ebrahim, A. (2010). *The many faces of nonprofit accountability*. Working Paper No. 10-069. Harvard Business School.

Edwards, M., & Hulme, D. (1996). Too close for comfort? The impact of the official aid on nongovernmental organizations. *World Development*, *24*(6), 961–973.

Epstein, M. J., & McFarlan, F. W. (2011). Measuring the efficiency and effectiveness of a non-profit's performance. *Strategic Finance*, *93*(4), 27–34.

Evan, W. M., & Freeman, R. E. (1988). A stakeholder theory of the modern corporation: Kantian capitalism. In T. L. Beauchamp & N. E. Bowie (Eds.), *Ethical theory and business* (3rd ed., pp. 97–106). Englewood Cliffs, NJ: Prentice Hall.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston, MA: Pitman.

Gray, R. (2002). The social accounting project and accounting organizations and society privileging engagement, imaginings, new accountings and pragmatism over critique? *Accounting, Organizations and Society*, *27*, 687–708.

Gray, R., Adams, C., & Owen, D. (1996). *Accounting and accountability: Changes and challenges in corporate social and environmental reporting*. Upper Saddle River, NJ: Prentice Hall.

Gray, R., Bebbington, J., & Collison, D. (2006). NGOs, civil society and accountability: Making the people accountable to capital. *Accounting, Auditing and Accountability Journal*, *19*(3), 319–348.

Gray, R., Dillard, J., & Spence, C. (2011). A brief re-evaluation of "The Social Accounting Project". In A. Ball & S. P. Osborne (Eds.), *Social accounting and public management. Accountability for the common good* (pp. 12–22). New York, NY: Routledge.

Gray, R., Owen, D., & Maunders, K. (1988). Corporate social reporting: Emerging trends in accountability and the social contract. *Accounting, Auditing and Accountability Journal*, *1*(1), 6–20.

Hofmann, M. A., & McSwain, D. (2013). Financial disclosure management in the nonprofit sector: A framework for past and future research. *Journal of Accounting Literature*, *32*, 61–87.

Kearns, K. P. (1994). The strategic management of accountability in nonprofit organizations: An analytical framework. *Public Administration Review*, *54*(2), 185–192.

Le Lannier, A., & Porcher, S. (2014). Efficiency in the public and private French water utilities: Prospects for benchmarking. *Applied Economics*, *46*(5), 556–572.

Lehman, C. R. (1992). *Accounting's changing roles in social conflict*. London: Paul Chapman.

Lindblom, C. K. (1993). The implications of organisational legitimacy for corporate social performance and disclosure. Paper presented at the Critical Perspectives on Accounting Conference, New York, NY.

Maddocks, J. (2011). Debate: Sustainability reporting: A missing piece of the charity-reporting jigsaw. *Public Money & Management*, *31*(3), 157–158.

Manetti, G. (2014). The role of blended value accounting in the evaluation of socio-economic impact of social enterprises. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *25*, 443–464.

Mathews, M. R. (1997). Twenty-five years of social and environmental accounting research is there a silver jubilee to celebrate? *Accounting, Auditing and Accountability Journal*, *10*(4), 481–531.

Mook, L., Richmond, B. J., & Quarter, J. (2003). Integrated social accounting for nonprofits: A case from Canada. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *14*(3), 283–297.

Moore, M. H. (2000). Managing for value: Organizational strategy in for-profit, nonprofit and governmental organizations. *Nonprofit and Voluntary Sector Quarterly*, *29*, 183–208.

Murtaza, N. (2012). Putting the lasts first: The case for community-focused and peer-managed NGO accountability mechanisms. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *23*, 109–125.

Najam, A. (1996). NGO accountability: A conceptual framework. *Development Policy Review*, *46*, 339–353.

Palmer, P., & Vinten, G. (1998). Accounting, auditing and regulating charities – towards a theoretical underpinning. *Managerial Auditing Journal*, *13*(6), 346–355.

Power, M., & Laughlin, R. (1996). Habermas, law and accounting. *Accounting, Organisations and Society*, *21*(5), 441–465.

Quarter, J., Mook, L., & Armstrong, A. (2009). *Understanding the social economy: A Canadian perspective*. Toronto: University of Toronto Press.

Reheul, A. M., Caneghem, T., & Verbruggen, S. (2014). Financial reporting lags in the non-profit sector: An empirical analysis. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *25*, 352–377.

Rowan, J. R. (2001). How binding the ties? Business ethics as integrative social contracts. *Business Ethics Quarterly*, *2*(2), 379–390.

Ryan, B., Scapens, R. W., & Theobald, M. (1992). *Research method and methodology in finance and accounting*. London: Academic Press.

Sinclair, R., & Bolt, R. (2013). Third sector accounting standard setting: Do third sector stakeholders have voice? *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *24*, 760–784.

SustainAbility. (2003). *The 21st century NGO: In the market for change*. London: SustainAbility, The Global Compact, UNEP.

Unerman, J., & O'Dwyer, B. (2006). Theorising accountability for NGO advocacy. *Accounting, Auditing and Accountability Journal*, *19*(3), 349–376.

Vermeer, T., Raghunandan, K., & Forgione, D. (2009). Audit fees at US non-profit organizations. *Auditing: A Journal of Practice & Theory*, *28*(2), 289–303.

Watts, R. L., & Zimmerman, J. L. (1979). The demand for and supply of accounting theories: The market for excuses. *The Accounting Review*, *54*(2), 273–305.

Whittington, G. (1986). Financial accounting theory: An over-view. *The British Accounting Review*, *18*(1), 4–41.

William, A. P., & Taylor, J. A. (2012). Resolving accountability ambiguity in nonprofit organizations. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, *24*, 559–580.