UNIVERSITY OF SOUTHAMPTON

FACULTY OF BUSINESS, LAW AND ART

Southampton Business School

CHARITY ACCOUNTABILITY: EVIDENCE FROM THE UNITED KINGDOM (UK)

by

Hessa Mubarak Al Fadhel

Thesis for the degree of Doctor of Philosophy

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ABSTRACT

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This thesis examines UK charities' accountability through the use of annual reports and annual reviews as formal accountability tools. The overall aim of the thesis is to undertake a coherent analysis of the accountability of annual reports and annual reviews using multiple dimensions of text and disclosures by empirically examining UK charities' accountability disclosure. Given the overall aim, the objectives of this thesis are: first, to assess the effectiveness of narrative communication textual characteristics - specifically chairman's statements - in the context of the role played by trustees in delivering charity accountability; second, to examine the determinants of the extent of performance disclosures in the top 100 UK fundraising charities; and third, to investigate narratives' disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events, until its final collapse and leaders cognitive behavioural traits (e.g., hubris) impact on disclosures. Systematic engagement with the literature surrounding charities' accountability helps to identify the problems and highlights the knowledge gaps in discharging accountability through public discourse. Three different theoretical frameworks are used to develop and address the research questions of the thesis: stakeholder theory, resource dependence theory, legitimacy theory and hubris. Due to the nature of the research questions and the theoretical framework, the underpinning philosophy for this study is pragmatism.

The research outcome of the first paper revealed that charities tend to behave instrumentally when preparing chairman's statements to cover both bad and good news, but charities still reflect some ethical sense by adopting a felt accountability by prioritising internal accountability. The second paper showed that the overall level of the Performance Disclosure Index (PDI) remains weak with a high emphasis on input and output information and less focus on efficiency, outcome and effectiveness disclosures. Moreover, there have been shifts in the influence of resource providers and stakeholders on the level of charity accountability. The third paper revealed that positive and uncertainty words (frequencies) dominated the narrative disclosures, while more positive performance news was emphasised using hyperbole words. It was found that the charity responded to external concerns either reactively or proactively. Finally, informed by hubris literature, it is indicated that the most common form of hubris found in the CEO statements was overconfidence and attribution of performance to self. Overall, this thesis contributed to the field on a number of different levels - theoretical, methodological and contextual - as well as informing policy and practical implications by providing a multi-layered understanding of the charity accountability phenomenon within the UK context.

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Academic Thesis: Declaration Of Authorship

I, Hessa Al Fadhel declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

CHARITY ACCOUNTABILITY: EVIDENCE FROM THE UNITED KINGDOM (UK)

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. Parts of this work have been published as:

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- Al Fadhel, H., (2016) The form and content of charity performance reporting: the case of UK fundraising organisation. Paper presented at 28th International Congress on Social and Environmental Accounting (CSEAR), University of St Andrews, St Andrews, UK, 24th August 2016.

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- Al Fadhel, H. (2016) The form and content of charity performance reporting: the case of UK fundraising organisation. Paper presented at Irish Accounting and Finance Association (IAFA) Doctoral Colloquium, Waterford Institute of Technology, Ireland, 18th May, 2016.

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Signed: ....

Date: ....

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Southampton, 31st April 2018

Hessa Mubarak Al Fadhel

Definitions and Abbreviations

CEO	Chief Executive Officer
CFIE	Corporate Financial Information Environment
DCLG	Department for Communities and Local Government
DfE	Department for Education
DH	Department of Health
DWP	Department for Work & Pensions
FRSB	Fundraising Standards Board
NAO	National Audit Office
NCVO	National Council for Voluntary Organisations
NGOs	Non - Governmental Organisations
NPOs	Not-For-Profit Organisations
PACAC	Public Administration and Constitutional Affairs Committee
PDI	Performance Disclosure Index
RDT	Resource Dependence Theory
ROA	Return on Assets
SORP	Statement of Recommended Practices
SRO	Senior Responsible Owner
ST	Stakeholder Theory
TARs	Trustees' Annual Reports
TSO	Third Sector Organisations
VCS	Voluntary and Community Sector
YSDF	Youth Sector Development Fund

Chapter 1 Overview of the Thesis

1.1 Background: NGO Accountability Debate

Charity accountability is an ongoing subject of debate in both the national and global contexts and has arisen partly in response to the recent significant and rapid growth in size and revenues of these charities. Charity scandals reported in the press and media are another factor contributing to the current spotlighting of fundraising organisations and they are in any case very much under public scrutiny, since their main activity is attracting donations from the public in order to carry out social missions for the good of the community. In addition, a number of today's high-profile UK charities have been accused of practising aggressive fundraising methods (e.g., cold calling or mailshots), which has led public trust in charities in England and Wales to fall to the lowest recorded level since 2005 (Siddique, 2016). The public is increasingly concerned about how donations are spent and the distinct lack of meaningful performance information available, particularly in terms of the efficiency and effectiveness of charities (Dhanani, 2009). Given the nature of charities and their dependency on the donors' contributions, it is important for them to build good relationships with donors based on trust.

Charities, in general, have the ability to alter donors' attitudes and levels of trust by being more responsible in discharging accountability in line with high moral standards or what as characterised as "felt responsible" (Ebrahim, 2003); by providing methods of fundraising (source of income), how money is spent on activities, and the impact of the charity's activities in society (Connolly and Hyndman, 2004). In other words, comprehensive reporting is needed in the charity sector, to disseminate performance information to stakeholders so that they are able to evaluate efficiency and effectiveness, which will eventually influence the decisions of donors regarding trust and contribution (McConville and Hyndman, 2015). However, deeper engagement with the literature surrounding charities' accountability helps to identify the problems that emerge/ present when discharging accountability through public discourse. The majority of studies have confirmed that charities' disclosures in annual reports have increased in length in recent years. However, the demonstration of accountability in these reports has weakened over time in terms of the level of information reported (Connolly and Dhanani, 2009).

A first key issue is the ethicality of charities when discharging their accountability through annual reports, since they are increasingly adopting business-oriented techniques such as self-promotion, and distraction techniques of impression management through selective disclosure and the inclusion of more positive language to convey their practices in line with significant stakeholder expectations (Dhanani and Connolly, 2012, 2015). This behaviour could be said to contradict the nature and objectives of these organisations. The *second* issue is that extensive research has shown that performance-reporting practice in the UK charities is still low, in terms of information related to efficiency and effectiveness (Hyndman, 1990, 1991; Connolly and Hyndman, 2003, 2004; Connolly and Dhanani, 2006; Connolly and Dhanani, 2009; Jetty and Beattie, 2009; McGeough, 2014a; Hyndman and McConville, 2015; McGeough, 2015, 2016). Researchers have suggested that a deterioration in performance reporting could be due to different factors; for example, lack of guidance on performance disclosure (Connolly and Hyndman, 2003) and focusing on legitimising actions and activities rather than highlighting their impact on society (Connolly and Dhanani, 2009). A study by Jetty and Beattie (2009) also noted that charities preferred the more unregulated forms of communication, such as annual reviews, for fundraising and marketing purposes, mainly to target unsophisticated stakeholders. These unregulated documents create a conductive environment in which charities are able to supress or minimise bad news and maximise fundraising potentials, for instance, annual reviews now include a higher proportion of photographs, diagrams, and stories (Connolly and Hyndman, 2013).

Previous research has investigated annual report accountability in various forms – namely text, disclosure. However, the empirical and comprehensive evidence is still needed in order to have a clear understanding of the effectiveness of annual reports/reviews as accountability tools. *The first gap* is related to the lack of empirical evidence in the NGO accountability literature, in terms of how and when impression management techniques are associated with low/high accountability levels. In addition, it appears that there have been no studies which investigated the textual characteristics of chairman’s statements and the use of readability metrics to ascertain evidence of obfuscation (impression management technique). *The second gap* relates to the disclosure and accountability literature in UK charities - that investigates the determinants of the extent of performance disclosure e.g. the impact of internal governance and organisational characteristics on performance disclosure levels*.* *Thirdly*, there has been very little attempt to consider charity disclosures over time around critical events or circumstances. In addition, to the best of the author's knowledge no research, has been conducted in the non-profit context, has examined the CEO narratives to detect any indications of hubris. Specifically, no study investigated the case of Kids Company from a longitudinal view.

The overall aim of this research, therefore, is to provide a multi-faceted analysis of the annual report and annual review as an instrument of charity accountability using multiple dimensions of text and disclosures. The documents include chairman's statements, performance disclosures and narrative disclosures. Given the overall aim, the research objectives (RO) of this thesis are:

RO1 – To examine the effectiveness of narrative communication textual characteristics in the context of the role which chairman play in delivering a charity's accountability.

RO2 – To examine the determinants of the extent of performance disclosures in the top 100 UK fundraising charities.

RO3 – To investigate narratives' disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events, until its final collapse.

Table 1-1 below shows the research aims and objectives, the research questions, and the specific issues and gaps which justify the rationale for each research question.

Table 1-1 Summary table of research objectives/questions/research gap of each paper

Research Objectives	Research Questions	Research Gaps identified in the Literature
▪ **Paper 1: Investigating UK Charity Accountability: Evidence from Chairman's Statements**		
RO1- To assess the effectiveness of the textual characteristics of chairman's statements by empirically testing their readability levels and variability as a proxy of obfuscation presence.	**RQ1-** Are UK charity chairman's statements written to deliberately obfuscate unfavourable aspects in order to manage the perceptions of their significant stakeholders?	➔ No study was found in NGO accountability literature focusing particularly on testing the effectiveness of narrative communication using readability as a tool to test obfuscation (impression management technique).
RO3 – To empirically measure the extent to which chairman's statements are prepared with a view to 'account' to their stakeholders, by developing a self-constructed index**.**	**RQ3-** To whom do the statements seek to be accountable?	➔ Lack of empirical evidence in NGO accountability literature in linking how and when impression management techniques are associated with low/high accountability level. ➔ No study was found in NGOs' accountability literature focusing particularly on the presentational and textual characteristics of chair statements.
RO4 – To evaluate chairman's statements whether it reflect the ethical or instrumental basis of stakeholder theory in the communication of charity accountability, by testing the association between obfuscated statements and financial measures as well as the frequency of stakeholder accountability and non-financial measures.	**RQ4-** Do the characteristics of chairman's statements reflect an ethical or instrumental basis of stakeholder theory in the communication of charity accountability?	➔ No study was found in NGO accountability literature focusing on measuring accountability levels empirically.

Research Objectives	Research Questions	Research Gaps identified in the Literature
▪ **Paper 2: What are the Determinants of Performance Disclosure by Charities? Empirical Evidence from UK Fundraisers**		
RO1- To assess performance disclosure accountability in UK fundraising charities, by developing a comprehensive Performance Disclosure Index (PDI) to quantify the extent of performance disclosures provided in annual reports (2011 and 2013). **RO2**- To identify the evolution of performance disclosures practices in UK charities, by comparing the overall pattern and performance measures used in both 2011 and 2013. **RO3 -** To investigate determinants of the extent of performance disclosures, by empirically examining the impact of governance and organisational characteristics on the extent of performance disclosures.	**RQ1-** What is the extent of performance disclosure in the UK's top 100 fundraising charities' annual reports (2011 and 2013)? **RQ2**- Is there any change in the overall performance disclosures pattern between 2011 and 2013? In addition, is there any particular change in performance measurements disclosed? **RQ3-** Are performance disclosure influenced by governance and organisational characteristics?	➔ Lack of updated and comprehensive empirical evidence on performance disclosure practices in the UK, in terms of covering recent years. ➔ Methodological lack particularly found in performance disclosure analysis (content analysis), in terms of classifying performance information highlighted only in tables and graphs, and excluding the main narratives. ➔ To date, only two studies have tested the impact of governance and organisational attributes on NFP information disclosures: First, a study conducted by Whittaker (2013) in the Canadian NFP context (unpublished work) and the second study was conducted by Zainon *et al.* (2014) in the Malaysian context (published work); however, the result of the Malaysian research cannot be generalised to the UK context due to the regulatory and institutional differences, in addition to the difference in accountability system matureness. ➔ To date, no study was found, specifically in disclosure accountability literature in UK charities, which investigates determinants of the extent of performance disclosures, in terms of the impact of internal governance and organisational characteristics on performance disclosure levels.

Research Objectives	Research Questions	Research Gaps identified in the Literature
▪ **Paper 3: Charity disclosure and narratives in times of crisis: A Case study**		
RO1- To investigate narratives' disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events, until its final collapse.	**RQ1-** How did the charity respond or react towards the pressures of officials' concerns at each funding request?	➔ To date, no study has focused on narrative disclosure response over time and around critical event or circumstances.
RO2- To understand how the narratives also reflect deeper behavioural traits of key organisational leaders (i.e. hubris, overconfidence, personal attribution) such as the chief executive officer (CEO).	**RQ2-** Is there evidence of hubris in the CEO statements?	➔ No study, which has been conducted in the non-profit context, has examined the CEO narratives to detect hubris at a distance. ➔ No study has investigated the case of Kids Company from a longitudinal view.

1.2 Research methodology

In this study, the underlying philosophy is one of Pragmatism (Johnson and Onwuegbuzie, 2004). Choosing this research philosophy is informed by the nature of research question and type of the study. According to the philosophical stance of pragmatism, the research question is the most important determinant of the research philosophy (Creswell, 2012). It allows the researcher to combine both positivism and interpretivism position within a single research according to the nature of the research question (Tashakkori and Creswell, 2007). In order to achieve the overall aim of this research, three research objectives and related research questions were formulated in three different papers. Each objective and related question have been addressed by a different methodological tool. For example, the first paper examines the effectiveness of narrative communication, specifically the textual characteristics of chair's statements, in the context of the role which trustees play in delivering a charity's accountability. The author tested the associations between financial and non-financial variables and obfuscated statements using correlation matrix (Pearson's and Spearman) and chi-square test. Likewise, the second paper aims to examine the determinants of performance disclosures in the top 100 UK fundraising charities. The author employed OLS regression to test the association of the charity's source of income, charity performance, internal governance structure, and top leadership characteristics (trustee chair and CEO) on the level of performance disclosure. The third paper aims to investigate narratives' disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events, until its final collapse. Taking influence from the nature research objectives and related questions in this thesis the author employed a mixed method approach. For example, to track the extent of narrative disclosure, the study used a quantitative content analysis in Paper 1 and 2. While to gain a deeper insight of the form and the content of annual report disclosure (e.g., trend, strategies, rational and deeper behavioural traits of CEO), the study adopted mixed method by conducting both qualitative and quantitative content analysis in Paper 3.

1.3 Overview of Thesis Papers

1.3.1 Paper 1: Investigating UK Charity Accountability: Evidence from Chairman's Statements

To date, concerns and questions about whether NGOs engage effectively in accountability and transparency remain debate (Dhanani and Connolly, 2015). As these organisations exist in order to promote values - for instance, societal welfare, equality and fair trade - charities are expected to be more responsible in discharging accountability in line with high moral standards (Ebrahim, 2003; Dhanani and Connolly, 2012, 2015). A considerable amount of charity accountability literature emphasises how charities rely on formal accountability via mechanisms such as the annual report and annual reviews with an emphasis on narratives, which serves as a communication lens through which stakeholders assess charities' performance (Davison, 2007; Samkin and Schneider, 2010; Dhanani and Connolly, 2012, 2015).

Charities in general are expected to be more responsible in discharging accountability in line with high moral standards by providing more effective means of communication; which are readable, understandable and free from any form of manipulation in order to account holistically to their multiple stakeholders (upward, downward and internal stakeholders). But, recent evidence reveals a drift in charities' accountability practices from ethical or moral behaviour towards instrumental or strategic behaviour. Dhanani and Connolly (2012) found that charities were motivated to legitimise and present their organisations in a positive light through selectively discharging more fiduciary and strategic accountability levels, and using more positive language in annual reports. In the same vein, Dhanani and Connolly (2015) found that some organisations tend to manipulate the content strategically to present the organisation in a positive light. The results suggest that charities' annual reports may be dominated by self-promotion and include distraction techniques of impression management to convey their practices in line with their significant stakeholders' expectations. Together, these studies raise doubts about the ethical aspirations of those charities based on the adoption of business or for-profit strategic behaviour when discharging accountability.

However, emerging research has not yet focused empirically on how impression management techniques are associated with low/high accountability levels or under which financial circumstances manipulation is occurring in the not-for profit context. In addition, no studies in NGOs accountability literature test the effectiveness of narrative communication using readability as a tool to test obfuscation (impression management technique). Moreover, very little evidence of research on has investigated the role trustees' play in delivering charity accountability literature, particularly in the presentational and textual characteristics of chairman's statements. From the perspective of charities, effectiveness of chair statements is important, because charities are dealing with multiple stakeholders from different backgrounds. Therefore, the level of ease with which the statement can be read and understood is considered as an important feature. As such, chair statements provide the stakeholder with an overview of charity's performance, achievement and development. One way to test the effectiveness of such statements is by testing the complexity of the text using readability formula.

The purpose of this first paper is to address these gaps in the literature by examining the readability and accountability of UK charity chairman's statements using both ethical and instrumental models of stakeholder theory. The author first assesses the effectiveness of the textual characteristics of chairman's statements for large UK charities[1]. The readability levels (difficult or easy-to-read statements) were examined over a six-year period (2008-2013) for a sample of 140 charities using the Flesch-Kincaid formula as proxy for readability level through computer-based analysis software[2]. The second , the author examines the readability variability of beginning, middle and ending sections of chairman's statements by using a coefficient of variation as a proxy for variability, then classifies obfuscated statements using dual criteria: (i) difficult to read statement (i.e. low reading ease); and (ii) high readability variability (i.e. high coefficient of variation) (Courtis, 2004b). Both average readability scores and readability variability were used as a proxy for the presence of obfuscation.

This study also empirically measures the extent to whom chairman's statements are accountable for, by testing the reference of stakeholders in the chairman's statement

[1] Large UK charities registered with the Charity Commission based on their income rank in 2012-2013.
[2] W-matrix software created by Corporate Financial Information Environment project (CFIE).

Using a self-constructed accountability index. The index was developed on the basis of stakeholder-direction orientation of accountability (Edwards and Hulme, 1995; Najam, 1996; Ebrahim, 2003, 2005; Kilby, 2006) by dividing stakeholders into three directional groups - *upward* stakeholders (donors, funders and regulators), *downward* stakeholders (client groups and service recipients) and *internal* stakeholders (mission, value and staff). Next, the study evaluates the role of stakeholder theory using both ethical and instrumental models in shaping organisational accountability practices, by testing the association between obfuscated statements and financial measures (size, change in income, debt level, efficiency ratios) as well as frequency of stakeholder accountability and non-financial measures (textual tone used: positive, negative, forward-looking, uncertainty).

In order to evaluate the chairman statements accountability practices the study uses the following rational: if the obfuscated statements (complex statements, high variability in the statements section, distribution of the hard statements is in the middle section and high reference of upwards stakeholders) appears particularly when, the charity is experiencing uncertain events such as volatility in assessing their recourses due to economic issues. Then such statements are considered to reflect instruments basis, using complex statements to obfuscate bad news to manage the perceptions of stakeholders. while, if the statements are not obfuscated (less complex statements, low variability between section, distribution of hard statements not appears in the middle section, reference of downward, internal stakeholder more than upward) then the statements are considered to reflect ethical basis.

The results revealed that the overall readability level of chairman's statements tends to be towards 'difficult' and this difficulty level was stable over the entire six-year period reviewed. The results indicate that charities chairman statements are ineffective, and the statements are written beyond the comprehension level of targeted audience. Furthermore, 177 statements (out of 363, accounting for approximately 49%) met the dual criteria and may be referred to as obfuscated chairman's statements. Generally, the middle section of each statement was the most 'difficult to read' section among statements associated with the obfuscated statement, while the beginning section tended to be the most 'difficult to read' section in statements associated with non-obfuscated chairman's statements. The study further reveals weak and non-significant correlations between the readability of obfuscated chairman's statements and organisational characteristics (both financial and non-financial variables). However, further analysis (chi-square test) showed a significant association between high administrative costs and an obfuscated chairman's statement readability level, indicating that the preparers of the chairman's statements might be using difficult writing styles deliberately in order to distort stakeholder perceptions. Moreover, full sample results showed significant associations between low reading ease and both high programme cost ratios and surpluses. In addition, a non-financial variable (the tone used in the chairman's statement) showed a significant difference when comparing two sections. Specifically, high frequencies of both positive and negative words appeared more often in the beginning section, while a high frequency of forward-looking words appeared in the ending section. Ultimately, the statements appeared to be most accountable towards charity mission and staff (internal accountability), followed by charity beneficiaries and community (downward accountability), and finally donors and funders (upward accountability).

The findings of this paper partially concur with the results of Dhanani and Connolly (2012, 2015) in that there is an attempt to use strategic or manipulative techniques when discharging accountability to deliberately influence stakeholder perceptions of charities; however, this study suggests that the chairman's statements reflect a combination of motivations associated with both the ethical model and the instrumental model of stakeholder theory. Charities tend to behave instrumentally when preparing chairman's statements covering both bad and good news that might affect their survival, particularly when administration and programme costs are high, and even when the charity is experiencing a surplus, in order to retain donors. On the other hand, charities still reflect some ethical sense by adopting a *felt* accountability regime instead of an *imposed* accountability regime, as well as by prioritising internal accountability. Hence, charities in this study may be regarded as "moralist organisations" which tend to uphold moral principles and care for all stakeholders while worrying less about them when facing financial crises.

1.3.2 Paper 2: What are the Determinants of Performance Disclosure by Charities? Empirical Evidence from UK Fundraisers

In the context of a significant and rapid growth in the charity sector in terms of income and influence (Ebrahim, 2003b, 2003a; Connolly and Hyndman, 2013), charity accountability has continued to be the subject of lively debates at national and global levels (Crawford *et al*., 2018). Relatedly, concerns about the way charities collect donations from the public have contributed to the debate on accountability and performance. More specifically, high-profile charities in the UK have been accused of practising aggressive fundraising methods (e.g., cold calling or mailshots), leading to a fall in public trust of charities in England and Wales (Siddique, 2016; Hind, 2017). This adds to the widespread concerns about how donated money is spent, and the efficiency and effectiveness of charities (Dhanani, 2009).

There have been repeated calls (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; McGeough, 2016) for comprehensive forms of reporting in the charity sector to disseminate performance information to stakeholders and to allow them to evaluate charity efficiency and effectiveness. Prior research has shown that performance-reporting practice in UK charities is still poor in terms of information relating to efficiency and effectiveness (Hyndman, 1990, 1991; Connolly and Hyndman, 2003, 2004; Connolly and Dhanani, 2006, 2009; Jetty and Beattie, 2009; McGeough, 2014a, 2015, 2016; McConville and Hyndman, 2015). Researchers have suggested that deterioration in performance reporting might be due to different factors. The first is a paucity of guidance on performance disclosures by the Charity Commission, which tends to focus on financial accounting matters (Connolly and Hyndman, 2003). Secondly, charities focus on legitimising their actions and activities rather than highlighting their impact on society (by reporting information related to activities rather than performance or impact) (Connolly and Dhanani, 2009).

The above-mentioned studies explored disclosure, accountability and/or transparency issues relating to UK charities; however, there are a number of research gaps. First, there is a dearth of recent evidence on the use of comprehensive performance disclosures practices, particularly in relation to the period following the enactment of austerity measures in the UK (McGeough, 2014a; McConville and Hyndman, 2015). Second, whilst many studies do provide useful insights on performance disclosures, the focus of the empirical work has been on specific elements/items (e.g., tables and graphs), while excluding key narratives (Connolly and Hyndman, 2004; McGeough, 2015, 2016). Third, the majority of the studies have not formally investigated whether organisational and/or governance factors might be influencing the level of performance disclosure, with only one such attempt carried out in Malaysia (Zainon *et al.,* 2014). In addition, the literature has only so far considered the role of governance on charity performance (Olson, 2000; Stone *et al*., 2001; Chen, 2009; Reddy *et al.,* 2013; Berardi *et al.*, 2016).

The study examines the determinants of UK fundraising charity performance disclosure. Using the integrated lens of stakeholder theory (ST) and resource dependence theory (RDT), it is argued that fundraising charities which are highly reliant on external donors and on multiple interdependence relationships tend to engage in a greater extent of voluntary performance disclosure for several reasons. The first is to gain the support of powerful stakeholders such as government, regulators, individual donors, and corporate donors (e.g., stakeholder theory). The second is to help charities gain access to resources (e.g., resource dependence theory) (Salancik and Pfeffer, 1978; Reverte, 2009; Ntim *et al.,* 2017).

This integrated perspective of stakeholder and resource dependence theories seeks to provide a theoretical explanation of the instrumental benefits (e.g., government income, individual and corporate donations, trust, legitimacy) that would motivate charities to provide more performance information (Ntim *et al.,* 2017). The study does so by investigating the association of the charity's source of income, charity performance, internal governance structure, and top leadership characteristics (trustee chair and CEO) with the level of performance disclosure. To the best of the researcher's knowledge, there has been no explicit study of such determinants in the UK charity context, particularly in relation to the role of charity governance structures. In light of the continued accountability, funding and strategic challenges faced by charities (Cordery *et al*., 2017), this study brings to the fore implications for policy makers in understanding the nature and drivers of performance disclosure practices in UK charities.

This study found that PDI remains low with no major changes from 2011 to 2013, with a high emphasis on efficiency criteria (e.g., resources, resources used, and immediate outputs and outcome) and less focus on effectiveness criteria (e.g., charities' impact and wider society). In addition, while in 2011 government income, board size, administrative cost efficiency ratio, and female CEO were positively associated with the extent of PDI, in 2013 administrative cost efficiency ratio, fundraising cost efficiency ratio, and debt ratio are positively associated with the extent of PDI. By contrast board diversity, chair gender, and chair and CEO occupational background are not significantly associated with PDI. The results are consistent with the predictions of stakeholder and resource dependence theories; they reveal that instrumental benefits highly motivate charities to provide performance disclosure, particularly when charities' resources and operations are under threat due to uncertain events such as government reforms and austerity agendas.

1.3.3 **Paper 3: Charity disclosure and narratives in times of crisis: A Case study**

The third paper investigates narratives' disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events, until its final collapse in 2015. One of the key components of this investigation is the implication of CEO behavioural traits (e.g. hubris) on narrative disclosure. This study was informed by press and media attention towards the charity sector. This was in response to the allegation made by the Daily Mail [2015] in relation to the unethical practices employed in fundraising activities and the case of 'Kids Company' allegations of financial mismanagement which led to its collapse (Siddique, 2016). Kids Company was considered one of the high-profile charities, this charity has greater reputation and popularity for serving vulnerable children and young people and gets additional support from the central government and private donors through either governmental grants or donations. However, initial media and anecdotal sources suggested that the primary responsibility of this collapse rested on the charity's trustees (PACAC, 2016a).

The National Audit Office (NAO) and House of Commons published Public Administration and Constitutional Affairs Committee (PACAC, 2016b) reports, noting the reasons behind the trustees' failure to fulfil their statutory duties; the charity's reliance on hand-to-mouth existence and demand-led operating model, ignoring the auditor's warnings over their financial status, lack of trustees' expertise in the charity area, and high level of admiration for, reliance on and overconfidence in the CEO's (founder's) vision, funding capabilities and, crucially, her high contact with senior politicians. This had left the trustees unable to comprehensively challenge or review the decisions of the founder-CEO and less able to ensure the sustainability and reputation of the charity as they have exposed the charity to consistent risk (PACAC, 2016b).

Kids Company was selected in this paper for a number of reasons After close reading of the reports and investigations the researcher assumed that the collapse of the charity might be partly due to hubris based on Hayward and Hambrick's (1997) four wellsprings of managerial hubris: (i) a long track record of success (CEO's success in securing governmental grants) and high connection with politicians and private donors, which could systematically, over time, create inflated ego and self-importance relating to their own ability and skills. (ii) The length of the CEO tenure; in this case, the CEO is the founder of the charity, which creates power and dominance (Owen and Davidson, 2009). (iii) The identity of the CEO was attached to the charity, which leads to celebrity status and heroic aura. (iv) Less experienced board of trustees and a high reliance on and confidence in the CEO's fundraising capabilities (overconfidence, power and dominance). According to Brennan and Conroy (2013), hubris is an important issue to study as extreme signs of hubris might increase the risk to organisation and reputation. In addition, there was also some evidence of impression management techniques used by Kids Company which was reported by NAO, where Kids Company reported suppressing outputs' targets sometimes by a substantial amount. Therefore, it is seen from the evidence provided above that narrative disclosure might be biased either by deliberate bias arising from opportunistic managerial behaviour (impression management) or by egoistic bias causing subconscious cognitive bias (hubris).

To the best of author's knowledge, no study has focused on narrative disclosure response to over time and around critical event or circumstances. In addition, no study which has been conducted in the non-profit context has examined the CEO narratives to detect hubris at a distance. No study investigated the case of Kids Company from a longitudinal view. Mostly, the previous study related to NGO narrative analysis was limited to studying the narratives' accountability and performance disclosure accountability (see, for example, Hyndman, 1990, 1991; Connolly and Hyndman, 2003; Connolly and Dhanani, 2006, 2009; Dhanani, 2009; Jetty and Beattie, 2009.).

This case study is framed within a multi-theoretical perspective to understand the rationales underlying the form and content of the annual report disclosures, specifically by relying on two key areas. The first is the sociological perspective of legitimacy theory and stakeholder theory to interpret the legitimation strategies used in response to specific critical events. The second is the cognitive psychological perspective of attribution theory, to analyse how the narratives also reflect deeper behavioural traits of key organisational leaders (i.e. hubris, overconfidence, personal attribution), such as the chief executive officer (CEO). The research comprises of a longitudinal study of narrative disclosures of annual reports over the period of 2000-2013, using quantitative and qualitative content analysis. The analysis is also enriched by comparing the charity's public narratives to the findings of several formal investigations into the activities, performance and finances of Kids Company during the same period.

Three main finding categories were identified in the research: First, the narrative disclosure was dominated by positive and uncertain word frequencies and the charity emphasised more positive news related to their performance, and hyperbole words were extensive. Second, the charity responded to concerns reactively and sometimes proactively. Specifically, the charity reacted reactively each time officials raised concerns and proactively at the end of each grant term (for example, offering statements of an excuse to justify the lack of action by blaming the external factors). Third, in relation to the CEO hubris analysis, it is indicated that the most common form of hubris found in the CEO statements was overconfidence and attribution of performance to self.

1.4 Research Contributions

This research project makes a number of contributions at the paper level, the first paper contributes to the growing body of literature in two ways. First, it adds to the readability literature; this is the first study conducted within the context of not-for-profit organisations. Second, it adds to the NGO accountability literature by extending the work of Dhanani and Connolly (2012, 2015) in assessing NGO accountability through chairman's statements, using readability to empirically evaluate the pattern and motivation through the use of both the ethical and instrumental bases of stakeholder theory. In addition, to the best of this author's knowledge, this is the first study to empirically assess the 'target audience' of the accountability narratives by developing a self-constructed index under the basis of stakeholder-direction orientation of accountability. As such, this study has important implications for policy makers and preparers in understanding narrative reporting practices in charities.

Again, to the best of the author's knowledge, the second paper contributes to the literature by providing some new knowledge and insights where no explicit study has previously investigated the impact of governance and organisational characteristics on performance determinants in the UK charity context. In light of the continued accountability, funding and strategic challenges faced by charities (Cordery *et al.*, 2017), this study bring to the fore implications for policy makers in understanding the nature and drivers of performance disclosure practices in UK charities.

Finally, the third paper makes two key contributions to the literature. First, this is a rare longitudinal study of voluntary disclosure in the context of crises experienced by, and eventually the downfall of, a charitable organisation, which extends the knowledge of the narrative disclosure studies in not-for-profit organisations. Second, this study contributes uniquely to the not-for-profit narrative disclosure studies by highlighting the relevance of the behavioural traits of charity leadership (e.g., CEO hubris) in studying narrative disclosure in addition to the mainstream stakeholder and legitimacy perspectives.

1.5 **Thesis Outline**

The thesis is structured and presented in five chapters including the current chapter. The current chapter introduced the reader to the current debate of NGOs' accountability and charities' scandals, in addition, to the research gap found in charities' accountability literature, which leads to the overall aim and objectives of this thesis. This is followed by a glimpse into the different chapters of the thesis that include the literature review, research approach, and results and discussion for each research paper, where Chapter 2 represents the first paper, Chapter 3 represents the second paper and Chapter 4 represents the third paper. Finally, Chapter 5 presents the conclusion of the thesis, states the limitations of the study and points out possible future research directions.

Chapter 2 Investigating UK Charity Accountability: Evidence from Chairman's Statements

2.1 Abstract

The purpose of this study is to examine the effectiveness of narrative communication in the context of the role that trustees play in delivering charity accountability. The study is motivated by recent research which raises doubts about the ethical behaviour of charities in their adoption of business or for-profit strategic behaviour when discharging accountability. This behaviour involves the use of impression management techniques, or obfuscation, to imply that the charities' practices are in line with stakeholder expectations. The study focuses specifically on the effectiveness of UK charity chairman's statements by examining their accountability and readability as a tool to test obfuscation from the standpoint of stakeholder theory. This is first achieved by testing the readability levels and readability variability of chairman's statements over a six-year period in a sample of 140 charities. Chairman's statements are classified as "obfuscating" based on the dual criteria of low readability level (complex) and high readability variability, to identify to what extent readability is associated with obfuscation. Secondly, by developing a self-constructed index, the extent to which chairman's statements are prepared with a view to 'account' to their stakeholders is measured. Finally, the association between obfuscating statements and financial measures, non-financial measures, and stakeholder accountability (targeted audience) was tested, to evaluate the role of stakeholder theory in shaping organisational accountability practices. The results reveal that charities tend to behave instrumentally when preparing chairman's statements, covering both bad and good news that might affect their survival, particularly when administration and programme costs are high, and even when the charity is experiencing a surplus, in order to retain donors. On the other hand, charities still reflect some ethical sense by adopting a *felt* accountability regime instead of an *imposed* accountability regime, as well as by prioritising internal accountability. This study suggests that the chairman's statements reflect a combination of motivations associated with both the ethical model and the instrumental model of stakeholder theory. The findings contribute to the scant knowledge of disclosure accountability practices and role of chairman's statements in discharging UK charities' accountability and have significant implications for charity policy makers in understanding disclosure practices.

Keywords: Accountability, Charities, Chairman Statement, Obfuscation, Stakeholder theory, Readability

2.2 Introduction

Since the 1990s, the accountability of non-governmental organisations (NGOs) has become a highly important issue for several reasons. Firstly, rapid growth in the third sector has made it difficult to monitor and identify whether an organisation is legitimate or not (Lee, 2004), particularly with the emergence of NGOs around the world. This rapid growth has largely been due to the widespread belief that NGOs are more cost-effective than governments in providing basic social services (Ebrahim, 2003). Secondly, NGOs were considered to play a key role in democratisation and civil society power (Ibid). Therefore, they began to have a stronger voice and more power in reshaping policies, thereby becoming influential actors, attracting legal and regulatory controls by some governments (Unerman *et al.*, 2006).

In relation to this, concerns and questions have been raised about whether NGOs engage in accountability and transparency as requested by others (Dhanani and Connolly, 2015). Since these organisations exist in order to promote values – for instance, societal welfare, equality, and fair trade – they are expected to be more responsible in discharging accountability in line with high moral standards (Ebrahim, 2003; Dhanani and Connolly, 2012, 2015). National and international oversight bodies and NGOs have taken action to reduce the pressure on the accountability concerns in the not-for-profit sector by developing frameworks and codes of conduct to guide accountability practices (Dhanani and Connolly, 2015). For example, in 2010, both The Accounting Charter and Global Reporting Initiative (GRI) developed reporting guidelines to support the extent of accountability practices (Dhanani and Connolly, 2012).

In general, accountability plays a key role in stabilising organisations, particularly in the case of an organisation with a growing profile and high recognition in some defined aspects of social development (Connolly and Kelly, 2011). The UK charities' accounting and accountability have developed over time, starting with the introduction of Statements of

Recommended Practice (SORP) in 1988; however, SORP adopted commercial principles of the UK's Generally Accepted Accounting Principles (GAAP) into charities. Therefore, charity reporting has been traditionally based on the principle of the decision usefulness model (Connolly and Dhanani, 2009). By focusing on functional accountability through reporting resources and immediate output, only limited attention has been paid to downward accountability (Najam, 1996; Ebrahim, 2003; Connolly and Dhanani, 2009). In order to discharge accounting more comprehensively, organisations have been exhorted to rely on narrative reports and to include their achievements, future plans, objectives, activities and strategies (Boyen and Law, 1991; Charity Commission, 2005). Accordingly, narratives are seen to play a central role in discharging accountability in charities more so than the traditional financial statements (Connolly and Dhanani, 2009).

The importance of NGOs' accountability has been emphasised in the literature, where the concept has been considered both theoretically (Unerman and O'Dwyer, 2006; Ebrahim, 2009) and empirically (O'Dwyer and Unerman, 2007, 2008; Everett and Friesen, 2010). These studies highlighted the challenges faced by NGOs and their stakeholders in their attempts to account holistically – specifically to downward stakeholders – to achieve social advancement (O'Dwyer and Unerman, 2007, 2008; Everett and Friesen, 2010). However, to date few empirical investigations have been undertaken on NGOs' accountability literature using annual reports focusing on the content of narrative disclosures (Connolly and Dhanani, 2006, 2009; Jetty and Beattie, 2009; Dhanani and Connolly, 2012, 2015).

Charities in general are expected to be more responsible in discharging accountability in line with high moral standards, as they are expected to provide more effective means of communication; which are readable, understandable and free from any form of manipulation in order to account holistically to their multiple stakeholders (upward, downward and internal stakeholders). Notwithstanding that, recent evidence reveals a drift in charities' accountability practices from ethical or moral behaviour towards instrumental or strategic behaviour. Dhanani and Connolly (2012) found that charities are motivated to legitimise and present their organisations in a positive light through selectively discharging more fiduciary and strategic accountability levels, and by using more positive language in annual reports. In the same vein, Dhanani and Connolly (2015) found that organisations intend to discharge accountability truthfully, using appropriate and easily understandable language; however, some organisations tend to manipulate the content strategically to present the organisation in a positive light. Together, these studies raise doubts about the ethical behaviour of charities which adopt business or for-profit strategic behaviour when discharging accountability. As the findings suggest, charities' annual reports may be dominated by self-promotion and include distraction techniques of impression management to convey that their practices are in line with stakeholder expectations (Dhanani and Connolly, 2012, 2015).

However, there has been little empirical research into how impression management techniques are associated with low/high accountability levels in narrative communication, or under which financial circumstances manipulation is used in the not-for-profit context. In addition, to the best of author' knowledge no study in the NGO accountability literature focuses specifically on testing the effectiveness of narrative communication using readability as an impression management tool (obfuscation). Moreover, no study has focused on the role that trustees play in delivering charity accountability, particularly in terms of the presentational and textual characteristics of chair's statements. From the perspective of charities, effectiveness of chair statements is important, because charities are dealing with multiple stakeholders from different backgrounds therefore, the level of ease with which the statement can be read and understood is considered as an important feature. As such, chair statements provide the stakeholder with an overview of charity's performance, achievement and development. One way to test the effectiveness of such statements is by testing the complexity of the text using readability formula.

Predominantly, readability is used as technique to evaluate the effectiveness and quality of annual reports (Courtis, 1986). Effective communication, as Courtis (1995) notes, occurs when a message received by the reader is interpreted as intended by the sender. Readability studies have mostly been carried in for-profit contexts, to test the textual effectiveness of discretionary narrative disclosure. The vast majority of for-profit studies have tested the readability of the chairman's statement, as it is considered to be the most readable part of the annual report (Courtis, 1998). As such, the statement provides an overview of senior executive views and includes an analysis of performance, trends and corporate developments (Raman *et al.*, 2012). Most of these studies, therefore, tested the readability level of this important narrative section through different theoretical lenses, over time, and across countries (Still, 1972; Smith and Taffler, 1992; Clatworthy and Jones, 2001; Hossain and Siddiquee, 2008; Bayerlein and Davidson, 2015). Most of the results showed that it was 'difficult' or 'very difficult' to read chairman's statements, and numerous studies have attempted to explain difficult-to-read statements as managerial manipulation (Clatworthy and Jones, 2001; Courtis, 2004; Merkl-Davies and Brennan, 2007).

The voluntary nature of these statements gives the chair more flexibility in writing style and complexity (Raman *et al.*, 2012); consequently, the chances of statement manipulation through obfuscation will increase (Courtis, 1998, 2004; Clatworthy and Jones, 2001; Merkl-Davies and Brennan, 2007). Obfuscation may be used in narrative writing as a form of impression management, mainly to manage the perceptions of stakeholders by using long and complex sentence structures with high variability of reading ease, in order to conceal bad or unwanted information (Courtis, 2004). As a consequence, some readability studies have attempted to use readability to capture ineffective communication, drawing fine distinctions between sections of the chairman's statement by testing readability variability as a proxy for the obfuscation hypothesis (e.g., Courtis, 1998, 2004; Clatworthy and Jones, 2001). The overall results of previous studies support the obfuscation hypothesis, since management engages in manipulating the reader through complex and variable writing style reports.

This study builds on the recent findings of Dhanani and Connolly (2012, 2015) in relation to NGOs' strategic/instrumental behaviour in discharging accountability using impression management techniques (selective discharge of accountability) and self-promotion (high use of positive language) to convey that their practices are in line with stakeholder expectations. In addition, drawing from the above readability studies, this raises doubts about the effectiveness of chairman's statements in discharging accountability, and generates three key questions about the complexity of chairman's statements in the not-for-profit context:

- Are UK charity chairman's statements written to deliberately obfuscate unfavourable aspects in order to manage the perceptions of their significant stakeholders?
- To whom do the statements seek to be accountable?
- Do the characteristics of chairman's statements reflect the ethical basis or instrumental basis of stakeholder theory in the communication of charity accountability?

The purpose of this study is, therefore, to examine the effectiveness of narrative textual characteristics in the context of the role that trustees play in delivering charity accountability, specifically by examining the readability and accountability of UK charities' chairman's statements on the basis of the ethical and instrumental models of stakeholder theory. In order to assess the effectiveness of textual characteristics in chairman's statements, the study first empirically tests their readability and variability. Then, chairman statements are classified as obfuscating or non-obfuscating, based on the dual criteria of low readability (complex) and high readability variability, to identify to what extent readability is associated with obfuscation (impression management practices). Next, a self-constructed index is compiled to measure the extent to which chairman's statements of accountability are prepared with a view to 'account' to stakeholders. Finally, to evaluate the role of stakeholder theory in shaping organisational accountability practices, the study tests the association between obfuscated statements, financial measures and non-financial measures, as well as stakeholder accountability (targeted audience).

As such, this study contributes to the body of knowledge in two areas. First, it adds to the readability literature, as it is the first study of this kind to be conducted in the not-for-profit context. Second, it adds to the NGO accountability literature by extending the work of Dhanani and Connolly (2012, 2015) in assessing NGO accountability through chairman's statements, using readability to empirically evaluate the pattern and motivation, using both the ethical and instrumental models of stakeholder theory (ethical and instrumental basis). In addition, to the best of this author's knowledge, this is the first study to empirically assess the 'target audience' of accountability narratives by developing a self-constructed index on the basis of stakeholder-direction orientation of accountability. As such, this study has important implications for policy makers and preparers in understanding narrative reporting practices in charities.

The remainder of the paper is structured as follows: the literature review is presented first, followed by the theoretical background of stakeholder theory (ethical and instrumental models) in Sections 2.3 and 2.4. Then, data collection and methodology are described in Section 2.5. The empirical results are presented in Section 2.6, followed by a discussion in Section 2.7. The paper concludes in Section 2.8.

2.3 Literature review

Annual report is a formal communication document comprising both mandatory disclosure, such as financial or quantitative information required by regulatory agencies, and voluntary disclosure, such as narratives, photographs and graphs in both for-profit and non-profit sectors. This full communication package will be communicated between corporate management and various stakeholders. An annual report is a comprehensive database which informs the reader of the company's past achievements, confirmations and revisions (Courtis, 1998). However, the usefulness of the annual report depends on the extent to which the content is readable and understandable.

2.3.1 Effective vs. Ineffective communication and readability uses

Effective communication, as Courtis (1995) notes, happens when the message received by the reader is interpreted as intended by the sender. The only obstacle in conveying the right message to the reader is when narrative disclosure within an annual report is written beyond the comprehension level of the targeted audience (ibid). On the other hand, ineffective communication occurs when annual reports are difficult to read, which may be a way of masking unfavourable aspects of corporate behaviour. Thus, increasing the investor's resource misallocation has actual cost implications on both an individual level and a social level (Courtis, 1995). One of the techniques employed to evaluate the effectiveness and quality of communication in annual reports is to measure readability (Courtis, 1986). Readability formulas are mainly used to assess the comprehension difficulty of narrative information based on two main factors: average length of words and average length of sentences (Smith and Taffler, 1992; Courtis, 1995, 1998). Mainly, word length refers to the speed of recognition, and sentences represent memory or word recall (Courtis, 1998).

Previous studies have focused more on readability and have not paid much attention to understandability, which is a separate aspect that can be measured using the CLOZE procedure. This method also enables the assessment of other aspects such as an individual reader's ability, interest and educational level. Although readability only measures the complexity of the text (Smith and Taffler, 1992), there are also limits to how far the concept of understandability can be taken as a formula-based assessment. In order to assess understandability using the CLOZE procedure, specific identification of the target audience is required, while a readability formula only requires identification of the preparers. As the annual report is intended to target a wide variety of users, it is not possible to identify a specific group of users (Bayerlein and Davidson, 2015). Therefore, readability studies tend to ignore understandability as an assessment factor of narrative reports and focus on readability formula-based assessment, since this is still seen as an important factor in understanding narrative information (Smith and Taffler, 1992; Courtis, 1995, 2004; Clatworthy and Jones, 2001).

2.3.2 **Readability methodological issues**

To date, the most dominant formulas used in readability studies are the Flesch Index and the Fog Index (see, for example, Jones, 1988; Courtis, 1998; Clatworthy and Jones, 2001). However, these methods of analysis have a number of limitations. First, outdated measures fail to consider changes in the language over time. Second, these measures focus on writing style and disregard other factors that might affect the readability of the text. Other readability formulas which are also used to test the readability of texts individually or using a combination of formulas are LIX (Smith and Taffler, 1992; Courtis, 1995) and BIC (Abu Baker and Ameer, 2011). These readability formulas have been adapted to test the different sections of an annual report, such as the chairman's statement, auditors' report, footnotes of financial statements, and management discussion and analysis (MD and A) statements. However, the chairman's statement has been the most frequently studied part of the annual report (see, for example, Jones, 1988; Courtis, 1998, 2004; Clatworthy and Jones, 2001; Bayerlein and Davidson, 2015). On the other hand, some studies have considered more than one section, such as chairman's statement and footnotes (Courtis, 1986, 1995).

2.3.3 **Readability studies on the for-profit context: A chronological review**

Most accounting studies of annual report readability have focused on two issues. The first involves testing the level of readability of prose passages and whether they are likely to be readable by the target audience (see, for example, Pashalian and Crissy, 1952; Courtis, 1986, 1995; Jones, 1988; Smith and Taffler; 1992). The second involves testing the presence of the readability variability level in reports and whether variability exists associated with obfuscation or manipulation practices to cover up unfavourable news or performance (see, for example, Courtis, 1998; Clatworthy and Jones, 2001).

The first readability study conducted on a corporate narrative was by Pashalian and Crissy (1952), who tested the readability level of the annual reports of large US companies using the Flesch ease formula; they found that the language used in the annual reports was difficult to read for the majority of readers. Research conducted by Soper and Dolphin (1964) evaluated the change of readability level in annual reports 13 years later. Their results are consistent with the first study; annual reports became more technical over time and fell into the category of 'very difficult to read'. Over time, readability studies have focused particularly on testing the readability of specific sections, such as footnotes in financial statements. Two studies conducted in two different regions, the USA (Smith and Smith, 1971) and New Zealand (Healy, 1977), both show difficult or very difficult-to-read footnotes.

More attention has been given to the readability of the chairman's statement since this is known to be the most readable section of the annual report, based on shareholders' readership rating surveys (Courtis 1982, 1986, 1998). This is because the content of the chairman's statement is a collection of directors' views which include an analysis of performance, trends and developments of the corporation (Raman *et al.*, 2012). Therefore, the level of ease with which the statement can be read and understood is considered as an important feature of the chairman's statement. Still (1972) undertook the first study and tested the readability of chairman's statements in UK annual reports, and concluded that the majority of UK reports were beyond the comprehension of most stakeholders. Likewise, Jones (1988) found that chairman's statements of UK companies were also difficult to read when he conducted a longitudinal case study. Other studies also tested different sections of annual reports, such as employee reports (Pound and Courtis, 1980) and audit reports (Pound, 1981).

Only two studies compare different readability sections – namely chairman's statement and footnotes; these were conducted by Courtis (1986) using Canadian evidence, and Courtis (1995) using Asian evidence. Similar results found difficult or very difficult-to-read statements; however, chairman's statements tend to be easier to read than footnotes (very difficult) and were beyond the educational attainment level in Canadian and Asian evidence. Courtis concluded that the Asian evidence is consistent in degree of difficulty when compared with the Western-context studies. Overall, previous results show that the readability level is difficult or very difficult, regardless of the full report or sections and across countries. This raises questions about the causes or factors associated with the level of complexity in the content. Smith and Taffler (1990) point out that changes in readability complexity are reflected by the financial status of the company.

In this respect, several studies test the relationship between the complexity of chairman's statements and company performance, using different performance proxies and yielding mixed results. No relationship appears between profitability and complexity level (Baker and Kare, 1992; Smith and Taffler, 1992; Courtis, 1995, Hossain and Siddique, 2008). While Hossain and Siddique (2008) find a positive correlation between the Return on Assets (ROA) and readability (the higher the ROA, the easier the management review), on the other hand, a negative relationship appears between profitability and readability level (Subramanian *et al.*, 1993; Li, 2008). Baker and Kare (1992) find a positive relationship between the size of the company and the readability level (large companies provide easier annual reports compared to smaller companies). In contrast, Courtis (1995) finds no persuasive evidence with regard to size and readability level. In addition, some studies test the effect of industry on readability; again, Courtis (1995) finds no differences in readability level when comparing industrial and property companies, while the banking sector prepares the most difficult management review when compared with other sectors in Bangladesh (Hossain and Siddique, 2008).

The second strand of readability studies addresses the issue of reading ease variability. The first study, conducted by Hay (1998), focused on the reading ease of audit reports in New Zealand and compared the variability of reading ease between different audit firms; however, the study makes no attempt to assess the variability of the report itself. Courtis (1998) examined the pattern of reading ease variability in the chairman's statement using an obfuscation hypothesis. The main reason for testing the chairman's statement is because it is an unaudited document and not required by law. Therefore, chairs exercise more flexibility in the writing style and complexity of statement presentation (Raman *et al.*, 2012). Consequently, the chances of manipulation or obfuscation of the statement will increase.

Obfuscation is an impression management technique used in writing to disguise the intended message (Courtis, 2004). Merkl-Davies and Brennan (2007) explain impression management strategies and distinguish between two different techniques used, concealment and attribution, where concealment can be attained either by obfuscating negative news and highlighting positive organisational achievement, while attribution takes the form of blaming negative news on external factors while attributing positive outcomes to internal or organisational factors. Obfuscation or concealment strategies include obfuscating bad news using syntactical complexity and reading ease manipulation (e.g., complicated vocabulary, irrelevant information, long sentences with complex grammatical structures and high variability in reading ease (Courtis, 2004); rhetorical manipulation (e.g., choice of persuasive language to impress or to conceal from the reader), and thematic manipulation (e.g., examining the positive and negative themes used by management) (Merkl-Davies and Brennan, 2007). Courtis (2004) points out two reasons for the presence of obfuscation in statements: it is either intentional (malicious), where the management distracts the reader with the intention to hide a fact, or it is non-malicious, with the intention to enhance the story and reduce investor uncertainty. Furthermore, obfuscation may occur in reports because they are prepared by several different people, which can lead to imbalances in the overall style of writing and give the impression of obfuscation.

Courtis (1998) investigated the presence and degree of readability variability between sections of chairman's statements, as well as the management's tendency to obfuscate bad news in the middle section by using complex writing structures. The study uses high variability as proxy of obfuscation presence, while profitability (bad/good news) and press coverage are used as proxies to test obfuscation. A sample of 120 companies listed on the Hong Kong stock exchange were used; after dividing 60 companies into sub-categories – 30 profitable companies and 30 less profitable companies, and 60 companies divided into two sub-categories – 30 high press coverage companies and 30 low press coverage companies. A systematic selection of 100 words was taken from the beginning, middle and ending sections of chairman's statements. The results show variability between the sections; with the middle section being the hardest to read and the beginning section the easiest. Obfuscation tests found no evidence between high variability statements and bad news. In addition, the results show that companies with high press coverage issue reports with higher variability when compared with less press coverage companies. Overall, the obfuscation hypothesis is accepted, since management engages in manipulating the reader by means of complex and variable writing styles.

In a follow-up study, Clatworthy and Jones (2001) extended the work of Courtis (1998) and investigated the impact of thematic structure on the variability of chairman's statements. The study first tested the readability variability of 100 words taken from the beginning, middle and ending sections. The authors argue that it is not necessarily the middle section which is used to obfuscate negative news as Courtis (1998) claimed. They found that the management sometimes deliberately placed negative news at the beginning, in the hope that it might be forgotten, or at the end, where it may be left unread. In addition, content analysis was used to test thematic structures using 11 themes. The results show significant differences between the readability levels in each section. However, the results partially confirm those of Courtis (1998), where the beginning section is the easiest to read, while the hardest section appears at the end. Surprisingly, unprofitable companies are less variant compared with profitable companies; this result also contradicts Courtis (1998).

Content analysis of the thematic structure results shows different thematic structures between the three sections. The beginning section gives an overview of the year with an outline of major events and outcomes, while the middle section is more detailed and mainly covers operations, business segments and financing. In addition, the ending section focuses more on the future, and is forward-looking and about board changes and employees. However, the middle section does not follow a definite pattern and is more diverse. The overall results provide a clear explanation of readability variability in the statements, unless management intentionally chooses to obfuscate the statement.

Courtis (2004) specifically examined issues of obfuscation presentation in the narrative reports. Similarly, the study by Courtis (1998) adopted a proxy of high variability as a presence of obfuscation, and extended the obfuscation presence criteria by adding a low Flesch reading ease score and tested other corporate attributions of bad/good news, age and complexity. The study tested chairman's statements in three different documents – annual reports, interim reports and prospectus documents. To test variability, 100 words were taken from the beginning, middle and ending sections. Obfuscation was treated as a dependent variable in this study, and so companies were divided into obfuscating and non-obfuscating companies, if they met the dual criteria. The results show a more positive association between obfuscation companies and negative news reporting than with non-obfuscating companies. On the other hand, no determinant of obfuscation was found with corporate age or corporate complexity structure. In addition, interim reports showed lower reading ease scores in the end sections, thus indicating that short-period reporting tends to use obfuscating or opacity strategies more than long-period reporting does.

Departing from previous studies, Bayerlein and Davidson (2015) mainly assessed whether preparers of chairman's statements manage perception through syntactical complexity and rationalisation. Rationalisation can be used to manage perception by explaining unwanted information or linking negative news to external factors; using rationalisation will increase the number of words and sentences used. The study used a sample of 87 chairman's statements from Australian stock exchange listed firms. The study first tested the readability score of all statements and classified bad/good news using profitability. Unwanted information or neutral information was used as a proxy for rationalisation;

therefore content analysis was used to allocate the sentence to different connotation groups -– positive, negative, and neutral. The results show no difference between readability score and profitable/unprofitable companies. In addition, the findings indicate that chairman's statements with predominately negative news contain higher numbers of negative sentences than statements with predominately positive news do. Collectively, the results indicate that Australian firms do not manage the perception of users using rationalisation.

Generally speaking, chairman's statements in for-profit organisations tend to be difficult to read, and the variability between three sections of the statements (beginning, middle and end) is high. In particular, the middle section is the hardest of the three to read. In addition, the obfuscation hypothesis was seen to hold in practice, whereby management manipulates readers (stakeholders) by using a complex and variable writing style in order to conceal or obfuscate negative or undesirable information. On the other hand, although several lines of evidence in the non-profit literature suggest that charities' annual reports may be dominated by self-promotion and impression management (Dhanani and Connolly, 2012, 2015), up to now, research has not empirically investigated the association of impression management with low/high accountability levels in narrative reporting. There is also a lack of information on which financial circumstances precipitate manipulative reporting in the not-for-profit context. In addition, no study in the NGO accountability literature specifically focuses on testing the effectiveness of narrative communication using readability as a tool to test impression management (obfuscation). Moreover, research has not investigated the role of trustees in delivering charity accountability, particularly in terms of the presentational and textual characteristics of chair's statements.

2.4 Theoretical Background

2.4.1 Stakeholder theory

Stakeholders have been defined as those who are affected by or affect the achievement of the firm's objectives (Freeman, 1984). Stakeholder theory describes the relationship between the external and the internal groups. Unfortunately, stakeholder theory was hampered by conceptual confusion until Donaldson and Preston (1995) distinguished three different branches – normative (moral), instrumental (positive), and descriptive. In general, stakeholder theory facilitates a wider and more comprehensive perspective of accountability in order to account for multiple constituents (Ebrahim, 2003).

The normative branch of stakeholder theory asks the question "How should the firm relate to the stakeholders?" This reflects mainly how the firm manages the relationship with their stakeholders and controls the trade-offs between competing stockholders, since the influence of stakeholder salience depends on the organisation's stakeholder culture (Jones *et al*., 2007). However, the ethical perspective of stakeholder theory essentially argues that all stakeholders should be treated fairly by the organisation, with no favouritism (Deegan and Unerman, 2011) and basically focuses on the moral and philosophical principles (Donaldson and Preston, 1995). Therefore, the ethical model of stakeholder theory fits the social sense of not-for-profit organisations, particularly with their multiple stakeholders (Dhanani and Connolly, 2012). They are expected to be responsible in honouring all stakeholders equitably and ethically, and can also be regarded as a "moralist organisation", based on the Jones *et al*. (2007) typology of stakeholder culture, whereby these organisations uphold moral principles and care for all stakeholders. However, they are likely to be less caring when facing a financial crisis or if they are considered to be an "altruist" organisation, which is similar to "moralist", although these organisations do not compromise with morality when facing a financial crisis (Chen, 2015). Moreover, the ethical principles of an organisation and its accountability will serve to ensure public trust, and accountability here is characterised as "felt responsible" (Ebrahim, 2003).

In contrast, the instrumental branch of stakeholder theory is related with legitimacy theory in seeking the long-term survival and success of an organisation, but the instrumental model attempts to explain how corporate management can fulfil the expectations of powerful stakeholders (Donaldson and Preston, 1995) with the purpose of gaining support and approval to legitimise the organisation's activities to the targeted stakeholders (Roberts, 1991). Jones *et al*. (2007) classified these self-interest organisations as "corporate egoist" organisations, which focus on the most powerful shareholders and ignore the less powerful in the interests of maximising short-term profits. Similarly, instrumental organisations have a moral regard to the shareholders only, but they are strategically moral to non-shareholders in order to target long-term profit maximisation. Because of this, management will obtain legitimacy using different accountability mechanisms in order to confirm that the values, beliefs and success of the organisation are in conformity with stakeholder expectations (Gray *et al.*, 1995). However, the instrumental model may serve the organisational interests only and encourage them to manage their stakeholders in order to gain approval (Merkl-Davies *et al.*, 2011). As such, this model will be characterised as accountability for purposive means, whereby management will expand their efforts to account for salient stakeholders in order to protect their own self-interest (Dhanani and Connolly, 2012).

As explained earlier, the most frequently used mechanism in discharging accountability is that of public disclosure, such as the annual report and other voluntary reports. Previous literature and studies on for-profit organisations have examined public disclosures, since they are used to convey to stakeholders management messages about operations, performance, and also internal strategies, such as vision and adopted processes, which confirms the social norms (Dhanani and Connolly, 2012). Undoubtedly, when the instrumental model of the theory is applied to the communication process, it will be deployed from strategic-oriented behaviour-seeking to shape and manipulate the stakeholders' perceptions and expectations. Therefore, these organisations will use distraction tactics to divert stakeholders' attention from a particular issue, not necessarily by altering the internal behaviour or practice, but by reducing the pressure on the organisations (Gray *et al.*, 1995).

One of the most used tactics is impression management, which is mainly used when reporting in order to manage image. Different methods of impression management are recognised by different studies (see, for example, Courtis, 1998; Clatworthy and Jones, 2006; Merkl-Davies *et al*., 2011); for example, concealment is a technique used by management to bury bad news and focus more on good news as an attempt to present their organisation in a positive light. Alternatively, attribution is the organisation's denial in the face of having to take responsibility for failure, and is associated with 'out-of-our-control' circumstances, while any success will be credited to the organisation (Merkl-Davies *et al*., 2011). In contrast, the ethical model tends to attain moral responsibility, not self-interest, where the accountability is an integrated system that includes both internal and external mechanisms. As a result, the disclosures of ethical background are characterised as transparent, complete, truthful and objective (Dhanani and Connolly, 2012).

In general, non-profit organisations can face challenges in identifying stakeholders when discharging accountability. This is because the dual nature of not-for-profit organisations means they are “quasi-public”, and expected to be “value-based” mainly by focusing on social or public purposes, as well as “quasi-private”, where they need to achieve economic goals beside their social goals in order to survive (Chen, 2015). Relying on economic goals may cause some mission drift in not-for-profit organisations from other-regarding to self-interest in order to cope with the competitive funding environment (Chen, 2015). On a related note, recent evidence has revealed a shift in charities’ accountability practices from ethical or moral behaviour towards instrumental or strategic behaviour. Dhanani and Connolly (2012) found that charities were motivated to legitimise and present their organisations in a positive light through selectively discharging more fiduciary and strategic accountability levels, and using positive language more in annual reports. In the same vein, Dhanani and Connolly (2015) found that organisations expend intended effort to provide their communication in truthful and appropriate discourse with improved understandability in order to discharge accountability; however, some organisations tend to manipulate the content strategically in order to present the organisation in a positive light.

Together, these studies raise doubts about the ethical behaviour of charities in their adoption of business or for-profit strategic behaviour when discharging accountability. The results suggest that charities’ annual reports may be dominated by self-promotion and include distraction techniques of impression management to convey their practices in line with significant stakeholder expectations (Dhanani and Connolly, 2012, 2015). This research, therefore, follows Courtis’ (2004) obfuscation hypothesis using the dual criteria of low readability level (complex) and high readability variability to identify the extent to which readability is associated with obfuscation. This study tests the association between obfuscating statements and financial and non-financial measures as well as stakeholder accountability (targeted audience). To evaluate the role of stakeholder theory in shaping organisational accountability practices using both instrumental and moral branches of stakeholder theory.

The study uses the following rational: if the obfuscated statements (complex statements, high variability in the statements section, distribution of the hard statements is in the middle section and high reference of upwards stakeholders) appears particularly ,when the charity is experiencing uncertain events such as volatility in assessing their recourses due to economic issues. Then such statements is considered to reflect instruments basis, using complex statements to obfuscate bad news to manage the perceptions of stakeholders. while, if the statements are not obfuscated (less complex statements, low variability between section, distribution of hard statements not appears in the middle section, reference of downward, internal stakeholder more than upward) then the statements are considered to reflect ethical basis.

2.5 Methodology

2.5.1 Sample and data collection

This study used an unbalanced sample of 140 large UK charities registered with the Charity Commission based on their income rank in 2012-2013. The study focuses on narrative disclosures in annual reports in which managers communicate useful information to investors to assess performance and circulate the future prospects of the firm (Leung *et al.*, 2015). Firstly, full PDF versions of annual reports and annual reviews were collected from the Charity Commission website and major charities' websites for the period of six years from 2008-2013. Specifically, the study focused on the chairman's statement; therefore, after the collection of annual reports and reviews, full chairman's statements from these reports were copied or retyped into Microsoft Word documents and were analysed for different variables, whereas combined chair-CEO statements and CEO statements were excluded from this study. Secondly, all financial data were downloaded from the Charity Commission database available on their website, and the required data were then extracted. In total, 516 (observations) TARs were reviewed and 324 (observations) TARs were dropped from the study due to missing financial information in the database.

2.5.2 Readability measures and formulas

The term 'readability' is used in this study as a formula that predicts the ease of comprehension of written work. There are two main approaches measuring readability levels; these are sophisticated psycholinguistic and sociolinguistic techniques (Clatworthy and Jones, 2001). The first approach is associated with understandability where it involves overcoming the bias of difficulties which the respondents may experience in reading the text. A CLOZE procedure is used to predict the understandability of a complete passage by measuring the comprehension of the content sample text (Smith and Taffler, 1992). Some studies have suggested that there is no distinction between the two terms of 'readability' and 'understandability'. However, Smith and Taffler (1992) state that understandability relates text complexity to educational level and experience, which differs from readability which only measures the complexity of the text.

The second approach involves the use of readability. Courtis (1995) notes that the readability formula summarises the reading ease scores after measuring passages of prose to indicate whether the passages are readable and understandable to the targeted audience. The success of the formula depends on how well the formula measures the elements of writing that are related to the readers. These elements could be taken from the format, content, organisation and style, but these formulas will only measure the style, while disregarding the other elements (Courtis, 1995).

Courtis (1998) notes that word length represents the speed of recognition and sentence length is related to memory or word recall, while sentence complexity is also related to level of difficulty and is highly correlated to complexity. Readability formulas include Flesch, the Fog index, LIX, and BIC. The most dominant formula adopted by researchers is Flesch, which is a quantitative method used to measure the comprehension of a specified passage (see, for example, Jones, 1988; Courtis, 1998; Clatworthy and Jones, 2001; Raman *et al.*, 2012; Abdul Rahman, 2014). The Flesch formula determines the difficulty of the writing style depending on two main variables: first, the syllable density, by measuring the average number of syllables per 100 words, then the average length of sentences (Courtis, 1986). In contrast, some studies used more than one readability formula, including the Flesch and

Fog index (Courtis, 1986), and Flesch, Fog index and LIX (Smith and Taffler, 1992; Courtis, 1995).

Flesch is the most commonly used method in readability studies, but the limitations of Flesch are well-documented. Firstly, Flesch focuses only on the style of writing (syllables and sentence length) whereas other important attributes are disregarded, such as format, logic, conceptual density, human interest, and organisation and reinforcement. Secondly, Flesch is an outdated measure, which was current over 50 years ago, but has failed to take into account language changes over time. Thirdly, the application of Flesch to adult or technical accounting narratives might be inappropriate since it has been used to measure primary school texts (Clatworthy and Jones, 2001).

Despite these criticisms of Flesch, it is frequently used in accounting research to measure the complexity of accounting narratives because of its computation ease, understandability, and comparability. Therefore, this study applied Flesch-Kincaid to measure the readability level of chairman's statements using new computer-based analysis software, Corporate Financial Information Environment (CFIE, 2014). The aim of this software is to advance research on narrative aspects of corporate disclosures by developing a suite of statistical Natural Language Processing (NLP) tools for analysing a firm's narrative communication practices. Moreover, it measures the linguistic characteristics of key disclosures to identify determinants of cross-sectional variation in these characteristics and relate them to disclosure in formativeness.

To analyse syntactical complexity or in other words the effectiveness of chairman's statement, a systematic sampling methodology was adopted by dividing the statement into three passages of 100 words each taken from the beginning, middle and the end of each chairman's statement (see, for example, Courtis, 1998; Clatworthy and Jones, 2001; Courtis, 2004) and converted to a plain text format. All three sections (plain text format) were uploaded to the CFIE W-matrix software to analyse the text using the following readability formula Flesch-Kincaid:

- Flesch - Kincaid Formula: uses a combination of sentence length and syllable count;

$$206.835 - ((L \times 1.015 + (S \times 0.846)), \qquad (1)$$

where L is the mean length in words and S is the total number of syllables per 100 words. A score range of 0 -100 means that the higher the score, the easier it is to read.

After calculating the readability for each of the three sections, the arithmetic average of the three scores was later used to represent the charity's chairman's statement readability level (see, for example, Courtis 1998; Clatworthy and Jones, 2001; Courtis, 2004; Linsley and Lawrence, 2007). Variability of readability was measured using the coefficient of variation. The mean of the three Flesch scores and the standard deviation were used to calculate a measure of dispersion of each charity to facilitate direct comparability across the sample (ibid). Both average readability scores and readability variability were used as a proxy for the presence of obfuscation.

In order to classify chairman's statements as obfuscated or non-obfuscated, they should meet the dual criteria of low reading ease score (i.e. difficult-to-read statements) and high variability (i.e. high coefficient of variation). Therefore, the averages of the three scores were ranked in ascending order (low–high) as array one, and the coefficients of variation were ranked in descending order (high–low) as array two. Next, the top half of the arrayed sample for both difficult reading ease and high variability were regarded as obfuscated statements, while the bottom half of the arrayed sample for both difficult reading ease and high variability were regarded as non-obfuscated statements (see, for example, Courtis,2004; Bayerlien, 2011). The study used two proxies Financial variables (for example; size, profitability, efficiency ratios and debt level) and non-financial variables (for example; frequencies of tones used in the chairman's statements) to empirically test under which financial circumstances obfuscation appears or used as impression management tool in not-for-profit context.

2.5.3 **Financial Variables**

All chairman's statements, for which Flesch readability scores were generated, were used for further analysis with financial variables in order to determine under which financial circumstances obfuscation is used as a tool to manage impression (refer to Table 2-1). Different financial variables were used as follows. Firstly, the effect of size was determined by total assets (see, for example, Baker and Kare, 1992; Moreno and Casasola, 2016); and secondly, income measures as a percentage change in voluntary income and percentage change in charitable income. In addition, surplus percentage to total assets was calculated as net income to total assets (see, for example, Hossain and Siddique, 2012; Moreno and Casasola, 2016). Moreover, surplus or deficit was used as a dummy variable where the charity scored 1 if surplus (net income) and 0 if deficit (net loss) (see, for example, Moreno and Casasola, 2016). Third, debt ratio was also used to assess the level of debt in charities by calculating total liabilities to total assets (ibid). Finally, overhead ratios were used as efficiency measures via the amount spent on administrative and programme costs, in contrast to the amount spent in delivering services.

2.5.4 **Non–financial Variables**

The keywords lists already built into the CFIE software were used as non-financial variables. This study mainly utilised these non-financial variables in order to assess tone used in chairman's statement in both situation obfuscated and non-obfuscated statements. As such high appearance of positive or forward-looking word is considered to be a tool of impression management to obfuscate negative news (Merkl-Davies and Brennan,2007). Five different keyword lists were used: positive list, negative list, forward-looking list, positive uncertainty, and negative uncertainty (refer to Table 2-1). All chairman's statements were uploaded to the CFIE W-matrix software, which then provided the frequencies for each word list. A recent study by Bayerlein and Davidson (2015) tested chairman's statement sentences with almost the same categories of positive, negative, neutral and ambiguous, spread over two sub-categories of largely positive and largely negative; however, the study was conducted manually and mainly focused on sentences.

Table 2-1 Variables and proxy measures examined

Variable	Proxy Measure	Formula	Transformation
Readability	Flesch formula	206.835 – ((L×1.015+(S×0.846)) [3]	-
Size	Total Assets	Total Assets	Log
Profitability	Surplus on Assets	Net Income/Total Asset	-
	Change in Voluntary income	$\frac{\text{voluntary income t} - \text{Voluntary income (t}-1)}{\text{Vouluntary income (t}-1)}$	Log
	Change in Charitable Income	$\frac{\text{Charitable incomet} - \text{Charitable income(t}-1)}{\text{Charitable income (t}-1)}$	Log
	Net Income (±)	0= Deficit; 1=Surplus	-
Efficiency	Administrative cost ratio	Admin Exp[4]/Total Expenses	Log
	Programme cost ratio	Charitable Exp/Total Expenses	-
Debt level (risk)	Debt level ratio	Total liabilities[5]/Total Asset	
Positive tone	CFIE built-in index	Word frequency	-
Negative tone	CFIE built-in index	Word frequency	-
Forward-looking tone	CFIE built-in index	Word frequency	-
Positive uncertainty	CFIE built-in index	Word frequency	-
Negative uncertainty	CFIE built-in index	Word frequency	-

[3] L is the mean length in words and S is the total number of syllables per 100 words.
[4] Total Admin Exp = (Gov Exp + Other Exp).
[5] Total liability = (short credit + long credit).

2.5.5 Measurement of an Accountability Index

Disclosure indices are often used in accounting narrative studies in order to provide a single-figure summary of the entire content of annual reports or specific interests covered by voluntary reports (Coy and Dixon, 2004). In these, most accounting narrative studies adopt a content analysis method; this is a technique used to identify a specific set of characteristics in the text objectively and systematically (Clathworthy and Jones, 2001). Unerman (2000) notes that content analysis studies quantify disclosures shown either by the number of documents containing the category needed, words, sentences, pages, or the proportion of pages. Sentences are used as an accurate unit to convey meaning, whereas words which are considered part of a problematic unit isolate the individual meaning (Hackston and Milne, 1996). Nevertheless, the main reason behind using content analysis as a tool to quantify the volume of the disclosure is to signify the importance of the disclosure.

This study aims, therefore, to test the level of accountability in UK large charities in terms to whom they are accountable (targeted stakeholders). By testing the reference of stakeholders in the chairman's statement, where the chairman's statement is considered to reflect ethical basis if the statements is honouring or referencing all stakeholders equally (or ranking them as following : Downward, internal and upward). While, if the chairman statement prioritises or make a reference to upward stakeholder more and ignore less powerful stakeholder (downward and internal) then chairman's statement is considered to reflect instrumental basis especially in a time of financial difficulties.

In order to test the above the study developed a self-constructed index list in three steps. The first step is reviewing the literature and extracting the keywords. To date, several studies have suggested that stakeholder-direction orientation of accountability should be divided into three directions of upward, downward, and internal accountability (see, for example, Edwards and Hulme, 1995; Najam, 1996; Ebrahim, 2003, 2005). Edwards and Hulme (1995) introduced the first direction of stakeholder accountability as upward accountability in NGOs (donors, funders and regulators) and downward accountability (client group, and service recipients). Likewise, Najam (1996) also identified the same categorisations but introduced internal accountability, where these NGOs are also accountable to themselves through their mission, value and staff. Most of the recent studies either follow Edward and Hulme's (1995) categorisations (see, for example, Christensen and Ebrahim, 2006) or those of Najam (1996) (see, for example, Connolly and Kelly, 2011). After reviewing the literature, all keywords used to describe the three directions of accountability were extracted to three tables.

The second step was to find a dictionary synonym for each keyword extracted from the stakeholder accountability definitions from previous literature. It was ensured that all related alternative words were added to the index in both singular and plural forms (refer to below- table 2-2). In the third step, all keywords and alternatives were typed in plain text format and then all three lists – i.e. the upward, downward and internal accountability lists – were uploaded to the CFIE W-matrix software to run the content analysis words frequencies after also uploading full chairman's statements to the CFIE W-matrix.

Table 2-2 Accountability Index

Upward Accountability		**Downward Accountability**		**Internal Accountability**	
Donor	Donors	Beneficiary	Beneficiaries	Mission	Missions
Giver	Givers	Donee	Donees	Aim	Aims
Contributor	Contributors	Community	Communities	Purpose	Purposes
Sponsor	Sponsors	Public	-	Goal	Goals
Benefactor	Benefactors	General public	-	Target	Targets
Funder	Funders	Society	Societies	Objective	Objectives
Potential funder	Potential funders	Client	Clients	Value	Values
National funder	National funders	Customer	Customers	Staff	Staff
International funder	International funders	Consumer	Consumers	Employee	Employees
Supporter	Supporters	Client group	Client groups	Staff and board	Staff and boards
Financial Supporter	Financial Supporters	User	Users	Volunteer	Volunteers
Regulator	Regulators	Contractor	Contractors	Partner	Partners
Governor	Governors	Recipient	Recipients		
Host government	Host governments	Receiver	Receivers		
Foundation	Foundations	Service Recipient	Service Recipients		
Grantor	Grantors				
Trustee	Trustees				
Patron	Patrons				

2.6 Results

2.6.1 Descriptive Statistics

Table 2-3 summarises the statistics of chairman's statement readability in three different sections, the beginning, middle and end sections, using the Flesch index readability formulas. The chairman's statement readability scores showed different results in each section, where the mean of the beginning section was about 53.53 using the Flesch index 'fairly difficult' to read, based on the Flesch pattern of reading ease ratings. Similarly, the end section was also considered as a 'fairly difficult' to read section (mean around 53.65). In contrast, the middle tends to be a relatively more 'difficult' to read section when compared with the other sections in the chairman's statements; the average score was approximately 50.16, which indicates 'fairly difficult' to read in the Flesch index. The results showed that overall charities chairman statements are ineffective and its prepared beyond the comprehensive level of the targeted audience.

The descriptive statistics of financial variables are presented in Table 2-3 and the mean value of total assets in the charities was around £250 million. On the other hand, the mean surplus percentage to total assets, which is the net income divided by the total assets, was around 10% from total assets. In addition, charities have tended to depend more on voluntary income than on charitable income in the last six years. This is because the percentage change in voluntary income was significantly higher than percentage change in charitable income (means of 1600% and 200%, respectively). The maximum value of percentage change in voluntary income was 8725.75% and the minimum value was -1%. This in turn explains the high volatility of percentage change in voluntary income of 348.5. Moreover, financial efficiency in charities was tested by calculating the administrative cost ratio and the results showed that charities spend 2% on administrative costs from the total expenses. In contrast, they spend around 84% on programme costs from the total expenses.

The textual characteristics have also been examined to highlight the tone of words used in the different sections of the chairman’s statements, and the results are presented in Table 2-3. The beginning section tends to more frequently report a positive tone with an approximate average of 4.901 words when compared with negative, forward-looking, positive uncertainty and negative uncertainty (means were around 2.298, 2.116, 0.848 and 0.852 words, respectively). Similarly, middle sections report more positive tone (mean of 4.453 words approximately), while end sections indicated that the most frequently expressed tone in the chairman’s statements was forward-looking with an average of 4.315 words. Overall, most of the variables were positively skewed and leptokurtic, which indicates a long hand tail and a higher peak at the mean. Therefore, the data are not normally distributed, since the skewness of normally distributed data should equal zero and kurtosis has to be equal to 3. In this case, outliers were removed from each variable and some variables were transformed.

Table 2-3 Summary Statistics

The table reports the summary statistics, including the mean, standard deviation (std dev.), min, max, skewness and kurtosis of the variables. The sample consists of 516 observations covering the period 2008-2013

Stats	Mean	Std dev.	Min	Max	Skewness	Kurtosis	N
BS. Flesch	53.53104	18.2041	0	100	-0.6686365	3.92661	516
MS. Flesch	50.16743	18.3823	0	100	-0.5662048	3.684242	516
ES. Flesch	53.6525	19.06074	0	98.04056	-0.7428788	3.806993	516
Average three Flesch scores	52.45032	13.90571	0	96.5069	-0.3954082	4.062485	516
Change in Voluntary income (%)	16.04596	348.5122	-1	8725.75	24.87674	622.1213	629
Change in Charitable income (%)	2.275097	36.43222	-1	666.4935	17.5487	312.6725	649
Surplus or Deficit	0.6914894	0.462186	0	1	-0.8291762	1.687533	752
Surplus on Asset (%)	0.1023059	1.858238	-3.108135	50.66345	26.86675	731.794	751
Administration cost (%)	0.0252628	0.1010071	-0.0771146	1.4276	8.68935	91.26218	751
Programme cost (%)	0.8433071	0.1887917	0	1.008323	-1.974145	7.730743	751
Total Asset	250000000	1280000000	0	16000000000	10.78392	124.5582	751
Debt level (%)	0.3101709	0.2399048	0	1.965975	1.324791	6.187421	751
BS. Positive	4.901163	3.331509	0	21	0.8963452	4.352991	516
MS. Positive	4.453488	2.874692	0	15	0.6897035	3.403849	516
ES. Positive	4.717054	3.037209	0	17	0.7724152	3.558154	516
Average positive words	4.690568	2.048197	0	12.33333	0.5815432	3.423747	516
BS. Negativity	2.29845	2.431204	0	13	1.249043	4.452384	516
MS. Negativity	1.670543	1.928827	0	10	1.403065	4.90115	516
ES. Negativity	1.356589	1.638367	0	10	1.748281	7.060022	516
Average negative words	1.775194	1.321738	0	8.666667	1.000524	4.711427	516
BS. Forward-looking	2.116279	2.457018	0	18	1.809947	8.239494	516
MS. Forward-looking	2.858527	3.160027	0	20	1.835213	7.643575	516
ES. Forward-looking	4.315891	3.602456	0	21	1.132422	4.625175	516
Average Forward-looking words	3.096899	1.915609	0	12.33333	0.9749808	4.459183	516
BS. Positive uncertainty	0.8527132	1.050942	0	7	1.662722	7.098272	516
MS. Positive uncertainty	0.9050388	1.065201	0	5	1.337816	4.710774	516
ES. Positive uncertainty	0.9127907	1.113967	0	6	1.319624	4.524541	516
Average positive uncertainty	0.8901809	0.7204805	0	3.666667	1.079898	4.191133	516
BS. Negative uncertainty	0.8488372	1.046686	0	7	1.677428	7.204738	516
MS. Negative Uncertainty	0.9031008	1.060459	0	5	1.328002	4.693792	516
ES. Negative Uncertainty	0.9127907	1.113967	0	6	1.319624	4.524541	516
Average negative uncertainty	0.8882489	0.7197324	0	3.666667	1.086539	4.216224	516

Note : The table reports summary descriptive statistics for all variables used in this study . Variables are defined as follows: Readability scores calculated using Flesch – Kindcaid for Beginning Section (BS), Middle Section (MS) and Ending Section (ES). Financial variables used in the study: (1) profitability calculated using four proxies: surplus on assets, change in voluntary income, change in charitable income and surplus or deficits. (2) Efficiency ratio proxies: Administrative cost ratio and programme cost ratio. (3)Debt level ratio . Non- financial variables used in the study : word frequency of positive, negative, forward-looking and Uncertainty tones used in chairman statements.

2.6.2 Variability results

2.6.2.1 Distribution of coefficient of variation

Table 2-4 Distribution of coefficient of variation

Deciles of V-scores	Annual reports	
	Number	Percent
Above 100	9	1.75
90 + to 100	14	2.73
80 + to 90	16	3.12
70 + to 80	4	0.78
60 + to 70	10	1.95
50 + to 60	10	1.95
40 + to 50	30	5.85
30 + to 40	64	12.48
20 + to 30	117	22.81
10 + to 20	152	29.63
Below 10	87	16.96
Sample size	513	100
Means	29.0847	
Standard deviation	27.0438	
Smallest V	.7856357	
Largest V	173.2051	

Table 2-4 shows the distribution of the coefficient variation (V) of reading ease scores for 513 chairman's statements. The coefficient of variation was calculated by dividing the standard deviation of each charity per year by the average of the three Flesch scores of each charity per year. The smallest V is 0.7856%, the largest is 173.20% and the overall mean of the coefficient of variation is 29.08%. A total of 426 chairman's statements (83%) have V scores in excess of 10%. This indicates a significant variance in statements for most of the charities.

2.6.2.2 Chairman’s statement classification

To classify chairman’s statements as either obfuscators or non-obfuscators, they should meet the dual criteria of low reading ease score (i.e. difficult-to-read statements) and high variability (i.e. high coefficient of variation) (Courtis, 2004). Therefore, the average of the three scores were ranked in ascending order (low–high) as array one, and the coefficients of variation were ranked in descending order (high–low) as array two. Next, the top half of the arrayed samples for both difficult reading ease and high variability were regarded as obfuscating statements (reading ease rank and variability rank < 256), while the bottom half of the arrayed samples for both difficult reading ease and high variability were regarded as non-obfuscating statements (reading ease rank and variability rank > 256). The final list contained 177 statements that met the dual criteria and 186 non-obfuscator statements. From the original sample, 363 out of 513 were used for analysis (Table 2-5). Overall, the results indicate that almost half of the sampled charities provide obfuscated statements, which is likely to reflect charities’ engagement in obscuring unwanted or bad news, while the other half of the statements were cleared from any obfuscation tactics.

Table 2-5 Chairman's statement classification

Chairman’s statement classification	**Number**	**Per cent**
Non-obfuscated statements	186	51.24
Obfuscated statements	177	48.76
Total	363	100

2.6.3 **ANOVA test results**

2.6.3.1 **Readability-level ANOVA test**

The study also assessed the differences between the means of the five different readability measures (beginning, middle, end, the average of three sections, and whole statements) using a one-way ANOVA test. Table 2-6 shows that the five readability measures were significantly different from each other for the full sample of 516 chairman's statements (p = 0.000, F = 11.53). The results also revealed that the level of readability was significantly lower for the middle section, with an average readability score of 50.167, or 'difficult to read', compared to the beginning and ending sections, with similar readability scores of 53.53 and 53.63, or 'fairly difficult to read', respectively. This explained the high variability results regarding the overall readability. When the data were partitioned into obfuscated statements (low reading ease and high coefficient of variation) and non-obfuscated statements (high reading ease and low coefficient of variation) the one-way ANOVA test revealed a significant difference between the five means for both statements. For obfuscated statements, the readability differences were significant at the 0.01 level (p = 0.000, F = 16.16). The average Flesch scores for the middle section were lower than the beginning and end sections (a mean value 36.755 or 'very difficult to read'), while the higher mean of readability was in the beginning section (a mean value of 42.57 or 'difficult to read', which was easier to read when compared to the middle and end sections). Likewise, non-obfuscated statements' readability differences were significant at the 0.01 level (p = 0.000, F = 2.05), and the average Flesch scores were lower in the middle section (a mean value of 63.25 or 'standard reading difficulty'). However, the higher mean of readability score was at the end (mean value of 65.99 or 'standard reading difficulty', which was easier to read when compared to the middle and beginning sections). Overall, the readability level of in obfuscated statements was between 'very difficult to read' and 'difficult to read', and their chairmen tended to write easy openings for their statements; however, non-obfuscated statement readability levels were regarded as being at the standard difficulty level of readability, and the chairmen tended to write easy endings for their statements.

Table 2-6 Summary of means and ANOVA results from Flesch scores of passages selected from obfuscated and non-obfuscated statements.

Passage	**Obfuscated statements (*n* = 177)**	**Non-obfuscated statements (*n* =186)**	**Total (*n* = 363)**	**Full Sample (*n* = 516)**
Beginning	42.5728	64.6712	53.7455	53.5310
Middle	36.7553	63.2565	50.1540	50.1674
End	41.9486	65.9972	54.1073	53.6525
Mean of three passages	40.4256	64.6417	52.6689	52.4503
Whole statement	49.8557	65.4544	57.7662	57.1669
ANOVA results	$F = 16.16$ $P = 0.000$	$F = 2.05$ $P = 0.085$	$F = 8.96$ $P = 0.000$	$F = 11.53$ $P = 0.000$

2.6.3.2 **Chairman's statement textual tone - ANOVA test:**

In order to assess tone used in chairman's statement in both situations obfuscated and non-obfuscated statements, the study used ANOVA F-test to compare the three sections of chairman's statements with five different word lists' textual tone frequencies (positive, negative, forward-looking, positive uncertainty, and negative uncertainty). As according to Merkl-Davies and Brennan (2007) high appearance of positive or forward- looking is considered as thematic manipulation basically used by the management to obfuscate negative or bad news.

The results in Table 2-7 showed a significant difference between the beginning, middle and ending sections when compared with the positivity word list ($F(2, 1545) = 3.55$, $p = .0288$) and negativity word list ($F(2, 1545) = 51.73$, $p = .0000$). The results revealed that the mean of the positive word frequency was slightly higher in the beginning and ending sections (around 4.718 and 4.573 words, respectively), when compared with the middle section (a mean value of approximately 4.304 words). The negative word list frequency was also statistically significantly higher for the beginning section, with an approximate mean of 2.135 words, while the middle and ending sections' means were approximately 1.474 and 1.145, respectively.

The third word list was used to determine the forward-looking word frequency, and the results were statistically significant ($F(2, 1545) = 106.25$, $p = .0000$). The most frequent forward-looking words appeared in the ending section, with an approximate mean of 4 words. Both positive and negative uncertainty word frequencies showed no significant difference between the sections ($p = 0.7924$ and $p = 0.7674$, respectively), as indicated in Table 2-7.

Turning to the textual characteristics (tone of words) used in both obfuscated and non-obfuscated statements, the ANOVA test results indicated a significant difference in the negative tone used in obfuscated and non-obfuscated statements at the 0.01 level ($p = 0.000$, $F = 10.77$ and $p = 0.0038$, $F = 5.63$, respectively). This was specifically the case in the beginning section, where they tended to report negative words more frequently compared to the other sections (an approximate mean of 2.183 and 2.348 words, respectively). The ANOVA results showed an insignificant difference in positive tone in both obfuscated and non-obfuscated statements, which indicated that both statements tended to uphold a similar amount of positive tone in the three sections. Not surprisingly, forward-looking tones were significantly different at the 0.01 level ($p = 0.000$, $F = 28.19$ and $p = 0.000$, $F = 23.66$, respectively) and most frequent in the ending section, with mean values of approximately 4.303 words and 4.5911 words, respectively. Moreover, both positive and negative uncertainty words showed no significant difference in both obfuscated and non-obfuscated statements, with an average of one word in each section.

Table 2-7 Chairman's statement textual tone - ANOVA test

Passage	Obfuscated statements (*n* = 177)	Non-obfuscated statements (*n* = 186)	Full Sample (*n* = 516)
Positive tone			
Beginning section	5.0660	4.8397	4.7189
Middle section	4.7573	4.4585	7.3042
End section	4.2615	4.8674	4.5736
ANOVA results	*F*= 1.85	*F*= 1.01	*F*= 3.55
	P= 0.1580	*P*= 0.3646	*P*= 0.0288
Negative tone			
Beginning section	2.1839	2.3480	2.1356
Middle section	1.5620	1.8508	1.4748
End section	1.1777	1.6574	1.1453
ANOVA results	*F*= 10.77	*F*= 5.63	*F*= 51.73
	P= 0.0000	*P*= 0.0038	*P*= 0.0000
Forward-looking tone			
Beginning section	1.7068	2.2872	1.8720
Middle section	2.8832	2.9779	2.5658
End section	4.3037	4.5911	4.0116
ANOVA results	*F*= 28.19	*F*= 23.66	*F*= 106.25
	P= 0.0000	*P*= 0.0000	*P*= 0.0000
Positive Uncertainty tone			
Beginning section	0.6494	0.9834	0.7461
Middle section	0.8759	0.9613	0.7771
End section	0.7555	1.1049	0.7732
ANOVA results	*F*= 2.13	*F*= 0.79	*F*= 0.23
	P= 0.1202	*P*= 0.4527	*P*= 0.7924
Negative Uncertainty tone			
Beginning section	0.6494	0.9779	0.7441
Middle section	0.8686	0.9613	0.7771
End section	0.7555	1.1049	0.7732
ANOVA results	*F*= 2.02	*F*= 0.82	*F*= 0.26
	P= 0.1335	*P*= 0.4407	*P*= 0.7674

2.6.4 **Obfuscation test results**

This section tested the association to determine whether or not there was any relationship between obfuscated statements and financial and non-financial variables by applying both parametric and non-parametric tests.

2.6.4.1 **Distribution of C- sequences (hardest passages)**

Table 2-8 Distribution of C-sequence of both obfuscated and non-obfuscated statements' pooled sets

Obfuscating statements		Non-obfuscating statements	
Location	**Number (%)**	**Number (%)**	**Totals (%)**
S (start)	50 (29%)	65 (36%)	115 (33%)
M (Middle)	68 (39%)	64 (36%)	132 (37%)
E (End)	55 (32%)	51 (28%)	106 (30%)
Total (%)	173 (100%)	180 (100%)	353 (100%)

To determine the location of the hardest section to read, each readability score for each of the three sections was ranked from the easiest to the hardest in terms of location: A = easiest, B = hard and C = hardest. Six possible sequence patterns may occur: ABC, ACB, BAC, BCA, CAB and CBA (e.g., Courtis, 1998 and 2004). The most important factor was determining the hardest section to read because low reading ease is defined as a criterion of obfuscation's existence, particularly if special C-sequence patterning is associated with obfuscated statements, where this will be regarded as word crafting and evidence of obfuscation. Therefore, C-commencing sequences CAB and CBA were pooled and referred to as 'S' C-middle sequence 'M' (ACB, BCA); and C-ending sequence as 'E'(ABC, BAC).

The above Table 2-8 shows the distribution of the hardest section to read from the 353 C--sequence possible outcomes across obfuscated and non-obfuscated statements. The 'M' location tended to have the highest incidence of occurrence, with 132 (37 %) located in the middle section of the chairman's statements. There were 115 'S' locations (33 %) and 106 'E' locations (30%). The chi-square test showed that the distribution of the C-sequence was significant for both obfuscated and non-obfuscated statements at the 0.01 level (*p = 0.000)*. However, the distribution of the C-sequence pattern in obfuscated statements was higher in the middle section (location 'M'), which was in line with Courtis (1998). The middle section was the hardest to read, which contrasted with the findings of Courtis (2004), where he found the ending sections of interim reports were the hardest to read — an indication of a special pattern in the C-sequence in obfuscated statements. This pattern might be associated with word crafting; therefore, obfuscation was present. In non-obfuscating charities, the hardest section to read was the beginning section.

2.6.4.2 **Pearson's Correlation**

A Pearson's product moment correlation was run to assess the relationship between the chairman's statements' readability levels and financial and non-financial variables. The results revealed that all relationships between the variables were, in general, quite weak (i.e. between readability and financial variables and between readability and non-financial variables). However, a significant positive weak relationship appeared between the readability and non-financial variables' forward-looking tone *(r* = .1271*), positive uncertainty tone *(r* = -.1531*), and negative uncertainty tone *(r* = -.1536*). Thus, this indicated that the easier the chairman's statement was, the more frequently the forward-looking tones appeared. In addition, a significant negative weak relationship was also observed between readability level and surplus and deficit, which indicated that the higher the surplus or deficit, the more 'difficult' the chairman's statement was to read. Interestingly, this correlation might indicate that obfuscation exists in charities as a form of perception management in either good news (surplus) or bad news (deficit) (see Table 2-9 Panal A).

The Pearson's correlation results were, in general, quite weak and were conducted as a function of statement type in order to dictate stronger relationships. Similar results appeared; most of the results had a weak correlation for both obfuscated and non-obfuscated statements. No significant correlation was seen between the readability level and financial and non-financial variables in obfuscated statements, which showed no evidence of obfuscation being present in those charities. A significant weak positive relationship was found between readability level and forward-looking tone *(r* = .1877*), which indicated that the easier a chairman's statement was to read, the more frequently the forward-looking tone appeared (see Table 2-9, Panels B and C).

Overall, the Pearson's correlation showed little significant correlation between readability level and financial and non-financial variables. Therefore, the Spearman correlation was also tested.

Table 2-9 Pearson Correlation

This table reports the results of correlation coefficient between readability and organisational characteristics (financial and non-financial variables) for charities chairman's statements. Panel A reports the correlation coefficient for the full sample, Panel B reports the correlation coefficient for obfuscated statements and Panel C reports the correlation coefficient for non-obfuscated statements.

Panel A: Pearson correlation – Full sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Flesch (1)	1													
Positive tone (2)	-0.0468	1												
	0.2883													
Negative tone (3)	0.0936*	-0.0483	1											
	0.0335	0.2735												
Forward-looking tone (4)	0.1271*	0.0949*	0.1053*	1										
	0.0038	0.0312	0.0168											
Positive uncertainty tone (5)	0.1531*	0.053	0.2214*	0.2184*	1									
	0.0005	0.2298	0	0										
Negative uncertainty tone (6)	0.1536*	0.0535	0.2230*	0.2196*	0.9994*	1								
	0.0005	0.2252	0	0	0									
Voluntary Income (7)	-0.0371	0.0332	0.0151	0.0425	0.0339	0.0316	1							
	0.4652	0.5139	0.767	0.4024	0.5045	0.5341								
Charitable Income (8)	0.0358	0.1093*	0.0032	-0.0186	-0.0343	-0.0356	-0.0644	1						
	0.4786	0.0298	0.9502	0.7126	0.4962	0.4801	0.126							
Surplus/Deficit (9)	-0.0968*	0.0647	-0.1657*	-0.0613	-0.0252	-0.0244	0.0863*	0.0966*	1					
	0.0364	0.1629	0.0003	0.186	0.5865	0.5988	0.0305	0.0139						
ROI (10)	-0.0214	0.0234	-0.1292*	0.0177	-0.0116	-0.013	0.1053*	0.1408*	0.7185*	1				
	0.6448	0.6137	0.0052	0.7032	0.802	0.7802	0.0083	0.0003	0					
Admin cost (11)	0.0377	0.0257	-0.0368	-0.069	-0.027	-0.027	-0.0268	0.0504	-0.0078	0.0098	1			
	0.4173	0.5799	0.428	0.1372	0.5616	0.5615	0.5026	0.2002	0.832	0.788				
Programme cost (12)	-0.0767	-0.1540*	-0.0526	-0.0043	-0.0493	-0.0508	0.0068	0.0589	0.0078	0.0147	-0.2920*	1		
	0.0983	0.0009	0.2576	0.9267	0.2881	0.2739	0.865	0.1347	0.8302	0.6869	0			
Total Asset (13)	0.0477	0.0864	-0.1270*	0.0171	0.0021	0.0014	-0.0513	-0.0925*	-0.0393	-0.1444*	-0.0258	-0.1157*	1	
	0.3036	0.0622	0.006	0.7121	0.9642	0.976	0.1991	0.0185	0.2818	0.0001	0.4806	0.0015		
Debt level ratio (14)	-0.0461	0.1680*	-0.0999*	0.0296	-0.0236	-0.0216	-0.0048	0.0263	-0.0073	-0.041	-0.0952*	0.1432*	-0.1988*	1
	0.3208	0.0003	0.0311	0.5232	0.6106	0.6421	0.9045	0.5046	0.8418	0.2622	0.009	0.0001	0	

Panel B: Pearson correlation – obfuscated statements

Pearson's correlation coefficients between readability and organisational characteristics for the obfuscated statements

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Flesch (1)	1													
Positive tone (2)	-0.0683	1												
	0.3665													
Negative tone (3)	0.0056	0.0078	1											
	0.9407	0.9179												
Forward-looking tone (4)	0.0269	0.0482	0.0063	1										
	0.7218	0.5239	0.9332											
Positive uncertainty tone (5)	-0.1077	0.0825	0.2749*	0.1749*	1									
	0.1536	0.275	0.0002	0.0199										
Negative uncertainty tone (6)	-0.1108	0.0845	0.2734*	0.1780*	0.9993*	1								
	0.142	0.2634	0.0002	0.0178	0									
Voluntary Income (7)	-0.1341	0.0582	-0.0924	0.0113	0.0862	0.0791	1							
	0.1344	0.5178	0.3034	0.9003	0.3372	0.3786								
Charitable Income (8)	-0.0202	-0.0231	0.0256	-0.0036	0.0675	0.0635	-0.1236	1						
	0.8112	0.7849	0.7619	0.9659	0.4247	0.4531	0.1923							
Surplus/Deficit (9)	-0.0123	0.0616	-0.1336	-0.0187	0.0389	0.0373	0.0507	0.105	1					
	0.8762	0.435	0.0891	0.8123	0.6216	0.6361	0.5732	0.2137						
ROI (10)	0.058	0.0411	-0.1221	0.0561	0.1073	0.1022	0.123	0.1795*	0.6689*	1				
	0.4618	0.6023	0.1206	0.4767	0.1729	0.1944	0.1699	0.0326	0					
Admin cost (11)	-0.1216	-0.0315	0.0584	-0.0658	0.028	0.0231	-0.1535	0.0931	0.0446	0.0265	1			
	0.1221	0.6899	0.4588	0.4042	0.7228	0.7699	0.0862	0.2706	0.5718	0.7371				
Programme cost (12)	0.0375	0.1896*	-0.0282	0.0485	-0.0751	-0.0729	-0.1246	-0.1511	-0.123	-0.2794*	-0.0638	1		
	0.635	0.0154	0.7212	0.5391	0.3405	0.3554	0.1644	0.0727	0.1178	0.0003	0.4182			
Total Asset (13)	0.0827	0.1724*	-0.105	0.0614	-0.0177	-0.0143	-0.0417	-0.0189	-0.0518	-0.1202	-0.1429	-0.1533	1	
	0.2941	0.0278	0.182	0.4359	0.8228	0.8559	0.6426	0.8229	0.511	0.1264	0.0688	0.0508		
Debt level ratio (14)	0.0027	-0.1577*	-0.0752	0.072	-0.0731	-0.0749	0.0522	0.0437	0.0018	-0.0953	-0.2531*	-0.0894	0.1742*	1
	0.9731	0.0444	0.3398	0.3612	0.3536	0.342	0.5618	0.6052	0.9814	0.2261	0.0011	0.2563	0.0261	

Panel C: Pearson correlation – Non-obfuscating statements

Pearson's correlation coefficients between readability and organisational characteristics for the non-obfuscated statements

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Flesch (1)	1													
Positive tone (2)	0.0606	1												
	0.4179													
Negative tone (3)	0.0715	0.0095	1											
	0.3387	0.8994												
Forward-looking tone (4)	0.1877*	0.0687	0.2718*	1										
	0.0114	0.3584	0.0002											
Positive uncertainty tone (5)	0.1316	0.0807	0.1179	0.1985*	1									
	0.0774	0.2802	0.1139	0.0074										
Negative uncertainty tone (6)	0.1317	0.081	0.1211	0.2016*	0.9995*	1								
	0.0773	0.2781	0.1043	0.0065	0									
Voluntary Income (7)	0.0968	0.1804*	0.1064	0.0872	0.093	0.093	1							
	0.2437	0.0288	0.1995	0.2936	0.2626	0.2626								
Charitable Income (8)	0.0235	0.0532	0.0137	0.0441	-0.0626	-0.0626	-0.005	1						
	0.7852	0.5366	0.874	0.6092	0.4673	0.4673	0.9542							
Surplus/Deficit (9)	-0.0091	0.0895	-0.1468	-0.023	-0.0198	-0.0198	0.0814	0.0044	1					
	0.9078	0.2515	0.0591	0.769	0.8005	0.8005	0.3187	0.9582						
ROI (10)	0.0777	0.0375	-0.0244	0.0024	-0.0618	-0.0618	0.1888*	0.0604	0.7091*	1				
	0.3213	0.6324	0.7557	0.9759	0.4303	0.4303	0.0203	0.4769	0					
Admin cost (11)	0.0746	0.1651*	-0.0396	-0.0723	-0.0444	-0.0444	-0.091	0.0327	0.0791	0.0196	1			
	0.3406	0.034	0.6132	0.3562	0.5716	0.5716	0.2666	0.7	0.3055	0.7998				
Programme cost (12)	0.0626	0.001	-0.1705*	-0.0913	0.1049	0.1049	0.0663	-0.0318	0.0602	-0.1107	0.0179	1		
	0.4232	0.9899	0.028	0.2421	0.1787	0.1787	0.4168	0.7069	0.434	0.1508	0.8167			
Total Asset (13)	-0.0428	0.1179	-0.1598*	-0.0205	-0.0021	-0.0021	0.1725*	0.0913	-0.0147	0.0407	-0.1195	-0.2240*	1	
	0.5855	0.1316	0.0403	0.7942	0.9784	0.9784	0.0342	0.2818	0.8494	0.598	0.1206	0.0033		
Debt level ratio (14)	-0.0354	-0.1556*	-0.0802	-0.0177	0.0122	0.0122	0.0571	0.1378	-0.044	0.1493	-0.3653*	-0.15	0.3225*	1
	0.6515	0.0459	0.3057	0.8218	0.8769	0.8769	0.4864	0.1032	0.5691	0.0519	0	0.0509	0	

2.6.4.3 **Spearman Correlation**

A Spearman correlation was run to assess the relationship between readability level and financial and non-financial variables. The results revealed that all relationships between the variables were, in general, quite weak (i.e. between readability and financial variables and between readability and non-financial variables). However, a significant negative weak relationship was found between readability level and programme cost (r_2 = -.1276*); hence, the higher the programme cost ratio, the more complex was the chairman's statement's readability. Therefore, obfuscation exists when chairmen prepare their statements with a complex writing style to deliberate their expenses. In contrast, a significant positive correlation was found between readability level and non-financial variables in forward-looking (r_2 =.1762*), positive uncertainty (r_2 =.1678*), and negative uncertainty (r_2 =.1684*) tones. A possible explanation for this might be that, the more that forward-looking, positive uncertainty and negative uncertainty tones appear, the easier the manner in which a chairman's statements were written (see Table 2-10, Panel A).

The Spearman correlation results were, in general, quite weak; furthermore, Spearman correlation tests were conducted as a function of statement type. Both statements had, in general, weak correlations, and no significant correlation was found between readability level and financial and non-financial variables (see Table 2-10, Panels B and C).

Overall, both the Spearman and Pearson's correlation tests showed no direct relationship between readability level and financial and non-financial variables. As a result, a two-way table with a measure of association test was conducted.

Table 2-10 Spearman Correlations

This table reports the results of correlation coefficient between readability and organisational characteristics (financial and non-financial variables) for charities' chairman's statements. Panel A reports the correlation coefficient for the full sample, Panel B reports the correlation coefficient for obfuscated statements, and Panel C reports the correlation coefficient for non-obfuscated statements.

Panel A: Spearman rank correlation – Full sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Flesch (1)	1													
Positive tone (2)	-0.0174	1												
	0.7493													
Negative tone (3)	0.0855	-0.0268	1											
	0.1154	0.622												
Forward-looking tone (4)	0.1762*	0.1181*	0.0567	1										
	0.0011	0.0295	0.2969											
Positive uncertainty tone (5)	0.1678*	0.0826	0.1992*	0.2074*	1									
	0.0019	0.1283	0.0002	0.0001										
Negative uncertainty tone (6)	0.1684*	0.0835	0.1986*	0.2087*	0.9999*	1								
	0.0018	0.1242	0.0002	0.0001	0									
Voluntary Income (7)	0.0319	0.0868	-0.0013	0.0643	0.0447	0.0433	1							
	0.5582	0.11	0.9812	0.2367	0.4111	0.4257								
Charitable Income (8)	0.078	0.0363	0.0243	-0.065	-0.0192	-0.0203	-0.0623	1						
	0.1515	0.5045	0.6553	0.232	0.7237	0.7096	0.2523							
Surplus/Deficit (9)	-0.0798	0.0409	-0.1549*	-0.0192	0.0284	0.0279	0.1094*	0.0359	1					
	0.1418	0.4517	0.0042	0.7242	0.6018	0.6079	0.0439	0.5091						
ROI (10)	-0.0139	0.0099	-0.1377*	0.0664	0.0508	0.0494	0.1509*	0.0555	0.7778*	1				
	0.7989	0.8556	0.0111	0.2222	0.3503	0.364	0.0053	0.3072	0					
Admin cost (11)	0.0358	0.0068	0.0275	-0.1210*	-0.1092*	-0.1109*	-0.1159*	0.0309	0.087	0.0312	1			
	0.5107	0.9001	0.6131	0.0257	0.0441	0.0411	0.0326	0.5697	0.1095	0.5664				
Programme cost (12)	-0.1276*	-0.1160*	-0.1335*	0.0087	-0.0767	-0.0768	-0.0347	0.0419	0.0865	0.0597	-0.3372*	1		
	0.0186	0.0325	0.0137	0.8736	0.1583	0.1578	0.524	0.4409	0.1114	0.272	0			
Total Asset (13)	0.0331	0.0383	-0.091	0.0534	0.0078	0.0086	0.0185	-0.0902	0.0081	-0.1210*	-0.0997	-0.1628*	1	
	0.5436	0.4814	0.0939	0.326	0.8864	0.8747	0.7334	0.0967	0.8824	0.0257	0.0664	0.0026		
Debt level ratio (14)	-0.0797	0.1540*	0.0016	0.0472	0.0038	0.0047	-0.0141	0.0188	-0.0771	-0.0567	-0.1562*	0.2350*	-0.2738*	1
	0.1425	0.0044	0.9769	0.3857	0.9449	0.9305	0.7953	0.7301	0.1558	0.2968	0.0039	0	0	

Panel B: Spearman rank correlation – Obfuscated statements

Spearman rank correlation coefficients between readability and organisational characteristics for the obfuscated statements

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Flesch (1)	1													
Positive tone (2)	-0.0616	1												
	0.5171													
Negative tone (3)	0.0481	-0.0315	1											
	0.613	0.7403												
Forward-looking tone (4)	0.068	0.1135	-0.0647	1										
	0.4743	0.2314	0.4958											
Positive uncertainty tone (5)	0.0218	0.1724	0.1829	0.2314*	1									
	0.8191	0.0679	0.0525	0.0137										
Negative uncertainty tone (6)	0.0197	0.175	0.1811	0.2337*	0.9998*	1								
	0.8362	0.0638	0.0549	0.0127	0									
Voluntary Income (7)	-0.0549	0.0927	-0.0612	0.001	0.0669	0.064	1							
	0.5635	0.3286	0.5195	0.9915	0.4813	0.5006								
Charitable Income (8)	0.0165	-0.0599	0.0105	0.0053	0.0769	0.075	-0.085	1						
	0.8619	0.5289	0.9122	0.9557	0.4182	0.4297	0.3709							
Surplus/Deficit (9)	0.0503	0.086	-0.1452	0.0028	0.0914	0.0907	0.0774	0.0736	1					
	0.5969	0.3652	0.125	0.9762	0.3359	0.3393	0.4151	0.4387						
ROI (10)	0.1289	0.1144	-0.1165	0.0868	0.1857*	0.1834	0.1047	0.1172	0.7481*	1				
	0.1736	0.2275	0.219	0.3604	0.0489	0.0519	0.2696	0.2165	0					
Admin cost (11)	-0.0258	-0.0469	0.0408	-0.0699	-0.1356	-0.1387	-0.1472	0.0495	0.132	0.0917	1			
	0.7859	0.6222	0.6682	0.4619	0.1522	0.1428	0.1198	0.6025	0.1633	0.3342				
Total Asset (12)	0.0324	0.0652	-0.0965	0.1483	-0.0886	-0.088	-0.096	-0.1373	-0.0214	-0.1900*	-0.0557	1		
	0.7334	0.4929	0.3095	0.117	0.3509	0.3537	0.3116	0.1469	0.8219	0.0438	0.5581			
Debt level ratio (13)	0.1443	0.1685	-0.055	0.0542	0.0129	0.0153	-0.0451	-0.0804	-0.1609	-0.1211	-0.1782	-0.1805	1	
	0.1272	0.0744	0.5631	0.5687	0.8924	0.8722	0.635	0.3975	0.0886	0.2013	0.0589	0.0557		
Programme cost (14)	-0.0247	-0.1273	-0.1962*	0.0432	-0.0375	-0.0371	0.0309	0.0177	0.149	0.0026	-0.3424*	-0.1755	0.2381*	1
	0.7949	0.1791	0.0372	0.6496	0.6932	0.6965	0.7455	0.8524	0.1151	0.9785	0.0002	0.063	0.0111	

Panel C: Spearman rank correlation – Non-obfuscated statements

Spearman rank correlation coefficients between readability and organisational characteristics for the obfuscated statements

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Flesch (1)	1													
Positive tone (2)	0.0121	1												
	0.8927													
Negative tone (3)	0.1111	0.0082	1											
	0.2137	0.9269												
Forward-looking tone (4)	0.156	0.1439	0.1772*	1										
	0.0799	0.1066	0.0463											
Positive uncertainty tone (5)	0.0851	0.0389	0.1563	0.1497	1									
	0.3417	0.6643	0.0793	0.093										
Negative uncertainty tone (6)	0.0851	0.0389	0.1563	0.1497	1.0000*	1								
	0.3417	0.6643	0.0793	0.093	0									
Voluntary Income (7)	0.174	0.2511*	0.0667	0.1349	0.05	0.05	1							
	0.0504	0.0044	0.4565	0.1306	0.5767	0.5767								
Charitable Income (8)	0.0207	-0.0312	0.053	-0.0336	-0.0555	-0.0555	-0.0257	1						
	0.8172	0.7278	0.554	0.7074	0.5353	0.5353	0.774							
Surplus/Deficit (9)	0.0082	0.0621	-0.1283	0.0152	0.0745	0.0745	0.1253	0.0341	1					
	0.9274	0.488	0.1506	0.865	0.405	0.405	0.1603	0.7035						
ROI (10)	0.0637	0.045	-0.0483	0.0534	0.0428	0.0428	0.2012*	0.0404	0.8207*	1				
	0.4768	0.6152	0.5895	0.5508	0.6325	0.6325	0.0233	0.6521	0					
Admin cost (11)	-0.0358	0.1019	0.0139	-0.2268*	-0.1787*	-0.1787*	-0.097	-0.0009	0.0965	0.0456	1			
	0.6898	0.2544	0.8768	0.0104	0.0445	0.0445	0.2781	0.9917	0.2803	0.6109				
Total Asset (12)	-0.0189	-0.0313	-0.1049	-0.0743	0.1	0.1	0.0909	-0.0928	-0.0082	-0.0943	-0.135	1		
	0.8329	0.7271	0.2403	0.4067	0.2631	0.2631	0.3093	0.2993	0.9273	0.2917	0.1302			
Debt level ratio (13)	-0.1318	0.0897	-0.04	0.0401	0.0167	0.0167	0.0987	0.0178	-0.05	-0.0836	-0.0346	-0.3163*	1	
	0.1395	0.3158	0.6553	0.6546	0.8523	0.8523	0.2697	0.8421	0.5769	0.3503	0.6993	0.0003		
Programme cost (14)	-0.0603	-0.1827*	-0.1726	0.1237	0.0018	0.0018	-0.1177	0.1331	-0.0318	0.0717	-0.3204*	-0.1306	0.2829*	1
	0.5008	0.0398	0.0523	0.166	0.9838	0.9838	0.1876	0.1358	0.7229	0.4233	0.0002	0.1434	0.0013	

2.6.4.4 Two-way table with measure of association

A two-way table was used to test the association between readability levels and financial variables. The results of the full sample of 516 statements found two significant associations. Firstly, the association between the readability level and programme cost ratio (p = .016) (See Table 2-11) confirmed the significant negative correlation result found in the previous Spearman rank correlation (r_2 = -.1276*), which indicated that the higher the programme cost ratio, the more difficult the writing style. Secondly, there was an association between readability level and surplus or deficit (See Table 2-12), which also confirmed the significant negative correlation results found in previous Pearson's correlations (r = -.0968*). A possible explanation for this is that the higher the surplus, the more complex the writing style and the higher the deficit, the more complex the writing style. These two associations between readability level and financial variables might indicate, as evidence of obfuscation, that chairmen prepare their statements to manage the perception of the reader by covering both bad news (i.e. high programme cost ratios, high deficits) and good news (i.e. surpluses).

Non-obfuscated statements showed no significant association between readability and financial variables when tested for association using two-way tables. However, the results showed a significant association between readability level and administration cost ratio in obfuscated statements (p = .096). This indicated the tendency of these statements to be more variable and complex in their writing style in order to obfuscate bad news.

Table 2-11 Two-way table with measure of association between readability score and programme cost ratio.

Pearson chi2(6) = 15.6295 Pr = 0.016

	Programme cost ratio		
Charities (full sample) – reading pattern	**Low**	**High**	**Total**
Very difficult (0-30)	7	20	27
	(3.017)	(7.042)	(5.23)
Difficult (30 – 50)	82	114	196
	(35.34)	(40.14)	(37.98)
Fairly difficult (50 – 60)	63	88	151
	(27.16)	(30.99)	(29.26)
Standard (60 – 70)	58	44	102
	(25)	(15.49)	(19.77)
Fairly easy (70 – 80)	18	14	32
	(7.759)	(4.930)	(6.20)
Easy (80 – 90)	2	4	6
	(0.862)	(1.408)	(1.16)
Very easy (90 – 100)	2		2
	(0.862)		(0.39)
Total	232	284	516

Table 2-12 Two-way table with measure of association between readability score and surplus / deficit.

	Surplus/ Deficit		
Charities (full sample) – reading pattern	**Deficit**	**Surplus**	**Total**
Very difficult (0-30)	3	20	23
	(2.143)	(6.116)	(4.93)
Difficult (30 – 50)	50	131	181
	(35.71)	(40.06)	(38.76)
Fairly difficult (50 – 60)	43	88	131
	(30.71)	(26.91)	(28.05)
Standard (60 – 70)	26	67	93
	(18.57)	(20.49)	(19.91)
Fairly easy (70 – 80)	14	18	32
	(10)	(5.505)	(6.85)
Easy (80 – 90)	4	1	5
	(2.857)	(0.306)	(1.07)
Very easy (90 – 100)		2	2
		(0.612)	(0.43)
Total	140	327	467

Pearson chi2(6) = 14.0141 Pr = 0.029

2.6.5 **Stakeholder accountability index**

An analysis was conducted to examine the type of stakeholder orientation in the chairman's statements using the stakeholder accountability index. The accountability index was divided into three levels – upward accountability, downward accountability, and internal accountability. Descriptive statistical results showed that, overall, the charities tended to report more with regards to internal accountability in the chairman's statements, with an approximate mean value of 4 words, followed by downward accountability, with a mean value of 2.82 words.

In addition, similar results were found when comparing the two obfuscated and non-obfuscated statements. Internal accountability tended to be the most targeted accountability, with an average of 3.93 and 4 words, respectively, followed by downward accountability, with an average of 2.91 and 2.38 words, respectively.

ANOVA tests were also carried out to highlight the main distinctions between the oriented stakeholder accountability in the full chairman's statements. The results of the full sample showed a significant difference between the three targeted levels of stakeholder accountability, with a 99% confidence level; the most targeted stakeholder accountability was internal, with an approximate mean of 4 words. This was followed by downward accountability and upward accountability, with a mean of approximately 2.821 and 1.380 words, respectively.

Moreover, when comparing the results of the ANOVA test as a function of obfuscated/non-obfuscated statements, both obfuscated and non-obfuscated statements had the tendency because the results showed a significant difference at 1%. Internal accountability was the most targeted accountability for both obfuscated and non-obfuscated statements, with an approximate average of 3.937 and 4 words, respectively, when compared with downward (mean value of approximately 2.915 and 2.381 words, respectively) and upward accountability (mean value of approximately 1.137 and 1.458 words, respectively). A two-way table was also used to test the association between the stakeholder sequence pattern and financial variables. A positive change in voluntary income was associated with stakeholder sequences ($p < .05$); the lower the change, the higher the frequency of 'upward stakeholder' in a chairman's statement. Similarly, higher frequencies of 'internal stakeholder' appeared when there was a small change in voluntary income; however, the higher the change in voluntary income, the higher the frequencies of 'downward stakeholder' in the chairman's statements.

Two-way tables also found a significant association between stakeholder sequence pattern and programme cost ratio at the 1% significance level. The lower the programme cost ratio, the higher the 'internal stakeholder' frequencies in the chairman's statements (102 word frequency) followed by 'upward stakeholder' (69 word frequency). Conversely, the lower the programme cost ratio, the lower the reference to the 'downward stakeholder' (56 word frequency). The higher the programme ratio, the higher the reference to the 'internal stakeholder', followed by 'upward stakeholder' and 'downward stakeholder' (96, 91 and 89 word frequencies, respectively).

2.6.6 **Robustness analysis:**

The study conducted additional analysis to test the robustness of the result. To examine whether the results are sensitive to the Flesch- Kincaid readability score and use instead Fog score. Apart from the slight sensitivities in the magnitude and statistical significance levels, the results based on Fog scores reported in Pearson and Spearmen correlation remain the same to those in Appendix 2 and Appendix 3. This implies that the results of the study are robust.

2.7 Discussion

2.7.1 **Chairman's statements' readability**

This study examines the effectivness of chairman's statements in UK charities, using readability as tool to test for obfuscation. The results are in accordance with previous research in for-profit readability studies, indicating that chairman's statements are 'difficult' to read (Courtis, 1986, 1995, 1998, 2004; Jones, 1988; Baker and Kare, 1992; Smith and Taffler, 1992; Clatworthy and Jones, 2001; Hossain and Siddiquee, 2008; Li, 2008; Raman *et al.*, 2012; Bayerlein and Davidson, 2015). However, in contrast to the few previous studies on the evolution of readability over time (Jones, 1988; Abdul Rahman, 2014; Moreno and Casasola, 2016), this study found a remarkable stability in UK charity chairman's statements' readability over a six-year period (2008–2013), except for the years

2011 and 2012, when readability levels decreased (i.e. there were more complex chairman's statements). While it is difficult to attribute this result to specific events, it is argued that the effect of the spending cuts, in which charities lost approximately 9% of their government income between 2010 and 2012 (NCVO, 2014), might have influenced the statements. This result is in line with Courtis (1995), who argued that no improvement was found in chairman's statements over a five-year period. One possible explanation is that previous studies analysed much longer periods; for example, Jones (1988) covered a period of 30 years, and the results showed a downward trend in readability, while Abdul Rahman (2014) and Moreno and Casasola (2016) covered periods longer than 40 years and found improvements in the trend of readability difficulty. Therefore, the period observed is an important element when testing the trend of the readability evolution (Moreno and Casasola, 2016).

Another important finding was that a large proportion of charities showed variability in chairman's statements (between 10% and 100%), which indicated a phenomenon in writing difficulty between three sections. The variability of statements raised the question of whether or not there was a specific pattern for the most difficult section or any methodical location (Courtis, 1998, 2004). The study results showed that the middle sections in obfuscated statements tended to be the most 'difficult' to read among the sections, suggesting that deliberate word crafting was present in charities that had higher variability and lower reading ease scores. This result correlated with that of Courtis (1998), who suggested that management would use the middle sections to cover negative or adverse news by using a writing style that was more 'difficult' to read than the introduction and conclusion sections were.

While non-obfuscated statements (low variability and higher readability scores) tended to report the beginning as the hardest section, this result did not support Clatworthy and Jones' (2001) and Courtis' (2004) findings that the end section was the hardest to read. The prevalence of variability and the locations of the sections supported the obfuscation hypothesis (Courtis, 1998), which indicated that the chairmen of UK charities were not neutral in presenting their narrative statements. In this study, the obfuscation hypothesis was accepted in the chairman's statements of UK charities, since relationships were found between readability and financial and non-financial variables. The study found no relationship between size and readability; this result may be explained by the fact that all of the charities in the study sample were similar in size (large charities ranked by income), which was also in line with Courtis (1995, 2004). However, this contradicted the findings of the previous studies of Baker and Kare (1992) and Abdul Rahman (2014), who found a negative relationship and, notably, the study of Moreno and Casasola (2016), who found a positive relationship.

Previous research has supported the obfuscation hypothesis by finding a positive relationship between readability and profitability (Baker and Kare, 1992; Abdul Rahman, 2014); however, the results of this study seemed inconsistent with other research studies, which did not support the obfuscation hypothesis and found no relationship between readability and profitability (Courtis, 1995, 1998, 2004; Hossain and Siddiquee, 2008; Bayerlein and Davidson, 2015; Moreno and Casasola, 2016). The current study found a negative relationship between surplus or deficit and readability in a full sample of 516 chairman's statements (i.e. high deficit low reading ease score; high surplus low reading ease score). These mixed results are likely to be related to the different proxy measures used in previous literature, which may have led to inconclusive results (Moreno and Casasola, 2016). However, the profitability results of the previous studies (in the for-profit context) cannot be generalised or compared with the current study (in the not-for-profit context) due to the different nature of the financial proxy measures used.

A two-way table test also confirmed the association between readability level and surplus or deficit, which indicated the chairman's intentions to obfuscate both good and bad news. This result further supports Trussel (2003), who argued that non-profit organisations have incentives to minimise profits and avoid losses, with the main argument being that profit reporting may result in a loss of donors, while organisations with losses may increase their risk of high debt or a loss of management reputation (Trussel, 2003). Other evidence of obfuscation was found in terms of the association between readability level and programme cost ratios, where the lower the programme ratio, the lower the reading ease scores (more complex statements), and vice versa. This relationship may be explained by the fact that programme cost or programme spending ratio is an important proxy used by donors to evaluate charities' service efficiency. As such, Trussel (2003) found a positive correlation between programme spending ratios and the amounts of donations, which indicated that donors consider programme spending ratio when making a decision regarding contributions. As a result, charities are motivated to maximise their programme spending ratio; or they may manipulate a higher programme cost ratio. Caution is due here because the current study did not determine whether the higher programme cost ratio was due to manipulation (overstatement of programme cost ratio); however, the results showed evidence of obfuscation, where chairmen appeared to deliberately write difficult-to-read statements in order to disguise a low programme cost ratio. In addition, results also showed that the higher the programme cost ratio, the more complex the statements. These results may be due to obfuscation or they may be an attempt to cover the overstatement of a higher programme ratio by using a complex writing style.

A two-way table also revealed an association between readability level in obfuscating statements (high variability and low reading ease score) and administration cost ratio (i.e. the higher the administration cost ratio, the more complex the statements). This suggested the presence of obfuscation, where chairmen may intentionally use language to obscure the presence of a high administration cost ratio. Because administration cost ratio is also used to measure charities' efficiency and effectiveness, a lower ratio is preferable. Regarding risk and readability, the study results agreed with Moreno and Casasola (2016), who found no relationship, which was also contrary to the obfuscation hypothesis.

An association was found between non-financial variables or the tones of words used in the chairman's statements (i.e. positive, negative, future, positive uncertainty, and negative uncertainty) and readability level. A weak positive correlation was found between the readability level and the forward-looking tone, positive uncertainty tone and negative uncertainty tone. However, this was not considered as an obfuscation because no correlation was found between obfuscated statements (high variability and low readability ease score) and non-financial variables. Obfuscation occurs when non-financial variables are negatively correlated with readability level (i.e. higher forward-looking words and lower reading ease scores) regarding negative news.

The overall results may indicate that the chairman's statements of UK charities are potentially part of an obfuscation strategy. Courtis (2004) suggested that there are three possible explanations of obfuscation occurrences which should be taken into account. Firstly, one must consider non-malicious obfuscation, in which management applies a positive 'spin' to reports in order to reduce uncertainty. Secondly, there is malicious obfuscation, which seeks mainly to confuse readers by misrepresenting the facts, thereby leading them to make misguided decisions. Finally, obfuscation might occur because several authors are involved in writing the report, creating an uneven style. In general, it seems that the obfuscation that occurs in the relationship between readability level and financial variables might be related to malicious obfuscation that is performed to confound the reader or the stakeholder regarding a charity's performance (i.e. surplus or deficit, programme cost ratio and administration cost ratio), which will eventually lead to misguided decisions.

Although obfuscation did not appear between the readability level and non-financial variables or a chairman's tone, the tone used may well be a reason for the complexity and variability of statements. The distribution of the tone between three different sections indicated a thematic structure effect, where the beginning section included more positive and negative words and the ending section included more forward-looking words, while the middle section included a combination of tones. This supports Clatworthy and Jones's (2001) idea of a thematic structure distribution in each section; for example, the middle section involved more varied and complex technical issues (operations, investments, financing and segment analysis), while the beginning included a broader discussion (overview of the year, outline of major events) and the ending involved more future outlooks (employees, board changes). Although this study did not test the effect of the thematic structure of chairman's statements on readability level, the results suggest that the thematic structure effect could be a valid reason for the complexity and variability of the statements of UK charities' chairmen.

The overall conclusion of readability results indicates that obfuscation is being used as a tool to deliberately confuse readers. Although varying levels in the readability of chairman's statements in not-for-profit and for-profit organisations may indicate that complexity is a general phenomenon of contemporary reporting, charities tend to behave instrumentally when preparing chairman's statements. They cover both bad and good news, which might affect their survival, particularly when administration and programme costs are high and even when the charity is experiencing a surplus. Thus, in order to retain donors, statements are intentionally written in a complex fashion.

2.7.2 Chairman's statement accountability

The second part of this study attempts to determine to who the chairman's statement is accountable. It was somewhat surprising that internal accountability tended to appear most frequently in the statement, followed by downward accountability and finally upward accountability. This indicated that UK charities tend to adopt holistic accountability mechanisms, which include a wider range of stakeholders. This result differed from certain published studies (O'Dwyer and Unerman, 2008, 2010), which found that most NGOs adopt a hierarchical concept of accountability, primarily dominated by external accountability or, in other words, upward accountability (donors, funders, government). This did not appear to be the case in this study.

The results further supported the findings of O'Dwyer and Unerman (2016) in that NGO accountability processes have been influenced by internal accountability via the adoption of an ethical, value-based dimension (a felt accountability regime rather than an imposed one, where the funders impose an accountability requirement on NGOs). The imposed requirement is designed to fit a donor's desire in setting a budget rather than managers making such a decision. This can limit the degree to which managers can integrate their own values, missions and strategies (O'Dwyer and Boomsma, 2015). Conversely, the felt accountability regimes proposed for NGOs face less external pressure; therefore, they have the flexibility to develop accountability that suits their internal needs (ibid). This explains why charities may adopt the felt accountability regime versus imposed accountability — they prioritise internal accountability (e.g., missions, values, aims etc.), followed by downward accountability (e.g., beneficiaries, consumers, service recipients etc.) and finally upward accountability (e.g., donor, government, supporters etc.).

The result is in line with the ethical (normative) branch of stakeholder theory. Thus, the charities in this study may be regarded as "moralist organisations", which demonstrate moral principles and care for all stakeholders, although these can tend to diminish in the face of financial crisis (Jones *et al.*, 2007). This explains the distribution of the accountability patterns in charities by focusing more on internal accountability (value-based dimension), downward accountability (beneficiary-based dimension) and upward accountability (funder-based dimension). Additionally, the two-way table test showed an association between the change in voluntary income and the stakeholder pattern sequence, where a lower change in voluntary income reflected a higher reference to the upward stakeholder instead of to internal accountability. The observed increase in upward accountability frequencies in charities could also be attributed to moralist organisations' characteristics; they may care less about upholding moral principles when financial issues arise. However, a higher change in voluntary income to charities upholds the moral principles and refers more to downward accountability. The results of the current study partially support the findings of Dhanani and Connolly (2012, 2015) that not-for-profit organisations use impression management techniques to represent themselves in a positive light, but discharge the accountability upwards.

The findings of this paper partially agreed with the results of Dhanani and Connolly (2012, 2015) in that there is an attempt to use strategic or manipulative techniques when discharging accountability to deliberately influence stakeholder perceptions of charities; however, this study suggests that the chairman's statements reflect a combination of motivations associated with both the ethical and the instrumental models of stakeholder theory. Charities tend to behave instrumentally when preparing chairman's statements, covering both bad and good news that might affect their survival, particularly when administration and programme costs are high and even when the charity is experiencing a surplus. On the other hand, charities still reflect some ethical sense by adopting a felt accountability regime instead of an imposed accountability regime, as well as by prioritising internal accountability. Therefore, charities in this study may be regarded as "moralist organisations" which tend to uphold moral principles and care for all stakeholders while worrying less about them when facing financial crises.

2.8 **Conclusion**

The purpose of the current study was to examine the effectiveness of narrative communication in the context of the role that trustees play in delivering charity accountability, where the study specifically examined the accountability and readability of UK charities' chairman's statements. The study was motivated by recent research which questions whether charities engage in impression management strategies when discharging accountability in order to manage stakeholder expectations.

The study was carried out by first empirically testing the readability of chairman's statements as well as their readability variability. The statements were then classified as obfuscating or not, based on the dual criteria of low readability level (complex) and high readability variability to identify to the extent to which readability is associated with this form of impression management. Second, the study compiles a self-constructed index to measure how far the chairman's statements are prepared with the aim of accounting to their stakeholders. Finally, the role of stakeholder theory in shaping organisational accountability practices is evaluated, and the association between obfuscating charities and financial and non-financial measures as well as stakeholder accountability (targeted audience) were tested.

The results revealed that the overall readability level of chairman's statements tends to be 'difficult' and this difficulty level was stable over the entire six-year period reviewed.

Furthermore, the chairman's statements in most of the charities studied were highly variable; and about 83% of statements (V) scores exceeded 10%. A total of 177 statements met the dual criteria and may be referred to as obfuscated statements. Generally, the middle section of each statement was the most 'difficult to read' section among statements associated with obfuscated statements, while the beginning section tended to be the most 'difficult to read' section associated with non-obfuscated statements. The study further reveals weak and non-significant correlations between the readability of obfuscated statements and organisational characteristics (both financial and non-financial variables). However, further analysis (two-way table-chi-square test) showed a significant association between high administrative costs and obfuscated statements, indicating that the preparers of the chairman's statements might be using difficult writing styles deliberately in order to manage stakeholder perception. Moreover, full sample results showed significant associations between low reading ease and both high programme cost ratios and surpluses. Also, the non-financial variable (the tone used in the chairman's statement) showed a significant difference when comparing two sections; specifically, high frequencies of both positive and negative words appeared more often in the beginning section, while a high frequency of forward-looking words appeared at the end. Ultimately, the statements appeared to be most accountable towards charity mission and staff (internal accountability), followed by charity beneficiaries and community (downward accountability), and finally donors and funders (upward accountability).

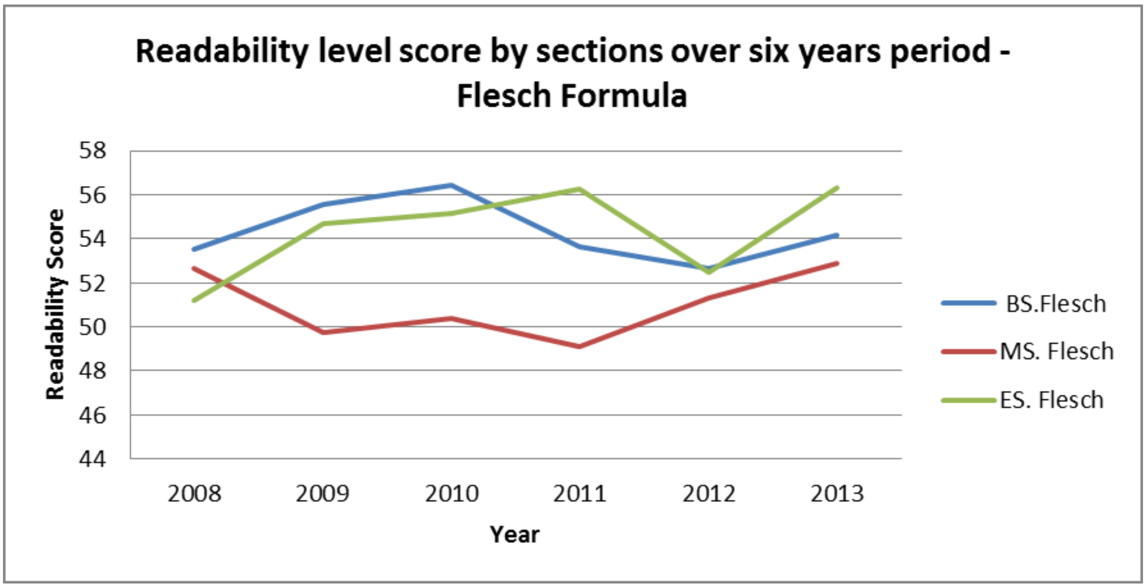
The findings of this paper partially agree with the results of Dhanani and Connolly (2012, 2015) in that there is an attempt to use strategic or manipulative techniques when discharging accountability to deliberately influence stakeholder perceptions of charities; however, this study suggests that the chairman's statements reflect a *combination* of motivations associated with both the ethical model and the instrumental model of stakeholder theory. Charities tend to behave instrumentally when preparing chairman's statements covering both bad and good news that might affect their survival, particularly when administration and programme costs are high and even when the charity is experiencing a surplus, in order to manage donors. On the other hand, charities still reflect some ethical sense by adopting a felt accountability regime instead of an imposed accountability regime, as well as by prioritising internal accountability. Therefore, charities in this study may be regarded as "moralist organisations" which tend to uphold moral principles and care for all stakeholders while worrying less about them when facing financial crises.

As such, this study contributes to the growing body of literature in two ways. First, it adds to the readability literature; this is the first study conducted within the context of not-for-profit organisations. Second, it adds to the NGO accountability literature by extending the work of Dhanani and Connolly (2012, 2015) in assessing NGO accountability through chairman's statements, using readability as the tool to test obfuscation to evaluate the pattern and motivation empirically using both the ethical and instrumental basis of stakeholder theory. In addition, to the best of this author's knowledge, this is the first study which empirically assesses the 'target audience' of the accountability narratives by developing a self-constructed index under the basis of stakeholder-direction orientation of accountability. As such, this study has important implications for policy makers and preparers in understanding narrative-reporting practices in charities.

The limitations of this study should be recognised when interpreting the results. First, the findings of this study are limited to chairman's statements and may not be transferable to other narratives or financial reporting in the annual reports. Second, this study did not consider the thematic structure effect on readability and variability levels. Third, not all organisational factors were considered in this study (i.e. financial variables – press coverage, organisational complexity and statement length or non-financial variables – tones of sentences in statements). Finally, it is worth to be mentioned the limitation of the quantitative approach used in testing the accountability index, as words is considered to be a problematic unit which isolate the individual meaning or the context of the study. In terms of directions for future research, a fruitful area for further work would be to test the thematic effect and other organisational characteristics that might influence the complexity and variability level in the chairman's statement. Another possibility for future research would be to investigate chairman's statement readability and accountability using different theoretical backgrounds (e.g., institutional theory might help in understanding the apparent uniformity of readability level in charities) and testing the accountability using sentences as a unit of measure .

2.9 Appendix

Figure 2-1 Readability level score by section over a six-year period – Flesch Formula



Appendix 1. List of Charities

No.	Charity Name	No.	Charity Name
1	British Council	71	Disaster Emergency Committee
2	Nuffield Health	72	Catch 22
3	Cancer Research UK	73	British Film Institution
4	Art Council England	74	SSAFA
5	National Trust	75	Water Aid
6	Charities Aid Foundation	76	Royal Shakespeare Company
7	Oxfam	77	Marie Curie
8	Save the children UK	78	Help for Heroes
9	Anchor Trust	79	Disabilities Trust
10	CITB	80	Multiple Sclerosis Society
11	Wellcome Trust	81	Addiction
12	Barnardo's	82	Children Society
13	British Heart Foundation	83	BBC Children in appeal
14	Girls Day School Trust	84	South Bank Centre
15	Action for Children	85	Whitgift Foundation
16	Kusuma Trust	86	BRE Trust
17	Royal Mencap Society	87	Society of Jesus
18	Royal National lifeboat institute	88	Keeping Kids Company
19	Age UK	89	National centre for social research
20	Leonard Cheshire Disability	90	Royal Collection Trust
21	NSPCC	91	Zoological Society of London
22	British Library	92	Action on hearing loss
23	CCE	93	Royal Society of chemistry
24	Macmillan Cancer Support	94	Livability
25	Peabody Trust	95	Wales Council for Voluntary action
26	RSPCA	96	City Bridge trust
27	Trustees of London Clinic Limited	97	Associated broad royal schools music
28	Shaw Trust	98	Prince's trust
29	Royal Opera House Covent Garden	99	BTCV
30	Scope	100	Arthritis Research UK
31	General Medical Council	101	Royal masonic Benevolent Institution
32	Christian Aid	102	Autism Initiatives UK
33	Community Integrated Care	103	Westminster RC Diocesan Trust
34	BHP Billiton Sustainable Communities	104	Abbeyfield Society
35	Adventure Capital Fund	105	Arts Council of Wales
36	PDSA	106	Royal Institute of British Architects
37	National Autistic Society	107	Fremantle Trust
38	Sense	108	Football Foundation
39	UNICEF	109	CIPFA
40	Royal National Theatre	110	Family Fund
41	WRVS	111	Mines Advisory Group

42	Consumer Association	112	Chartered Inst of Personnel & Development
43	Alternative Future Group Ltd.	113	Electrical Safety Council
44	Archbishop's Council	114	Hospital Management Trust
45	The Royal Society	115	CSV
46	Groundwork UK	116	Care South
47	United Response	117	Worker's Education Association
48	Action Aid	118	Stroke Association
49	Learning and Skills Improvement services	119	Foundation for Credit Counselling
50	Islamic relief Worldwide	120	Avante Partnership
51	Great Ormond St. Hospital children charity	121	Richmond Fellowship
52	TearFund	122	Museum of London
53	Royal Horticulture Society	123	Royal Academy of Arts
54	Citizens Advice	124	Eden Trust
55	Historic Royal Palaces	125	Royal College of Physicians of London
56	Dog Trust	126	Royal Hospital for Neuro- Disability
57	Alzheimer’s Society	127	British Academy
58	World Vision UK	128	Institution of Civil Engineers
59	MERLIN	129	Anthony Nolan Trust
60	Leverhulme Trust	130	Diabetes UK
61	WWF UK	131	United Bible Societies Association
62	Guide Dogs for Blind Association	132	HCT Group
63	Institution of Engineering and Technology	133	Royal Society of Wildlife Trusts
64	CAFOD	134	practical Action
65	Kennedy Institute Rheumatology Trust	135	Royal College of Surgeons
66	SHELTER	136	Donkey Sanctuary
67	Nursing and Midwifery Council	137	Blue Cross
68	YHA	138	CLIC Sargent Cancer Care for Children
69	Care International UK	139	International Health Partners UK
70	Plan International UK	140	LFEW

Appendix 2 : Pearson correlation - Robustness analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Fog (1)	1													
Positive tone (2)	0.0266	1												
	0.5464													
Negative tone (3)	-0.1270*	-0.0483	1											
	0.0039	0.2735												
Forward-looking tone (4)	-0.0677	0.0949*	0.1053*	1										
	0.1244	0.0312	0.0168											
Positive uncertainty tone (5)	-0.1342*	0.053	0.2214*	0.2184*	1									
	0.0022	0.2298	0	0										
Negative Uncertainty tone (6)	-0.1343*	0.0535	0.2230*	0.2196*	0.9994*	1								
	0.0022	0.2252	0	0	0									
Voluntary Income (7)	0.0324	0.0332	0.0151	0.0425	0.0339	0.0316	1							
	0.5234	0.5139	0.767	0.4024	0.5045	0.5341								
Charitable income (8)	-0.0212	0.1093*	0.0032	-0.0186	-0.0343	-0.0356	-0.0644	1						
	0.6746	0.0298	0.9502	0.7126	0.4962	0.4801	0.126							
Surplus / deficit (9)	0.1358*	0.0647	-0.1657*	-0.0613	-0.0252	-0.0244	0.0863*	0.0966*	1					
	0.0033	0.1629	0.0003	0.186	0.5865	0.5988	0.0305	0.0139						
ROI (1)0	0.0806	0.0234	-0.1292*	0.0177	-0.0116	-0.013	0.1053*	0.1408*	0.7185*	1				
	0.0821	0.6137	0.0052	0.7032	0.802	0.7802	0.0083	0.0003	0					
Admin cost (11)	-0.0145	0.0089	-0.0612	-0.053	-0.0803	-0.0817	-0.0249	0.024	-0.0308	0.0105	1			
	0.7552	0.8473	0.1873	0.2532	0.0835	0.0781	0.5342	0.5414	0.399	0.7739				
Programme cost (12)	0.0866	-0.1540*	-0.0526	-0.0043	-0.0493	-0.0508	0.0068	0.0589	0.0078	0.0147	-0.2585*	1		
	0.0618	0.0009	0.2576	0.9267	0.2881	0.2739	0.865	0.1347	0.8302	0.6869	0			
Total asset (13)	-0.0759	0.0598	-0.1530*	0.0285	-0.006	-0.0073	-0.049	-0.0840*	-0.0543	-0.1580*	-0.0148	-0.0599	1	
	0.1013	0.1968	0.0009	0.5387	0.8971	0.8749	0.2198	0.0325	0.1368	0	0.6858	0.1009		
Debt level ratio (14)	0.0098	0.1680*	-0.0999*	0.0296	-0.0236	-0.0216	-0.0048	0.0263	-0.0073	-0.041	-0.0532	0.1432*	-0.1069*	1
	0.8328	0.0003	0.0311	0.5232	0.6106	0.6421	0.9045	0.5046	0.8418	0.2622	0.1455	0.0001	0.0034	

Appendix 3: Spearman correlation - Robustness analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Reading score Fog (1)	1													
Positive tone (2)	-0.0273	1												
Negative tone (3)	-0.1474*	-0.0268	1											
Forward-looking tone (4)	-0.1237*	0.1181*	0.0567	1										
Positive uncertainty tone (5)	-0.1547*	0.0826	0.1992*	0.2074*	1									
Negative Uncertainty tone (6)	-0.1554*	0.0835	0.1986*	0.2087*	0.9999*	1								
Voluntary Income (7)	-0.0299	0.0868	-0.0013	0.0643	0.0447	0.0433	1							
Charitable income (8)	-0.0375	0.0363	0.0243	-0.065	-0.0192	-0.0203	-0.0623	1						
Surplus / deficit (9)	0.1294*	0.0409	-0.1549*	-0.0192	0.0284	0.0279	0.1094*	0.0359	1					
ROI (10)	0.0842	0.0099	-0.1377*	0.0664	0.0508	0.0494	0.1509*	0.0555	0.7778*	1				
Admin cost (11)	-0.0669	0.0068	0.0275	-0.1210*	-0.1092*	-0.1109*	-0.1159*	0.0309	0.087	0.0312	1			
Programme cost (12)	0.1739*	-0.1160*	-0.1335*	0.0087	-0.0767	-0.0768	-0.0347	0.0419	0.0865	0.0597	-0.3372*	1		
Total asset (13)	0.0496	0.0383	-0.091	0.0534	0.0078	0.0086	0.0185	-0.0902	0.0081	-0.1210*	-0.0997	-0.1628*	1	
Debt level ratio (14)	0.0413	0.1540*	0.0016	0.0472	0.0038	0.0047	-0.0141	0.0188	-0.0771	-0.0567	-0.1562*	0.2350*	-0.2738*	1

Chapter 3 What are the Determinants of Performance Disclosure by Charities? Empirical Evidence from UK Fundraisers

3.1 Abstract

This study examines the extent and determinants of performance disclosure in the top 100 UK fundraising charities in the face of government cuts. This is achieved firstly by developing a performance disclosure index (PDI) in order to measure differences in the levels of performance disclosure in charity annual reports in a period of government austerity, namely in 2011 and 2013. Secondly, the study examines the determinants of UK fundraising charity performance disclosure by relying on the combined lens of stakeholder theory (ST) and resource dependence theory (RDT). This study found that PDI remains low with no major changes from 2011 to 2013, with a high emphasis on short-term efficiency criteria (e.g., resources, resources used, and immediate outputs and outcome) and less focus on long-term efficiency criteria (e.g,. charities' impact on wider society). In addition, while in 2011 government income, board size, administrative cost efficiency ratio, and female CEO were positively associated with the extent of PDI, in 2013 administrative cost efficiency ratio, fundraising cost efficiency ratio and debt ratio were found to be positively associated with the extent of PDI in either year. By contrast board diversity, chair gender and chair and CEO occupational background were not significantly associated with PDI. The results are consistent with the prediction of stakeholder and resource dependence theories and reveal that instrumental benefits highly motivates charities to provide performance disclosure, particularly when charities' resources and operations are under threat due to uncertain events such as government reforms and austerity agendas.

Keywords: Fundraising charities, performance disclosure, Stakeholder theory, Resource dependency theory, annual reports, government cuts.

3.2 Introduction

In the context of a significant and rapid growth in the charity sector in terms of income and influence (Ebrahim, 2003b, 2003a; Connolly and Hyndman, 2013), charity accountability has continued to be the subject of lively debates at national and global levels (Crawford *et* *al*., 2018). Relatedly, concerns about the way charities collect donations from the public have contributed to the debate on accountability and performance. More specifically, high profile charities in the UK have been accused of practising aggressive fundraising methods (e.g. cold calling or mailshots), leading to a fall in public trust of charities in England and Wales (Siddique, 2016; Hind, 2017). This adds to the widespread concerns about how donated money is spent, and the efficiency and effectiveness of charities (Dhanani, 2009).

One way by which charities can influence donors' attitudes and maintain trust is by being more accountable and transparent about their fundraising methods (source of income), how money is spent on activities, and the impact of the charity's activities in society (McConville and Hyndman, 2015). In this respect, there have been repeated calls (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; McGeough, 2016) for comprehensive forms of reporting in the charity sector to disseminate performance information to stakeholders and to allow them to evaluate charity efficiency and effectiveness. It is important to note that this debate is distinct from the long-standing reforms on the preparation of charity financial statements; e.g. the UK's Statement of Recommended Practice (SORP), is already mandatory for most charities. Financial accountability in the non-profit context does not provide a complete picture of charity performance, and needs to be complemented by performance information (e.g. narratives, measures of impact and non-financial metrics). Prior research has shown that the performance disclosures practices in UK charities are in need of significant improvement, particularly in relation to efficiency and effectiveness (Hyndman, 1990, 1991; Connolly and Hyndman, 2003, 2004; Connolly and Dhanani, 2006; Connolly and Dhanani, 2009; Jetty and Beattie, 2009; McGeough, 2014a, b; McConville and Hyndman, 2015; McGeough, 2015, 2016).

Some of the above-mentioned researchers suggest that the under-reporting of performance disclosures may be due to different factors. Firstly, a paucity of guidance on performance disclosures has arisen because the Charity Commission traditionally concentrates on financial accounting matters (Connolly and Hyndman, 2003). Secondly, it has been argued that charities focus on legitimising their actions and activities, rather than highlighting societal impact, by reporting activity-related rather than performance-related information (Connolly and Dhanani, 2009). Although the above-mentioned studies explored disclosure, accountability and/or transparency issues by UK charities, there are a number of research gaps. First, there is dearth of recent evidence on the use of comprehensive performance disclosures practices, particularly in relation to the period following the enactment of austerity measures in the UK (McGeough, 2014a; McConville and Hyndman, 2015). Second, whilst many studies do provide useful insights on performance disclosures, the focus of the empirical work has been on specific elements/items (e.g. tables and graphs) and excluding key narratives (Connolly and Hyndman, 2004; McGeough, 2015, 2016). Third, the majority of the studies have not formally investigated whether organisational and/or governance factors might be influencing the level of performance disclosure, with only one such attempt carried out in Malaysia (Zainon *et al.,* 2014). In addition, the literature has only so far considered the role of governance on charity performance (Berardi *et al.*, 2016*;* Reddy *et al.,* 2013; Chen, 2009; Olson, 2000; Stone *et al*., 2001).

Informed by the above, this study first investigates the extent of performance disclosure in the annual reports of the UK's largest 100 fundraising charities. As such, this study contributes to the charity disclosure and accountability literature; firstly by developing and applying a comprehensive performance disclosure index (PDI) - a modified version of Connolly and Hyndman's (2004) method of analysing the annual report narratives. The study also assess whether government austerity and funding cuts (one year after the implementation of the funding cuts) and 2013 (three years after) led to changes in performance disclosure by UK fundraising charities.

Secondly, the study examines the determinants of UK fundraising charity performance disclosure. Using the integrated lens of stakeholder theory (ST) and resource dependence theory (RDT), it is argued that fundraising charities which are highly reliant on external donors and on multiple interdependence relationships tend to engage in a greater extent of voluntary performance disclosure for several reasons: First, to gain the support of powerful stakeholder such as government, regulators, individual donors, corporate donors (e.g. stakeholder theory). Second, to help charities gain access to resources (e.g. resource dependence theory) (Salancik and Pfeffer 1978; Reverte, 2009; Ntim *et al.,* 2017). This integrated perspective of stakeholder and resource dependence theory seeks to provide a theoretical explanation of the instrumental benefits (e.g. government income, individual and corporate donations, trust, legitimacy) that would motivate charities to provide more performance information (Ntim *et al.,* 2017). The study does so by investigating the association of the charity's source of income, charity performance, internal governance structure, and top leadership characteristics (chair and CEO) on the level of performance disclosure. To the best of the researchers' knowledge, there has been no explicit study of such determinants in the UK charity context, particularly in relation to the role of charity governance structures. In light of the continued accountability, funding and strategic challenges faced by charities (Cordery *et al*., 2017), this study brings to the fore implications for policy makers in understanding the nature and drivers of performance disclosure practices in UK charities.

The remainder of the paper is structured as follows. Section 3.3 provides a review of the existing literature on performance accountability and disclosure in the non-profit context. Section 3.4 presents the theoretical framework and hypothesis development whilst Section 3.5 outlines the development of the PDI framework, sample selection and research methodology. Section 3.6 presents the empirical analysis and discussion, and Section 3.7 concludes with a summary of the contributions, implications, limitations and future direction for research.

3.3 **Prior literature**

3.3.1 **Prior studies on charity reporting, disclosure and performance**

Charity accounting and accountability has been a subject of research since the initial study of UK charity financial reporting practices (Bird and Morgan-Jones, 1981), which found extensive instances of poor reporting practices in the sector. This study was seen as a motivator for the sector to be regulated and the Charity Commission[6] developed the first SORP in 1988. Following this, a considerable amount of literature has been published on external financial accountability and reporting by charities and compliance with SORP recommendations, such as Connolly and Hyndman (2003) Palmer, Isaacs and D'Silva (2001) and Connolly and Hyndman (2004).

[6] The main aim of the Charity Commission is to establish regulations for charities in England and Wales to ensure their efficiency and effectiveness and to increase public trust by providing information and guidance when preparing annual reports under the form of SORP (Connolly and Dhanani, 2006).

Gradually, attention has shifted from financial accountability to performance accountability and governance aspects of charities. This shift was directed after acknowledging the importance of performance information to donors in discharging charity accountability (Hyndman, 1990). Financial accountability serves as a tool to signal organisational performance; however, in the non-profit context, financial accountability alone provides an incomplete picture. Given the nature and role of those organisations and their ethically (morally) driven activities in society, more extensive information on performance, particularly the impact of the organisation's activities on society and beneficiaries, is considered to be crucial in the discharging of accountability (Hyndman, 1990). Non-financial information requires the charity to provide an explanation of what has been accomplished, such as successes, performance, and impact, using knowledge and judgment (Gambling, Jones and Karim, 1993). Although providers or preparers of information in annual reports are aware of their donors' need for performance-related information (Hyndman, 1991), the majority of previous studies found a low level of performance-related information disclosure (Hyndman, 1990, 1991; Connolly and Hyndman, 2003; Connolly and Dhanani, 2006, 2009; Dhanani, 2009; Jetty and Beattie, 2009).

Previous literature has provided some evidence on the evolution of UK charity performance reporting over time. Most of the previous studies have assessed 'performance' on the basis of a production model - i.e. inputs, outputs, and outcomes[7] (see, for example, Hyndman, 1990, 1991; Connolly and Hyndman, 2003; Connolly and Dhanani, 2006, 2009; Dhanani, 2009; Jetty and Beattie, 2009). To date, the majority of these studies have confirmed that charity annual reports have increased in length over time; however, transparency and accountability in these reports have weakened in terms of the amount and quality of information disclosed about fiduciary, financial, managerial and operational matters (Connolly and Dhanani, 2009).

[7] Performance disclosure was evaluated in the non-profit literature using the production model basis (i.e. Input, output and outcome) which was defined in non-profit context as following: Inputs are the resources that contribute to the activities being undertaken by the organisation (Connolly and Hyndman, 2004; Jetty and Beattie, 2009; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011). Outputs are the direct and countable goods/services produced as a result of the activity being carried out (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011). In addition, outcomes are the benefits or impact on beneficiaries or the wider society (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011).

Previous empirical studies related to charity voluntary disclosure or performance disclosure found that all charities provide information on aims and objectives, and Connolly and Dhanani (2009) found that 91% of fundraising charities report information on their activities. Likewise, Dhanani (2009) also found that a large proportion of the disclosure was dominated by charitable activities (89%) and results of Jetty and Beattie (2009) were consistent with the above studies. Widespread evidence of reporting inputs and outputs amongst the top 100 fundraising charities in 2000/01 identified that 73% of trustees' annual reports (TARs) contains disclosure was related to inputs, of which 67% is on volunteers' contributions (Connolly and Dhanani , 2006).

Additionally, there is a significant improvement in information related to outputs. A study by Hyndman (1990) of the top 200 charities, ranked by income, identified that 29% of TARs disclosed output measures. Following this, Connolly and Hyndman (2003) conducted another study of TARs from the top 100 fundraising charities covering two periods and found widespread reporting of output measures: 97% of output information was identified in TARs between1996 and 1997 and 91% in 2001 and 2002). Connolly and Dhanani (2006) found that 66% of output measures were reported by the top100 fundraising charity TARs. A more recent study by Connolly and Hyndman (2013) identified that measures of output in the top 100 fundraising charities tend to disclose more in annual reviews compared to TARs, at 94% and 85% respectively. In addition, a significant increase has been seen in reporting outcomes (or results), particularly on individual outcomes. Examining the TARs of the top 100 fundraising charities, Connolly and Dhanani (2006) found only 17% of outcome related information for 2001/02, while this significantly increased to 45% in a later study conducted by the same authors of 75 charities TARs of 2005/06 (Connolly and Dhanani, 2009). Research by Breckell, Harrison and Robert (2010) reviewed TARs, annual reviews, and websites of 75 of the largest fundraising charities and found that charities provide less information about social outcomes (8%) compared with individual outcomes (68%).

While there is a significant increase identified in the reporting of outputs and outcomes in TARs and annual reviews, reporting on efficiency and effectiveness has remained very low. Connolly and Hyndman (2003) found that a significant number of charities failed to disclose a single measure of efficiency and effectiveness, while Connolly and Dhanani (2006) found a slight increase in effectiveness reporting of 3%. A more recent study by Hyndman and McConville (2015) showed that 94% of charities failed to report a single measure of efficiency compared with only 6% of charities which provided at least one measure of efficiency. This indicates that efficiency measures have not changed appreciably over time, while conversion ratios such as charitable activity ratio, fundraising costs, administrative cost ratio and support and governance costs, were much more commonly reported as an efficiency indicators, particularly for charitable activities and fundraising cost ratios; reflecting a bias towards financial metrics; thus reflecting the view that charities are unwilling to draw the attention to any cost data, especially administrative costs (Hyndman and McConville, 2015).

Collectively, these studies indicate that performance disclosure remains very low in UK charities. Some researchers contend that the deterioration in performance reporting could be due to two main factors: firstly, a paucity of guidance on performance disclosures, since the Charity Commission focuses on financial accounting matters (Connolly and Hyndman, 2003). Secondly, charities focus on legitimising their actions and activities rather than highlighting their impact on society, reporting on information related to activities rather than on performance or impact (Connolly and Dhanani, 2009).

To date, however, studies have not identified the determinants of performance disclosure by charities, with the exception of Zainon *et al*. (2014) in the Malaysian context. Their results showed that that the existence of external audit, higher financial performance and higher government support (grants) was associated with performance disclosure. In contrast, most previous studies had a limited understanding of the pattern of performance reporting in UK charities. Some authors found that the motives and drivers of charities disclosure are beyond the accountability and user-needs arguments and are more related to the salience of the stakeholder and socio-political drivers (Hyndman, 1990, 1991). Therefore, it seems timely to expand on previous studies to understand the determinants of performance disclosure, with an emphasis on the impact of governance and organisational characteristics aspects (e.g. internal governance, senior management leaders, the source of income, and charity efficiency) on the level of performance disclosures. The integrated lens of stakeholder theory (ST) and resource dependence theory (RDT) here serves as the theoretical framework to underpin the relationships between governance mechanisms, organisational characteristics and the extent of disclosure.

3.4 Theoretical framework and hypothesis development

The theoretical framework of this research supports the development of the predicted relationships between the source of income, charity efficiency, internal governance characteristics and chair and CEO characteristics and the extent of performance disclosure in the top 100 UK fundraising charities. In general, donors or funders are interested in performance related information such as charity efficiency and effectiveness as well as non-financial information, for example, charities' activities and achievements, to determine the level to which their contribution fulfils their charitable commitment (Hyndman, 1991). However, SORP 2005[8] fails to provide specific mandatory guidelines for performance reporting, indicating that the voluntary inclusion of such information enables stakeholders to understand and assess charity achievements and reflects good practice (Charity Commission, 2005). Management at either executive level or board level mainly initiates voluntary disclosures, by disseminating information to external stakeholders based on their internal knowledge of the organisation (Allegrini and Greco, 2013; Ntim *et al.,* 2017).

The selectivity of disclosure by charities has been identified as an instrumental (or strategic) behaviour to communicate charity practices in line with the expectations of significant stakeholders (Connolly and Dhanani, 2006, 2009; Dhanani and Connolly, 2012; Hyndman and McConville, 2015; McConville and Hyndman, 2015). There is also an attempt to manage stakeholders by targeting them with appropriate information. For instance, annual reports are aimed at sophisticated stakeholders, while annual reviews target unsophisticated stakeholders (Connolly and Dhanani, 2009; Jetty and Beattie, 2009). This confirms the influence of stakeholder salience on the strategies and amount of disclosure, whereby organisations prioritise stakeholders whom they deem to be powerful and legitimate (Mitchell *et al.,* 1997)

[8] Whilst a new version of SORP has been issued (SORP 2016), our emphasis on SORP 2005 relates to the timing of the data (2011 & 2013) which pre-dated recent developments.

The quasi-market nature of charities, with their high dependency on external funding and intense competition (Chen, 2015), has led some non-profit organisations (NPOs) to prioritise powerful stakeholders such as government, individual funders and corporate investors, in order to protect their access to resources and ensure their survival (Connolly and Dhanani, 2009; Jetty and Beattie, 2009). On a related note, several lines of evidence in the non-profit literature argue that resource dependence theory provides a clear framework for understanding non-profit organisational behaviour towards powerful resource providers (Callen *et al.*, 2010; Verbruggen *et al.,* 2011; Ntim *et al.*, 2017).

Contrastingly, resource dependence theory is mainly concerned with the critical impact of the external organisation on organisational behaviour and the power relations between different organisations (Hillman *et al.*, 2009; Zainon *et al.*, 2014; Ntim *et al.*, 2017). This theory proposes two main scenarios for organisations with a high dependence on external resources (e.g., financial and human resources, information and legitimacy) to retain or maintain resources in an uncertain environment (resource scarcity) and multiple dependencies. First, organisations (non-autonomous) will comply with the requirements of strategic resource providers (constrained by dependency on or control of resources) as a reaction to pressure caused by uncertainty in order to retain resources. The second scenario is when organisations resist uncertainty pressure by maintaining autonomy and managing their interdependencies with external groups proactively through disclosing more information, appointing more external board members, and changing strategies to maintain resources. Dependence on one or a few resource providers increases the power and control of these investors, who then are able to exert pressure on charities to operate in accordance with their expectations (Hillman *et al.*, 2009; Verbruggen *et al.*, 2011; Ntim *et al.*, 2017). However, patterns of resource dependency and interdependencies change over time which, in turn, generates changes in power position both internally and externally within the targeted organisation (Ntim *et al.*, 2017).

In parallel, stakeholder theory concentrates on the relative power of stakeholders in a situation (Mitchell *et al.*, 1997), and provides a constructive framework with which to identify which dependencies take priority over other important multiple dependencies (Hillman *et al.*, 2009). Collectively, stakeholder theory and resource dependence theory enable one to consider a richer and more complex set of factors explaining the extent and determinants of performance disclosure through the recognition of the multiplicity of dependencies on funders or resource providers.

This study also assesses the influence of organisational characteristics such as income source (e.g. income from government), the role of internal governance characteristics (board of trustee's size and gender diversity), chair and CEO characteristics (CEO/chair gender diversity and occupational background) and charity efficiency on the extent of performance disclosure using integrated stakeholder and resource dependence theories. In terms of the resource dependence theory, this study uses the following rationale: high external funding dependency or multiple interdependencies may impact on performance disclosure levels, particularly when the charity is experiencing uncertain events such as government funding reform or when encountering volatility in accessing their resources due to economic issues (Callen *et al.*, 2010; Verbruggen *et al.*, 2011).

Given their high dependence on external funding and intense competition in the UK charity environment (Chen, 2015), fundraising charities faced a number of austerity public sector cuts from 2010 (Sepulveda *et al*., 2011; Charity Finance Group, 2012; 2013). It is argued that fundraising charities that are highly reliant on external donors and on multiple interdependence relationships tend to engage in a greater extent of voluntary performance disclosure for several reasons: First, to gain the support of powerful stakeholder such as government, regulators, individual donors, corporate donors (Connolly and Dhanani, 2006; Connolly and Dhanani, 2009; Dhanani and Connolly, 2012; Hyndman and McConville, 2015; McConville and Hyndman, 2015) . Second, to help charities gain access to resources (Salancik and Pfeffer, 1978; Reverte, 2009; Ntim *et al.,* 2017), the appointment of executives and board members from specific backgrounds may assist with mitigating the uncertainties perceived by external resource providers. Whilst it has been found that charities use annual reports as a strategic fundraising tool (Lumley *et al.*, 2011), the degree of dependence on one or few resource providers and the influence of key board members or executives is also expected to affect disclosure information in terms of revealing information relevant to one critical resource provider, causing an imbalance of power between interdependencies (Ntim *et al.*, 2017).

Figure 3-1 summarises the association between the key variables (source of income, charity efficiency, internal governance[9] and top management characteristics) in the theoretical framework and the following section set outs the theoretical and empirical arguments used to develop the hypotheses.

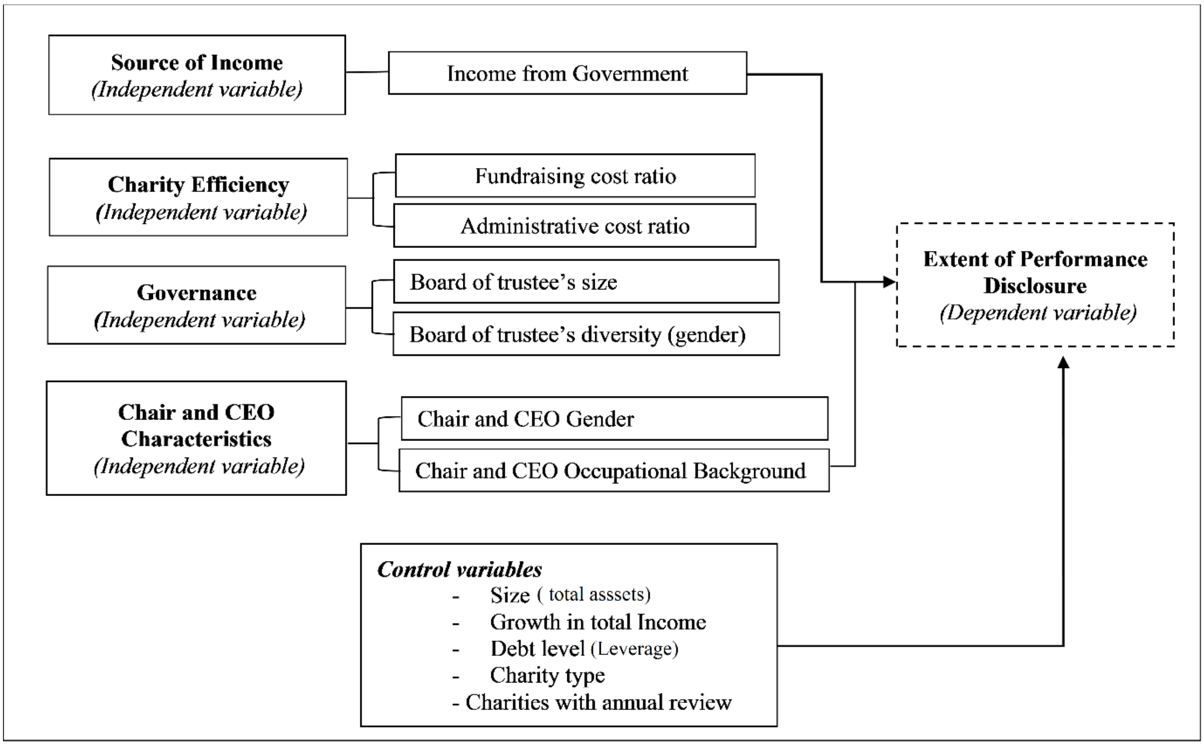


Figure 3-1 Determinants of charity performance disclosure

3.4.1 Sources of income

In general, charities rely on multiple funding resources, such as donations (individual/corporate), membership fees, fundraising revenues or big funders such as government or private foundations, in order to continue operating their services (Zainon *et al.*, 2014). In this study, government funding is used as a proxy of big funders, since most of the UK charities are highly reliant on government funding through grants (Clifford *et al.*, 2010), for which the government typically impose (mandate) high accountability requirements on recipients in terms of providing accessible accounts-related information to the public (Tremblay-Boire and Prakash, 2015) in order to discharge their public accountability requirements. Lately, the government has shifted its funding structure from

[9] The author acknowledges that there are several other governance variables of interest to performance disclosure in the literature. However, the availability of the data in the UK charity sector is very challenging due to the looseness of the disclosure regime relating to charity governance.

grants to contracts along with a change in the basis of funding assessments from activity-based to outcome-based and use of value for money assessments (Lumley *et al.,* 2011; Bingham and Walters, 2013). Accordingly, NPOs with a high dependency on external funding might disclose higher performance measurements, depending on how their effectiveness is assessed, in order to satisfy monitoring demands and gain or retain access to funding (Whittaker, 2013). According to the RDT, the degree of reliance on one or more resource providers, particularly those with high control of resources, can affect NPOs and pressure them to operate according to funders' expectations (Verbruggen *et al.*, 2011). Therefore, it is expected that charities, which rely principally on government funding, will tend to disclose greater amounts of performance information. A study by Zainon *et al.* (2014) found that government-funded charities tend to demonstrate greater accountability in terms of information disclosure.

Yet, empirical evidence on the influence of government funding is still unclear (Whittaker, 2013; Tremblay-Boire and Prakash, 2015). Two related studies found that income from government sources had no impact on performance disclosure level (ibid). Previous research evidence suggests that NPOs might report performance information to the government via other channels, and not necessarily in annual reports (Whittaker, 2013; Tremblay-Boire and Prakash, 2015). Due to unclear evidence regarding the impact of the level of government funding on performance disclosure level, the following non-directional hypothesis is postulated:

H_1: There is a significant association between the extent of performance disclosure and the level of government funding.

3.4.2 **Charity efficiency**

Charities' resource providers are interested in whether their funds are allocated efficiently and effectively to achieve the greatest possible benefit (ibid). Therefore, financial performance is an important tool with which to evaluate the performance and position of NPOs by referring to financial capacity (financial resources) and resource allocation (Zainon *et al*., 2014). Previous research has provided evidence of the effect of financial information on donations to NPOs (Tinkelman and Donabedian, 2007; Tinkelman, 2009; Yetman and Yetman, 2012) and have found a negative association between fundraising expenses, programme or administrative ratios and donor support (Tinkelman and Donabedian, 2007; Tinkelman, 2009; Yetman and Yetman, 2012). Similarly, charities reporting higher charitable expense ratios receive more donations (Yetman and Yetman, 2012).

On a related note, charities with a high dependency on external funding and high competition (Chen, 2015) are motivated to disclose more performance information (financial and non-financial) through the annual report, since the latter is seen as a fundraising tool (Lumley *et al.*, 2011). Thus, NPOs voluntarily disclose performance measures either to reduce information asymmetry or to manage appearance and expectations (Whittaker, 2013). In line with RDT, efficient charities (low fundraising and administrative costs ratio) are expected to disclose more performance information in order to improve their access to resources. Accordingly,

H2a: There is a negative significant association between fundraising cost ratio and the extent of performance disclosure.

H2b: There is a negative significant association between administrative cost ratio and the extent of performance disclosure.

3.4.3 Governance

Governance is defined as regulation of the rights and responsibilities of a stakeholder group in fulfilling the demands of transparency and accountability (Zainon *et al.*, 2014). In addition, the organisation is responsible for performance-related matters such as establishing the mission, objectives and goals, as well as the means of attaining them (Hyndman and McDonnell, 2009). Governance mechanisms are divided into two main categories: internal and external. However, this study focuses on internal governance mechanisms by considering the role of the board of trustees, since it has a duty to monitor and control organisational performance. In this respect, the SORP states that the purpose of preparing annual reports is not only to discharge accountability in order to legitimise charity activities but also to evaluate and reflect on the trustees' duty towards public accountability and stewardship (Charity Commission, 2005).

3.4.3.1 **Board size**

From the perspective of resource dependence theory, a larger board is associated with better organisational performance (Pfeffer, 1973). This theory suggests that larger boards can include a mix of skilled, experienced and expert members who have a greater connection with external environments, thus enabling easier access to critical resources such as contracts, capital and contacts (Pfeffer, 1987; Reverte, 2009). In the context of NPOs, Pfeffer (1973) argued that a larger board is needed in order to reach a broader range of stakeholders and secure funding. Given the dual nature of NPOs, it is vital that they secure critical resources in order to survive and maintain financial stability, particularly when they are exposed to a highly competitive environment, public sector cuts, and government reforms (Jones *et al.*, 2007; Ntim *et al.,* 2017). A study by Proven (1980) supported Pfeffer's (1973) argument in that revenue generated by human service agencies was found to be related to board size.

Most research on the governance structure of NPOs has focused on its effects on organisational performance. Board size has been found to have a positive significant effect on organisational performance, especially in terms of the revenue generated (Berardi *et al.*, 2016*;* Chen, 2009; Olson, 2009). However, other performance-related research has shown contrasting evidence and negative associations with board size (Callen *et al.*, 2003; De Andrés-Alonso *et al.* 2006; Reddy *et al.*, 2013). As indicated previously, there is a critical lack of evidence on the impact of board size on performance disclosure in the non-profit sector. Zainon *et al.* (2014) found a significant negative association between board size and the extent of disclosure. Board size was not seen to be of relevance to voluntary disclosure in the case of universities (e.g. Gordon *et al.,* 2002; Ntim *et al*., 2017). Due to the lack of clarity, it is hypothesised that the size of the board of trustees is related to the extent of performance disclosure:

H3*:* There is a significant association between the size of the board of trustees and the extent of performance disclosure.

3.4.3.2 **Board diversity**

There is a surprising absence of research linking board characteristics with practices and objective measures of organisational performance in the NPO context (Stone *et al.*, 1999). The first study of board member composition in NPOs was conducted by Babchuk *et al.* (1960 cited in Siciliano, 1996). The results showed that a high proportion of male board members was associated with a high organisational rank in the community. More recently, empirical evidence was found to support the effect of board diversity (gender mix) on organisational performance. A positive association was found between the percentage of females on boards and performance in NPOs (e.g. funding source growth and knowledge of organisational mission areas) (Ostrower, 2007; Harris, 2014). Contrastingly, no relationship was found between the proportion of women on the board and the NPOs' organisational effectiveness (Bradshaw *et al.,* 1992). There have been contradictory results on the effects of female participation on the board. Less women on boards was inversely associated with organisational performance (Siciliano, 1996; Zahra and Stanton, 1998; Zald, 1969 (cited Siciliano, 1996)), whilst other studies found that board diversity is positively related to financial performance (Carter *et al.*, 2007; Campbell and Mínguez-Vera, 2008). Lastly, other studies found board diversity has no impact on corporate performance (Carter *et al.*, 2010; Gallego-Álvarez *et al.*, 2010).

From the resource dependence perspective, board diversity (gender/origin) may be an important tool in establishing a link between the organisation and external providers. This external linkage is beneficial in providing resources such as expertise and information, networking and communication with other important organisations and agencies , and help to enhance its organisational image as well as gaining legitimacy, to secure critical resources (Salancik and Pfeffer, 1978), particularly in periods of uncertainty (Ntim *et al.,* 2017). To the best of the researcher's knowledge, only one study has examined the association between the diversity of the board of trustees (in terms of the number of females represented on the board) and the extent of performance disclosure. Ntim *et al.* (2017) found a positive association between the percentage of females on the board and the extent of voluntary disclosure in the UK HEI sector, and they also showed that gender diversity on the university executive team had a moderating or interacting effect on internal governance (board gender) and the extent of voluntary disclosure. This leads to the following hypothesis:

H4: There is a significant positive association between the board of trustees' diversity (gender) and the extent of performance disclosure.

3.4.4 **Chair and CEO characteristics**

One of the most important points to be noted, is that the responsibilities and roles of the board of trustees in NPOs are highly linked to the effectiveness of managers, particularly in terms of how the chair[10] role leads board members in fulling their governance role and how the chair interacts with the CEO and the senior management team (Carver, 2011), also important is the CEO's role in leading the senior management team (Berardi *et al.*, 2016). Worth (2013) listed some of the basic CEO responsibilities; these include commitment towards goals and missions; management of the organisation and staff; responsible financial stewardship; engaging and leading the fundraising process; following regulations and ethical standards; ensuring accountability; building external relationships; ensuring the quality of programme and effectiveness and supporting the board. In addition, the CEO also shares some common responsibilities with the board of trustees, which mainly relate to mission, accountability, fundraising, financial stewardship and performance planning (Worth, 2011). The amount of responsibilities conferred to the CEO is compensated by higher pay than other NPO executives; in many cases, the role of CEO is separate to that of the chair (head of board) and in other cases, the CEO and chair is the same person (Berardi *et al.,* 2016). Both chair and CEO share leadership and management responsibilities, where the CEO provides help and assistance to the chair to drive and support effective governance, which will affect the effectiveness of the organisation as a whole (ibid). Due to the importance of the chair and CEO role in an organisation, this research examines the impact of chair's and CEO's visible characteristics (gender) and invisible characteristics (occupational background) on charity performance disclosure.

[10] The chair is a trustee, which is elected or appointed with a role to oversee the meetings of board of trustees. Additional roles of chair: supporting and supervising CEOs, acting as a figurehead for the charity ensuring board-meeting decisions are implemented and taking urgent actions (https://www.gov.uk/guidance/charity-trustee-whats-involved).

i. **Chair / CEO diversity (Gender)**

There are a large number of studies in the for-profit literature which found significant negative associations when examining the association between CEO gender and performance and strategy (Lee and James, 2007; Martin, Nishikawa and Williams, 2009). In contrast, no significant contribution has been noted in the non-profit literature targeting the impact of a chair or CEO gender on organisational performance. Most NPO studies have focused on the significance of gender in other areas, such as gender and volunteering, and gender discrimination (Block and Rosenberg, 2013). One study conducted by Bradshaw *et al.* (1992) found no association between organisational effectiveness and the proportion of women on the board or CEO gender in NPOs.

Block and Rosenberg (2013) concluded that women in the role of chair tend to be individualistic (prefer to work with no assistance), while men are more team oriented; nevertheless, the study failed to find a satisfactory understanding of differences in NPO leadership behaviour in terms of gender. As the individualistic behaviour of women in roles of power (CEO or chair) may inversely affect the leadership effectiveness of NPOs and eventually the efficiency of the organisation (Berardi *et al.*, 2016), gender is one of the most important issues to be taken into consideration when appointing the chair or CEO.

In accordance with resource dependence theory and the above argument, chair and CEO leadership skills are highly important, such as the capability to work and communicate with staff and members at any level. The literature above also noted that gender characteristics of higher-level managers (chair or CEO) might affect the effectiveness of co-ordination, communication and control systems, which will ultimately influence performance and disclosure. Taken together, the above arguments lead to the following hypotheses:

H*5a*: There is a significant positive association between chair diversity (gender) and the extent of performance disclosure.

H*5b*: There is a significant positive association between CEO diversity (gender) and the extent of performance disclosure.

ii. **Chair/CEO occupational background**

To date, no significant contribution exists in the non-profit literature regarding the link between chair/CEO occupational background and organisational performance or performance disclosure. The majority of studies in both for-profit and non-profit contexts have focused on top management characteristics, particularly CEO and organisational performance, by focusing on the duality of the CEO role (Berardi *et al.*, 2016) and CEO gender (Lee and James, 2007; Martin, Nishikawa and Williams, 2009; Berardi *et al.*, 2016). On the other hand, the occupational background has been studied in relation to organisational performance in the non-for-profit literature (Siciliano, 1996; Harris, 2014). The results were consistent in showing a positive relationship between boards with a diverse experience mix and performance.

The above results, however, cannot be generalised to the individual level of CEO and chair. CEOs (and chairs) enjoy a high level of control and decision-making, and this is often exercised based on the CEO's background (experience) and training which, in turn, affect organisational practices (Guthrie, 1999). However, this study uses the logic of board expertise, whereby directors (CEO/chair) who are familiar with the industry provide better monitoring of obstacles and governance weaknesses that the organisation might encounter (Harris, 2014).

Drawing on resource dependence theory and the above argument, CEOs and chairs with a charity organisation background are predicted to be more skilled, experienced and expert at monitoring and running the charity in terms of effective decision making when allocating resources and their high accessibility to critical resources through their links with the external environment, ultimately leading to better performance. Thus, it is expected that more performance information will be disclosed which will ultimately improve the charity's access to resources. The following hypotheses are therefore proposed:

H*6a:* There is a positive association between the chair with a charitable background (occupational background) and the extent of performance disclosure.

H*6b:* There is a positive association between the CEO with a charitable background (occupational background) and the extent of performance disclosure.

3.5 Research Design

3.5.1 Data: Sample selection and source

The research sample comprises of the top 100 UK fundraising charities, as selected by Charity Financials (2014) (see Appendix 1) . As these are large and economically significant charities with high national profiles and different stakeholder groups with a range of accountability needs, they are more likely to provide a great deal of information on activities, performance and future plans (Connolly and Hyndman, 2003). Thus, they are deemed to influence external accountability practices and ultimately establish trends for the sector (ibid). With respect to the research objectives referred to earlier, in order to assess the extent of performance disclosure, the study examines the mandatory publicly available information required by the UK Charity Commission. The Trustees' Annual Reports (TARs) for the years ending 2011 (government cuts year) and 2013 (one year after the government cuts) were included in order to identify the evolution of performance disclosure practices as well as to capture the differences in performance disclosure level in a year of governments cuts and the year after those cuts. This study excluded the year of 2012 as it is the first year of implementing the major changes and reforms of government funding cuts; thus the anticipated major change in performance disclosure behaviour is expected not to be realised in such a short time. These annual reports are subject to SORP and Company Act requirements and are reviewed by an external auditor (Charity Commission, 2005).

The Charity Commission has defined the annual report as a tool to discharge external accountability, and SORP 2005 suggests that annual reports should enable readers to understand the charity structure, activities, and achievements and to acquire a full overview of financial transactions and position (Charity Commission, 2005). Some charities voluntarily provide an annual review which is usually written in less formal language and includes information on annual reports, but these publications include a higher proportion of photographs, diagrams, and stories, and as such some studies noted that these reports are mainly used to discharge external accountability to unsophisticated stakeholders (e.g. beneficiaries, staff members and supporters) (Connolly and Hyndman, 2013). Although previous research has included annual reviews on the grounds that these voluntary documents often provide additional performance information (Connolly and Hyndman, 2013), annual reviews were excluded from this research in favour of the annual report which targets sophisticated stakeholders (see, for example, Zainon *et al.* 2014). TARs for the top 100 fundraising charities were collected from the Charity Commission website and charities websites for the years 2011 and 2013.

The second research objective examines the effect of organisational characteristics, including a source of income, internal governance characteristics, chair and CEO characteristics and charity efficiency on the level of performance disclosure. Some financial information were collected by downloading them from the Charity Commission database website (for example; total asset, leverage ratio), while other information was collected manually from annual reports such as government income, fundraising costs. In addition, chair and CEO characteristics (e.g., chair/CEO gender and chair/CEO occupational background) were manually collected using annual reports, charity websites, and other search engine results or CV's for example: to classify the occupational background of both chair and CEO to either charitable or governmental or commercial background number of years was used as a proxy for classification. Internal governance characteristics, such as trustee board structure, board size, and proportion of female to male board members, were manually collated from annual reports. These organisational characteristics are expected to influence the extent of charity performance and disclosure since the aim of preparing annual reports is not only to discharge public accountability but also to discharge trustees' stewardship (Charity Commission, 2005). Given the labour-intensive work of the data collection, the researcher was unable to collect other fine detailed variables. In total, 184 TARs were reviewed and 16 TARs were dropped from the study due to missing financial information in the database.

The study employs a two-stage approach explained in the following sections. The first stage involves content analysis, which codifies the presence and absence of performance information in annual report narratives in order to capture the levels and patterns of performance reporting (Section 3.5.2.1 and 3.5.2.2). The second stage empirically tests the relevance of organisational characteristics and the level of performance disclosure using the estimated model (Section 3.5.2.3).

3.5.2 **Research Methods**

3.5.2.1 **Content analysis**

Content analysis is employed to analyse the extent of performance disclosure in annual reports. Content analysis is a technique used to codify qualitative and quantitative information into pre-defined categories to understand the pattern of information presented (Guthrie *et al.*, 2004). To apply content analysis effectively, objective, systematic and reliability criteria must be met. Firstly, clearly defined categories for classification are made; secondly, information to be included is selected objectively; and thirdly, the information is gathered and coded reliably (ibid). A clear categorised coding sheet was prepared on the basis of the framework developed earlier (See, Appendix 2) to analyse annual report narratives, where the coded data were collected to capture the extent of performance disclosure (presence and absence of information).

A total of 190 annual reports were coded manually according to the PDI coding sheet which contains 28 items based on seven main performance indicators; these are four items in Goals/Objectives/Mission; nine items in Input; one item in Output; two items in Outcome; seven items in Efficiency; four items in Effectiveness; and one item in Forward-looking. The author conducted the coding procedure by using sentences as units of analysis, as they are suitable for both coding and measuring written communication to provide complete, reliable and meaningful data (Gray *et al.*, 1995; Milne and Adler, 1999).

In order, to code and classify the information into each category, the researcher followed rules of classification used by Connolly and Hyndman (2004) which were edited to fit the current research purposes (See, Appendix 3). The first rule classified and captured performance information from the main narrative only, and excluded any information outside this, such as tables, graphs, and photographs. Other studies have differed by classifying performance information that appears only in tables, graphs or information outside the main narrative, claiming that this approach reduces the subjectivity of coding (Hyndman and Anderson, 1997a; Connolly and Hyndman, 2004; McGeough, 2014b, 2015, 2016). One major complication in attempting to quantify performance based only on information outside the main narrative is that tables and graphs might not capture the full picture of performance when compared to the main detailed narrative. In addition, the management may have manipulated graphic information in order to impress stakeholders and legitimise their performance; consequently, this information may not accurately reflect the substantive performance of the charity.

In applying the second rule, only SMART indicators were considered when coding: indicators had to be specific, measurable, achievable, relevant and time-bound (McGeough, 2016), regardless of the type of information performance indicators appearing in annual reports (quantitative or qualitative types). In the third rule, audit reports, financial statements and notes were excluded from the coding process. Under the fourth rule, the extent of performance disclosure was analysed using a scoring system of (1) if the item was disclosed and (0) if not. If the same category was discussed in more than one place in the text, it was counted only once. In addition being excluded from the 28 index items to avoid penalty. Overall scores for each charity's performance disclosure were added together and unweighted, as it was assumed that each item of disclosure is equally important (See Appendix 2).

Despite the fact that subjectivity is one of the major drawbacks of content analysis, the reliability of the data and the instrument must be achieved to validate inferences (Gray *et al.*, 1995; Milne and Adler, 1999; Unerman, 2000). A pilot test was run prior to the initial coding to maximise validity through testing the coding sheet (developed based on relevant and grounded literature and sector guide - see Section 3.3) on the disclosures of ten charities (in total 20 annual reports). Several revisions were made to the coding sheet, framework, and rules of classification until the final coding sheet was agreed.

3.5.2.2 **Performance Disclosure Index (PDI) framework**

Performance in the non-profit sector is a multifaceted and debated concept. One might argue that it requires a wide range of balanced performance indicators in order to construct a clear picture of charity performance and to avoid an overwhelming amount of descriptive information. Previously, a considerable amount of literature has defined and described charity performance as a production model (input, output, and outcome) using efficiency and effectiveness as key criteria for evaluating performance (Hyndman, 1990;1991; Connolly and Hyndman, 2003;2004; Connolly and Dhanani, 2006, 2009; Dhanani, 2009; Jetty and Beattie, 2009; McGeough, 2014b, 2015). In addition to the above, information related to the output, outcome and effectiveness of charitable activities is considered to be crucial to a specific range of stakeholders - for example, individual donors, large funders, employees and volunteers (McConville and Hyndman, 2015).

Moreover, charities face a series of challenges when reporting performance-related information. The major difficulty is due to the lack of guidance and direction by the SORP, which recommends reporting achievements against objectives so that output, outcomes and effectiveness are measured voluntarily, leaving charities to decide how and when to develop their own measures (Connolly and Hyndman, 2003). A result, charities report only what they can measure and quantify easily - therefore, they need to clarify the performance measures they use in disclosures in order to make them accessible to relevant stakeholders (O'Neill, 2006). However, research has shown that performance reporting in the UK is still infrequent and that charities mostly disclose activity and output performance-related information. This has been claimed by Connolly and Dhanani (2009), who found that charities tend to focus more on legitimising their actions and activities than on highlighting their impact on society. This explains the overall lack of performance reporting found in previous literature (Hyndman, 1990;1991; Connolly and Hyndman, 2003;2004; Connolly and Dhanani, 2006, 2009; Jetty and Beattie, 2009; McGeough, 2014a, 2015, 2016; McConville and Hyndman, 2015). However, there was a Methodological lack identified in the above studies, in particular in performance disclosure analysis (content analysis), in terms of classifying performance information highlighted only in tables and graphs, and excluding the main narratives

In order to identify the extent and pattern of performance disclosure, the following framework has been developed to support accountability relationships between NPOs and sophisticated stakeholders (e.g., government, individual funders or donors, corporate investors or donors) via performance information disclosure (Zainon *et al.*, 2014). In addition, this paper follows previous literature in defining performance as a production model (input, output and outcome) along with efficiency and effectiveness, as well as being guided by SORP and other sector-specific documentation (Hyndman, 1990;1991; Connolly and Hyndman, 2003;2004; Connolly and Dhanani, 2006, 2009; Jetty and Beattie, 2009; McGeough, 2014a, 2015, 2016; McConville and Hyndman, 2015).

The framework includes seven main performance indicators (Appendix 1). The starting point in evaluating performance is to look at the goals, objectives and mission of an organisation (Boyle, 1995), therefore it is necessary to clarify exactly what the key tasks or intentions of the organisation are, which are often conceptualised as its purpose, mission or vision (Connolly and Hyndman, 2004; Connolly and Dhanani, 2006, 2009; Dhanani, 2009; Jetty and Beattie, 2009). Hyndman and Anderson (1997b) have noted that in order to discharge accountability in a meaningful way, well-developed targets and objectives are required. Managers are therefore required to pre-set targets related to output and outcome and allocate inputs to produce outputs (McGeough, 2014b). Based on the above, four sub- categories were developed under this indicator using the logic of the importance of pre-set objectives in measuring the effectiveness of the charity, where actual output or outcomes are compared with pre-set objectives and targets (Connolly and Hyndman, 2004).

This framework demonstrates performance using a production model consisting of three main stages - *inputs, outputs and outcomes*. This provides insights into charity performance which is necessary to evaluate efficiency (the relationship between inputs and outputs) and effectiveness (the relationship between outputs/outcomes and pre-set objectives) (Boyle, 1995; Connolly and Hyndman, 2004; McGeough, 2014b). Input was included as a second performance indicator (first stage in the production model), and is defined as the resources that contribute to organisational activities (Connolly and Hyndman, 2004; Connolly and Dhanani, 2006; Bagnoli and Megali, 2011; Connolly and Dhanani, 2009; Jetty and Beattie, 2009; McGeough, 2016). This framework considered two types of inputs - *human resources and finances*. The researcher first looks for information relating to human resources, since sufficient information will allow stakeholders to understand the roles and contribution of staff and volunteers in charity operations and activities (Charity Commission, 2005). Secondly, financial inputs are basically related to fundraising income and expenditure information. A public survey conducted by Ipsos MORI (2014) found that 96% of respondents agreed on the importance of charities providing information on how they spend their money, which then yields an insight into how far donations are deployed to achieve the charity's objectives, which will ultimately increase public trust. Accordingly, five sub-categories are developed under people inputs and four under financial inputs.

The harsh financial climate, government funding cuts, high competition in the sector and dependency on donations have influenced charities' strategies in measuring and reporting their impact (Lumley *et al.,* 2011). It is believed that impact measurements and reporting affect donor behaviour (trust and donation decision making), through communicating their outputs and outcomes to take advantage of receiving trust and funding (Berg and Månsson, 2011). Therefore, outputs are taken as a third performance indicator and, according to the production model, represent the second stage of performance evaluation. The output is defined as countable and direct goods/services produced by the charity as a result of organisational activity (Connolly and Hyndman, 2004; Connolly and Dhanani, 2006, 2009; Bagnoli and Megali, 2011; McGeough, 2014a, 2014b, 2016). Building from the above, one sub-category was included to cover information related to the direct product (e.g., the number of people receiving Red Cross parcels) and/or information related to direct service (e.g. the number of individuals trained).

In the literature, the term 'outcome' tends to be used to refer to the benefits or impact of charitable activities on beneficiaries or society (Connolly and Hyndman, 2004; Bagnoli and Megali, 2011; Connolly and Dhanani, 2009). Reporting the impact of activities at both the individual and social levels will indicate how charities improve people's lives and how they make a difference to society (Lumley *et al.*, 2011). Individual donors are more interested in the impact or outcomes of charitable activities on beneficiaries' lives, while Lumley *et al.* (2011) noted that large funders - including commissioners, grant-makers and social investors - seek information relating to the impact/outcome on both individual and social levels. Providing such information helps charities to attract more funding, investment and volunteers, and ultimately wins public trust and support (ibid). On that basis, this framework includes two sub-categories under outcome, namely *individual outcomes* (e.g., changes in people's knowledge, skills, abilities and attitudes) and *social outcomes* (e.g., changes in employment rates, crime rates, school achievements and graduation rates).

Efficiency is an important measure of performance which has been defined as the relationship between organisational outputs and inputs (ratio) or the amount of input per unit of output (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Jetty and Beattie, 2009; Bagnoli and Megali, 2011). In addition, the conversion ratio is also a proxy used to express charity efficiency and is defined as the amount of funding received which is converted into direct beneficiary aid (Hyndman and McConville, 2015). Charities are expected to disclose efficiency measures and conversion ratios to make it easier for stakeholders to assess performance, as these measures can affect funders' decisions (Tinkelman and Donabedian, 2007). Drawing on the above and the importance of efficiency and conversion ratios on decision making, seven subcategories are included in the framework, these are efficiency ratio (SORP, 2005), charitable cost ratio (Connolly and Dhanani, 2006), administration cost ratio (Hyndman, 1990), support cost ratio (SORP, 2005), governance cost ratio (SORP, 2005), programme cost ratio (Tinkelman and Donabedian, 2007) and fundraising cost ratio (Sargeant *et al.,* 2009).

Moving to 'effectiveness' as a second important measure of performance, this term has been used to describe the relationship between the outputs or outcome with pre-set objectives (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011). According to SORP recommendations, it is helpful to provide a review of performance against the objective to enable stakeholders to assess and understand the charity's achievements (Charity Commission, 2005). Although effectiveness measures are not required by SORP, the disclosure of such information is considered good practice (ibid). Based on this, the study's framework measures effectiveness in four ways: output-based effectiveness, individual outcome-based effectiveness, social outcome-based effectiveness (McConville and Hyndman, 2015) and client satisfaction (Bagnoli and Megali, 2011).

The last indicator used in this framework is forward-looking, based on the SORP recommendations that charities should report on future plans, including aims and key objectives, with details of planned activities (Charity Commission, 2005). Connolly and Hyndman (2004) noted that future plans are useful for funders in deciding whether to continue to fund those charities or not because performance indicators such as goals, inputs, outputs, outcomes, efficiency and effectiveness reflect present and past information and progress. Therefore, based on the arguments above, one sub-category is included under forward-looking. The chart below provides an overview of PDI indicator definitions, the logic for inclusion, and items included in the PDI coding sheet.

1. **Objectives/goals/mission:** the key tasks or intentions the organisation wants to achieve often framed as purpose, mission or vision. (Connolly and Hyndman, 2004; Jetty and Beattie, 2009; Connolly and Dhanani, 2009; Dhanani, 2009).

- **The logic for inclusion:** Objectives are essential in measuring the effectiveness of the organisation, where actual output or outcomes are compared with objectives (Connolly and Hyndman, 2004).
- **Items included in the checklist:**

1.1 Statement of objectives/aims/mission.
1.2 Description of primary activities/charity type.
1.3 Description of how these primary activities relate to organisation's mission and strategic goals.
1.4 Description of programs and project the charity involve in.

2. Input: Resources that contribute to the activities being undertaken by the organisation (Connolly and Hyndman, 2004; Jetty and Beattie, 2009; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011).

- **Logic for inclusion:** Using modelled performance in terms of a production model consisting of three stages (inputs, outputs and outcomes), in the public sector will capture insight performance information necessary for efficiency and effectiveness (Connolly and Hyndman, 2004).
- **Items included in the checklist:**

- 2.1 people:
2.1.1 Information on staff (e.g. number of staff)
2.1.2 Information on volunteers (e.g. number of volunteers)
2.1.3 Information on type of activities staff or volunteers involved in
2.1.4 Information on volunteer's involvement in activities per hour
2.1.5 Information on training programmes for staff and volunteers

- 2.2 Income and Expenditure:
2.2A. Information on fundraising income:
2.2.A.1 General information/measure on income growth (change in income)
2.2.A.2 Specific information on main source of income
2.2.B Information on expenditure:
2.2.B.1 General information/measure of general expenditure
2.2.B.2 Specific information on main type of charitable expenditure

3. Output: The direct and countable goods/services produced as a result of the activity being carried out (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011).

- **Logic for Inclusion:** Using modelled performance in terms of a production model consisting of three stages (inputs, outputs and outcomes) in the public sector will capture insight performance information necessary for efficiency and effectiveness (Connolly and Hyndman, 2004).
- **Items included in the checklist:**
  3.1 Information/measure of beneficiaries served with direct products and /or direct services.

4. Outcome: The benefits or impact on beneficiaries or the wider society (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011).

- **Logic for Inclusion:** Using modelled performance in terms of a production model consisting of three stages (inputs, outputs and outcomes) in the public sector will capture insight performance information necessary for efficiency and effectiveness (Connolly and Hyndman, 2004).
- **Items included in the checklist:**
  4.1 Individual outcome (measure of the effect of the output on beneficiaries).
  4.2 Societal outcome (measure of the effect of the output on society)

5. Efficiency: The relationship between the organisation's output and its inputs or the amount of input per unit of output (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011; Hyndman and McCnoville, 2015).

- **Logic for inclusion:** The SORP suggests reporting on "indicators, milestones and benchmarks" (Charity Commission, 2005, para. 53) used to assess performance (Hyndman and McConville, 2015) in addition conversion ratios which provides alternative.
- **Items included in the checklist:**

5.1 Efficiency measures (a ratio or calculation comparing inputs to outputs)
5.2 Charitable activity ratio (charitable activity cost as a percentage of total costs or income)
5.3 Administration cost ratio (admin cost as a percentage of total costs or income)
5.4 Support cost ratio (support cost as a percentage of total costs or income)
5.5 Governance cost ratio (governance cost as a percentage of total costs or income)
5.6 Programme cost ratio (programme cost as a percentage of total costs or income)
5.7 Fundraising cost ratio (fund-raising cost as a percentage of total costs or income)

6. Effectiveness: The relationship between the output or results and the objectives set (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011).

- **Logic for inclusion:** Reporting on effectiveness may require reporting on output (Connolly and Hyndman, 2003), outcome at an individual (NCVO, 2011) and societal level (Dhanani, 2009) and comparison of these measures to pre-set targets.
- **Items included in the checklist:**

6.1 Output-based effectiveness (comparison between output and specific pre-set target)
6.2 Individual outcome-based effectiveness (comparison between individual outcome and specific pre-set target)
6.3 Social outcome-based effectiveness (comparison between social outcome and specific pre-set target)
6.4 Client satisfaction

7. Forward-looking: Related to the future plans and intensions of the charity (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011).

- **Logic for inclusion:** All other performance indicator (goals, input, output, outcome, efficiency and effectiveness) focus on present or past performance. However, performance-reporting relating to what the charity intends to do in the future is also important. This information would be useful for those deciding whether or not to fund a charity (Connolly and Hyndman,2004)
- **Items included in the checklist:**

7.1 Future activities and plans to meet objectives and strategies

Figure 3-2 Performance Disclosure Index (PDI) framework

3.5.2.3 **Definition of Variables and Model Specification**

Table 3-1 contains a summary definition of the variables. To minimise potential omitted variables bias and as a general test of the determinants of PDI, the study included a number of control variables, also defined and presented in Table 3-1. Given the cross sectional nature of this study data with repeated measures, the study analysed the data by running two repeated ordinary least square (OLS) regression (once covering 2011 and second covering 2013), therefore it is assumed that all the hypothesised associations are linear, the OLS regression equation to be estimated is specified as following:

$$PDI_i = \alpha_0 + \beta_1 GOVINC_i + \beta_i \sum_{i=1}^{2} CHR\_EFFICENCY_i + \beta_i \sum_{i=1}^{2} GOV_i + \beta_i \sum_{i=1}^{4} CHAIR/CEO + \beta_i \sum_{i=1}^{5} CONTROLS_i + \varepsilon_i$$

where, PDI is a ratio of the total number of items disclosed to the total number of items included in the index (28 items). Independent variables are as following: GOVINC: income from government ; CHR_EFFICENCY: administrative cost efficiency ratio (Admin_ratio) and fundraising cost efficiency ratio (Fund_ratio); GOV: board size (BTSIZE) and board diversity on the basis of gender (BTGEN); CHAIR/CEO: in terms of gender $(\mathrm{Chair_{GEN}})(\mathrm{CEO_{GEN}})$ and in term of occupational background $(\mathrm{CHAIR_{BG}})(\mathrm{CEO_{BG)}}$; and CONTROLS: charity's leverage (LEV); charity's size (LNTA); income growth (GROWTH); charity type $(\mathrm{CHAR_{TYPE}})$ and annual review availability (A_REV) are dummies.

To test *Hypothesis 1* (source of funding), the study measured Income from Government (Gov_Inc_i) as a ratio of total Income from the government to total Income (Berardi *et al.*, 2016). Next, to test *Hypothesis 2* two proxies were used to test the relationship between charity efficiency and performance disclosure level. The first proxy was fundraising expenses $(Fund\_ratio_i)$ and measured as a percentage of total fundraising costs to total expenditure (Tinkelman and Donabedian, 2007; Tinkelman, 2009; Hyndman and McConville, 2015). In addition, the second proxy used was Administrative expenses $(Admin\_ratio_i)$ and measured as a percentage of total administrative costs to total expenditure (Hyndman, 1990; Tinkelman and Donabedian, 2007; Tinkelman, 2009; Hyndman and McConville, 2015).

Internal Governance characteristics such as board diversity and board size were used as independent variables, which were also predicted to influence the level of performance disclosure. Board size was measured as the board of trustee size ($BTSIZE_i$), where, the size was measured as the total board of trustees as proxy to test *Hypothesis 3* (Zainon *et al.*, 2014; Ntim *et al.,* 2017). In addition, to test *Hypothesis 4,* the effect of board diversity for the board of trustees ($BTGEN_i$) on performance disclosure level, the study used the percentage of females to the total number of board of trustees (Reddy *et al.*, 2013; Harris, 2014; Ntim, 2015; Ntim *et al.,* 2017).

In order to capture the determinants of performance disclosure level of fundraising charities, the study also considered the effect of the chair and CEO characteristics on performance disclosure level by addressing the influence of the Chair ($Chair\_GEN_i$) and CEO gender (CEO_GEN_i), which are represented by *Hypotheses 5a* and *5b*. Gender was measured as a dummy variable that takes the value of 1 for male, and 2 for female (Berardi *et al.,* 2016). Moreover, Chair ($Chair\_BG_i$) and CEO (CEO_BG_i) occupational background with either charitable or private (commercial) or public (governmental) experience was also predicted to influence the performance disclosure level (references), and are represented by *Hypotheses 6a* and *6b.* Chair and CEO occupational background was measured as a dummy variable that takes the value of 1 if Chair/ CEO background is charitable and 0 otherwise for both private and public, and *vice versa*.

Drawing from prior literature, the study includes the following control variables: charity size, debt level, and change in total income, charity type and annual review availability; a detailed discussion of these variables is provided in the section below (3.5.2.4). This study follows a number of precedents (Callen *et al,* 2010; Whittaker, 2013; Harris, 2014; Zainon *et al.,* 2014; Berardi *et al.,* 2016) in expecting the size ($LNTA_i$) to affect the level of performance disclosure and it was measured as the natural logarithm of total assets.). Following previous studies (Behn *et al,* 2010; Reddy *et al.,* 2013; Whittaker, 2013) the researcher controls for debt level ($LNLEV_i$) as risk proxy. This is expected to affect performance disclosure level and was measured as the natural logarithm of total debt to total assets. This is the first study that controls for change in total income ($GROWTH$), which was measured as a percentage of total income. Also, the annual review (A_Rev_i) was used as a control variable because the study excluded it; it was measured as a dummy variable, taking the value of 1 if an annual review was available and 0 otherwise. Charity type ($Char\_type_i$) was measured as a dummy variable, taking the value of 1 if the charity operates their activities internationally and 0 if they do so nationally.

Table 3-1 Summary of measures and variables

Performance Disclosure Index (PDI) - dependent variable	
PDI	Is the total performance disclosure index containing 28 items based on 7 main themes, including: 4 items in Goals/Objectives/Mission; 9 items in Input; 1 items in Output; 2 items in Outcome; 7 items in Efficiency; 4 items in Effectiveness; and 1 item in Forward-looking. All 28 items have a score of 1 if item disclosed or 0 if item not disclosed, resulting in a total of items disclosed over total items.
Internal Governance – independent variable	
BTSIZE	Total number of Board of Trustees.
BTGEN	Percentage of females to the total number of Board of Trustees.
Chair and CEO Characteristics – independent variable	
$CHAIR_{GEN}$	1, if Chair is female, 0 otherwise.
$CHAIR_{BG}$	1, if Charitable background, 2 if Commercial background and 3, if Governmental background.
CEO_{GEN}	1, if CEO is female, 0 otherwise.
CEO_{BG}	1, if Charitable background, 2 if Commercial background and 3, if Governmental background.
Source of Income – independent variable	
GOVINC	Percentage of total Income from Government to Total Income.
Charity Efficiency – independent variable	
Fund_ratio	Percentage of Fundraising cost to total Income.
Admin_ ratio	Percentage of Administrative cost to total Income.
Control variables	
LEV	Natural log Percentage of total debt to total assets.
LNTA	Natural log of total assets.
GROWTH	Percentage change current year's total income minus previous year's total income to previous year's total income.
A_REV	1, if the charity has an annual review, 0 otherwise.
$CHAR_{TYPE}$	1, if the charity has international activities, 0 otherwise national.

3.5.2.4 **Control variables**

From theoretical and empirical points of view, there is a significant positive relationship between the size of an organisation and disclosure level. This direct relationship has been confirmed by previous disclosure literature conducted in the for-profit sector. In a similar line of evidence, it has been found that disclosure practices in UK charities, particularly accountability and transparency levels, are influenced significantly by charity size (Connolly and Hyndman, 2004; Connolly and Dhanani, 2006). The combined effect of growth in size and highly publicised scandals has had a significant and positive impact on NPOs in increasing their visibility and public scrutiny. Thus, they discharge accountability by making transparency disclosures either as a proactive measure or a reactive measure to gain/maintain or to alter public trust. Therefore, one might expect to see larger charities being more accountable and transparent when disclosing performance-related measures more extensively and comprehensively (either financial or non-financial or both) compared to smaller charities. This study consistently followed previous literature by controlling for charity size (Callen *et al.,* 2010; Whittaker, 2013; Harris, 2014; Zainon *et al.,* 2014; Berardi *et al.,* 2016). Building on the above evidence, large charities are expected to disclose higher performance measures compared to smaller ones.

As mentioned above, a main role of disclosure is to reduce information asymmetry by providing more transparency and accountability, which will eventually reduce risk (Botosan, 1997). Although risk in general is defined as being exposed to danger, risk in the non-profit context is viewed as critical to stakeholders (Whittaker, 2013). Since NPOs deal with multiple stakeholders, risk severity is high and more distributed than in for-profit organisations. In both for-profit and non-profit literature (Behn *et al.,* 2010; Whittaker, 2013) it has been noted that monitoring is highly demanded, particularly when organisations are experiencing high debt levels, and therefore full and improved disclosure is required to increase public trust and ultimately allow longer-term commitments. A study conducted in a non-profit context by Behn *et al.* (2010) found that organisations with higher debt levels were more responsive in sending financial statements when requested compared with others with low debt levels. Based on the following arguments in the non-profit context, and specifically following Whittaker (2013), this study expects a positive relationship between debt levels and performance measurement disclosure.

This study uses percentage of growth as a control variable in order to capture the effect of government cuts on charities' income and how this affects the patterns and level of performance disclosure. This argument is based on the fact that public sector trends usually influence the non-profit sector because of funding relationships (Whittaker, 2013). Therefore, a positive relationship is expected between positive change in income and performance disclosure level. Charity type is one of the control variables used in the study ,where the charity is classified as an International charity if its operating outside the UK and national if its operating only in the UK, this was checked through the charity commission website. It is believed that charity type might influence disclosure information (Connolly and Dhanani, 2006), where accountability structure and performance measures differ from charity to charity depending on the type of activities they are involved in (Brown and Moore, 2001). An empirical study conducted by Gordon *et al.* (2002) found a significant difference in the disclosure of charities working in the fields of environmental, disease, and poverty charities. Variations in charity type or segment may drive positive or negative institutional development whereby charities are either more or less responsive to external pressure.

A more recent study conducted by Whittaker (2013) examined the relationship between performance level disclosure and charity type and found that charities under the community category tend to disclose more performance information compared to religious or medical charities. No research was found to classify charity type as national or international, and no clear guidance was found to predict the performance disclosure level of this type of classification. However, a reasonable assumption may be that charities operating internationally are more transparent and accountable when communicating with their constituencies and provide more comprehensive performance measures because they may face more external pressure. For example, international charities are expected to comply with stricter standards and are under greater media scrutiny when compared to charities operating locally.

Finally, the annual review is used as a control variable since this study focuses only on annual reports which target sophisticated stakeholders. According to the previous literature, the annual review is a voluntary document that often provides additional performance information and is mostly aimed at unsophisticated stakeholders. This was confirmed in a recent study by Connolly and Hyndman (2013) where they identified output measures in the top 100 fundraising charities. These tend to disclose more in annual reviews (94%) than in annual reports (85%). This is the first study to use and measure annual reviews in dummy form as a control variable; therefore a reasonable logical assumption may be that charities with available annual reviews will provide low-performance disclosure measures than charities with only annual reports would.

3.6 Empirical findings and discussion

3.6.1 Descriptive statistics for the dependent variable: Performance Disclosure Index (PDI)

Across the seven main performance indicator categories outlined in the PDI coding sheet (Appendix 2), this research has analysed the narrative sections of a total of 184 annual reports according to the 28 items on the sheet. Table 3-2 indicates that there were no major changes in overall performance disclosure patterns from 2011 to 2013 since the overall average disclosure score for both 2011 and 2013 was around 13 items. The maximum score was 22 items and minimum score was 4 items.

Table 3-2 Summary descriptive statistics of performance disclosure index (PDI) – dependent variables

Variable	Mean	Median	Maximum	Minimum	STD	n
2011						
PDI (%)	0.490079	0.464286	0.785714	0.153846	0.135747	92
PDI (no.)	13.6739	13	22	4	3.857656	92
2013						
PDI (%)	0.496409	0.5	0.785714	0.153846	0.129772	92
PDI (no.)	13.8478	14	22	4	3.69198	92

Although the overall pattern of disclosure was steady between those years, Table 3-3 illustrates the variations found in the frequency of items within each main performance disclosure category. The most disclosed categories were objectives/goals/mission and input, output and forward-looking, with relatively similar levels in both 2011 and 2013. On the other hand, the least reported categories were effectiveness, efficiency and outcome. In addition, Tables 3-3 and 3-4 show a slight decline in the number of charities reporting efficiency in 2013 (47 charities) when compared with 2011 (49 charities); in contrast, relatively more effectiveness measures were reported in 2013 (45 charities).

Table 3-3 Number and proportion of charities reporting at least one item across each main PDI categories

Main PDI Categories	2011		2013	
	Freq.	Percent	Freq.	Percent
Objectives/goals/mission	92	100	92	100
Input	90	97.83	92	100
Output	87	94.57	87	94.57
Outcome	46	50.00	46	50.00
Efficiency	49	53.26	47	51.09
Effectiveness	42	45.65	43	46.74
Forward-looking	82	89.13	82	89.13

A detailed analysis of the sub-categories in each main performance category is presented in Table 3-4. Objectives/goals/missions were the most frequently disclosed items, with almost 98% of charities reporting on these in both 2011 and 2013 (Table 3-3). Statements of objectives/aims/mission and descriptions of programmes and projects were disclosed by almost 95% of charities in both years (Table 3-4: items 1.1 and 1.4). Relatedly, information on charity type or primary activities and descriptions of strategic aims in relation to activities were also disclosed by more than half of the sample (Table 3-4: items 1.2 and 1.3). Input was the second most frequently disclosed item, reported by more than 95% of charities in both years. The results related to input in Table 3-4 show a variation in information distribution under people (item 2.1) and income and expenditure (item 2.2) input sub-categories, in which the information disclosed was highly concentrated under income and expenditure. More than 90% of charities disclosed information or measures of income growth in both years, while information relating specifically to the main source of income was relatively lower (80% of sampled charities). Information or measures of the type of charitable expenditure were also highly disclosed by more than half of the sampled charities.

Information relating to people (input sub-category) was low, although charities tended to disclose more information about volunteers in both 2011 and 2013. This was mainly to specify the number of volunteers (47 and 50 charities, respectively) and the type of activities that volunteers and staff were involved in (48 and 47 charities, respectively). In addition, there was interest in disclosing volunteer activity in terms of hours in 2013 (22% of sampled charities). Output disclosure was highly reported by almost 94% of charities (Table 3-3) with no changes in output disclosure in both 2011 and 2013. Almost half of the sampled charities reported on the 'outcome', mostly at the individual level in 2011 and 2013 (around 42% and 38%, respectively), compared to the social level (about 25% and 31%, respectively). The slight increase in 2013 in disclosing social output indicates charities' recent interest in reporting their impact on society.

Efficiency measures disclosed in annual reports were relatively low compared with other performance indicators in both 2011 and 2013 (Tables 3-3: 53% and 51% respectively). As can be seen from Table 3-4, the vast majority (more than 70%) of charities failed to report a single efficiency measure in their annual reports for both 2011 and 2013. However, efficiency measures were much more commonly reported than conversion ratios. Looking across the six conversion ratios reported in Table 3-4 for both 2011 and 2013, the two most commonly disclosed conversion ratios were fundraising cost ratio (28% and 30%) and charitable activity cost ratio (18% and 17%). There was a low level of disclosure of administration cost ratios, with only three charities reporting this in 2011 and five in 2013. The governance cost ratio was disclosed more (16% in 2011 and 15% in 2013) than support cost (8% in 2011 and 7% in 2013) and administrative cost ratio (3% in 2011 and 5% in 2013). Just over half of the charities failed to report a single effectiveness measure in their annual reports. Output effectiveness was the most frequently reported (27 % in 2011 and 32% in 2013), followed by client satisfaction (26 % in 2011 and 32% in 2013), while less than 10% reported on effectiveness measures relating to individual and social outcomes. On the other hand, the majority (more than 85%) of charities reported on their future activities and plans to meet objectives and strategies. Overall, the results indicate that performance disclosure level is still low and there was no change in the reporting pattern from 2011 to 2013.

Table 3-4 Number and proportion of charities reporting at least one item across each main PDI sub-categories

PDI per sub – category	**2011 (*n* = 92)**		**2013 (*n* = 92)**	
	Freq.	**Percent**	**Freq.**	**Percent**
Objectives/goals/mission				
1.1 Statement of objectives /aims/mission	92	100	90	97.83
1.2 Description of primary activities/charity type	87	94.57	82	89.13
1.3 Description of how these primary activities relate to organisational mission and strategic goals	79	85.87	79	85.87
1.4 Description of programmes and projects charity is involved in	90	97.83	89	96.74
Input				
2.1 People:				
2.1.1 Information on number of staff	24	26.09	23	25.00
2.1.2 Information on number of volunteers	47	51.09	50	54.35
2.1.3 Information on type of activities staff or volunteers involved in	48	52.17	47	51.09
2.1.4 Information on volunteer involvement in activities per hour	17	18.48	21	22.83
2.1.5 Information on training programmes for staff and volunteers	37	40.22	37	40.22
2.2 Income and Expenditure:				
- **2.2A information on Income**				
2.2.A1 General Information / measure on Income growth	86	93.48	87	94.57
2.2.A2 Specific information on main source of income	82	89.13	84	91.30

PDI per sub – category	2011 (*n* = 92)		2013 (*n* = 92)	
	Freq.	**Percent**	**Freq.**	**Percent**
2.2B Information on expenditure				
2.2.B1 General Information / measure of general expenditure	79	85.87	81	88.04
2.2.B2 Specific information on main type of charitable expenditure	68	73.91	71	77.17
Output				
3.1 Information/ measure of beneficiaries served with direct product or direct services	87	94.57	87	94.57
Outcome				
4.1 Individual outcome	39	42.39	35	38.04
4.2 Societal outcome	23	25.00	29	31.52
Efficiency				
5.1 Efficiency measures	25	27.17	26	28.26
5.2 Charitable activity ratio	17	18.48	16	17.39
5.3 Administration cost ratio	3	3.26	5	5.43
5.4 Support cost ratio	8	8.70	7	7.61
5.5 Governance cost ratio	15	16.30	14	15.22
5.6 Programme cost ratio	4	4.35	7	7.61
5.7 Fundraising cost ratio	26	28.26	28	30.43
Effectiveness				
6.1 Output - based effectiveness	25	27.17	29	31.52
6.2 Individual outcome - based effectiveness	5	5.43	6	6.52
6.3 social outcome - based effectiveness	7	7.61	8	8.70
6.4 Client satisfaction	24	26.09	30	31.58
Forward-looking				
7.1 Future activities and plans to meet objectives and strategies	82	89.13	82	89.13

The result of this research did not show any significant increase in the extent of performance measure disclosed for 2013. The disclosure patterns at the sub-category levels are not overly different although it is found that charities tend to report more on objectives/aims/missions and input, output and forward-looking, while disclosing less information on efficiency, outcome and effectiveness. The detailed analysis of performance sub-categories shows a tendency to report more on objectives and descriptions of programmes and projects. In addition, charities are highly interested in discharging more information related to income growth, the source of income, and how money is expended in relation to charitable activities. Furthermore, charities focus more on disclosing their direct products and/ or services.

In contrast, there was low disclosure of efficiency measures, particularly administrative cost ratios, support cost ratios and governance cost ratios. Several possible explanations can be put forward for the relatively low performance disclosure level and the noticeable lack of change from previous studies. First, the study focused only on annual reports and does not consider other forms of public communication which charities rely on such as annual reviews or websites, which might include additional performance information as a response to such pressure. Second, charities with high reliance on government funding or other powerful resource providers may prefer to disclose their performance-related information to those stakeholders using other forms of communication. Finally, the apparent selectivity and focus on efficiency criteria disclosure such as resources (e.g. disclosing more information on income growth and source of income), resources used (e.g. disclosing more information on money expended on charitable activity), and immediate impact (e.g. direct output and individual outcome) may signal an interest to show 'good' performance, albeit of a short-term nature which may not sustain the longer term. In contrast, low disclosure on administrative cost ratio, support cost ratio and governance cost ratio may reflect charities' reluctance to draw attention to any substantial costs in these areas over such time periods. The former may signal that the uncertain events such as government funding cuts have created what is called by Ebrahim (2005) "accountability myopia", which is an accountability tool that focuses mainly on the economic dimension. By privileging one group of stakeholders, in this case funders/resource providers, as a powerful stakeholder through disclosing more on efficiency criteria (functional accountability) such as information related to resources, resources used and immediate output and outcome, and ignoring impact or outcome criteria (strategic accountability), which concern with charities' impact on wider society in order to guarantee their survival overtime.

This also might explain the homogeneity of behaviour across the fundraising charities, with a high dependency on external funding which responds similarly to the coercive pressure from the regulator and dominant resource providers. The conclusion from the above results is that the current pattern of performance disclosure is instrumently motivated by stakeholder and resource dependency perspectives, where the annual report is seen as a fundraising tool and thus explains the continued desire of charities to highlight ‘success’ *regularly* rather than *comprehensively*.

3.6.2 **Descriptive statistics for independent variables**

Table 3-5, Panel A shows the descriptive statistics for internal governance structures, where the average board of trustee size ($BTSIZE$) was 12, ranging from a minimum of 3 (3) to a maximum of 34(24) in 2011(2013). On the other hand, representation of women on the board of trustees ($BTGEN$) was relatively low in both 2011 and 2013 (29% and 31 %, respectively).

A descriptive summary of the source of income is presented in Table 3-5, Panel B. It can be seen that overall income received from the government (Gov_Inc) was almost steady (2.11% in 2011 and 2.04 % in 2013). Table 3-5, Panel C illustrates charity efficiency, with the results indicating that charities were more efficient in 2011 (with an approximate average $Admin\_ratio$ 0.5 % and $Fund\_ratio$ 9%) than in 2013 (with an approximate average $Admin\_ratio$ 1.3 % and $Fund\_ratio$ 10%). On a related note, in 2013 the average level of fundraising costs increased when compared with 2011, while average administrative costs arosed.

The control variable results are presented in Table 3-5, Panel D. the average level of ($GROWTH$) in income in charities was 13% compared to 9% in 2013. The average level (LEV) of debt in charities was stable in 2011 and 2013 (23%). In 2013, total assets (TA) increased. More than half of the sampled charities operate at a national level, while the rest of the sample operates internationally (24%). Finally, less than half (46%) of the sampled charities provide annual reports only, while 54% of charities provide annual reviews in addition to annual reports.

Table 3-5 Summary descriptive statistics of independent variables

Variable	Mean	Median	Maximum	Minimum	STD	n
Panel A: Governance - Independent variable						
2011						
BTSIZE (no.)	12.48913	13	34	3	4.500292	92
BTGEN (%)	0.290279	0.310096	0.75	0	0.185864	92
2013						
BTSIZE (no.)	12.07609	12	24	3	4.079522	92
BTGEN (%)	0.312324	0.297059	1.5	0	0.231423	92
Panel B: Source of Income - Independent variable						
2011						
GOVINC (%)	0.0211425	0	0.1800222	0	0.0468029	92
2013						
GOVINC (%)	0.0204175	0	0.1800222	0	0.0489766	92
Panel C: Charity Efficiency - Independent variable						
2011						
FUND_ratio (%)	0.091581	0.053499	0.460899	-0.13203	0.107601	92
ADMIN_ratio (%)	0.005051	0.007569	0.071638	-0.52274	0.056668	92
2013						
FUND_ratio (%)	0.108137	0.061704	0.733104	-0.13662	0.134573	92
ADMIN_ratio(%)	0.013801	0.006861	0.163098	-0.0011	0.02323	92
Panel D: Control Variables						
2011						
LEV (%)	0.2390802	0.1617294	1.0274	0.007805	0.213799	92
GROWTH (%)	0.130016	0.042186	4.076976	-0.22476	0.456972	92
TA (£m)	104000000	49700000	1170000000	842290	158000000	92
2013						
LEV (%)	0.239597	0.154926	1.080201	0.0067	0.219315	92
GROWTH(%)	0.094576	0.063684	1.619188	-0.2994	0.208526	92
TA (£m)	117000000	65800000	1330000000	3578259	179000000	92

Notes: The table reports summary descriptive statistics related dependent and independent variables for 2011 and 2013. Variables are defined as follows: performance disclosure index (PDI); board of trustees size (BTSIZE); board of trustees gender (BTGEN); government income (GOVINC); fundraising cost ratio (FUND_ratio); administrative cost ratio (ADMIN_ratio); debt ratio (LEV); change of total income (GROWTH); total asset (LNTA).

Table 3-6 shows the results related to chair and CEO characteristics diversity ($Chair\_GEN$ and CEO_GEN) and occupational background ($Chair\_BG$ andCEO_BG). In general, the results show high appointments of male chairs and CEOs in both years (151 male chairs and 119 male CEOs). Alternatively, female CEO appointments were higher than chair appointments in both years (65 female CEOs and 33 female chairs). On the other hand, many charities appointed chairs and CEOs with charity experience (44% and 55% in both years, respectively), followed by commercial background (39% and 26%, respectively), while, government background was the lowest (17% and 19%, respectively).

Table 3-6 Summary descriptive statistics for independent dummy variables

Variables	**2011**		**2013**		**2011 & 2013**	
	(*n* = 92)		**(*n* = 92)**		**(*n* = 184)**	
	Freq.	**Perce**	**Freq.**	**Perce**	**Freq.**	**Perce**
Panel A: Chair and CEO Characteristics						
- *Chair and CEO Diversity*						
Chairman Gender :						
Male Chairman	76	82.61	75	81.52	151	82.07
Female Chairman	16	17.39	17	18.48	33	17.93
CEO Gender:						
Male CEO	60	65.22	59	64.13	119	64.67
Female CEO	32	34.78	33	35.87	65	35.33
- *Chair and CEO Occupational Background*						
Chairman Occupational Background:						
Charitable background	41	44.57	40	43.48	81	44.02
Commercial background	35	38.04	36	39.13	71	38.59
Governmental background	16	17.39	16	17.39	32	17.39
CEO Occupational Background:						
Charitable background	50	54.35	52	56.52	102	55.43
Commercial background	24	26.09	23	25.00	47	25.54
Governmental background	18	19.57	17	18.48	35	19.02
Panel B: Charity type						
National Charity	70	76.09	70	76.09	140	76.09
International Charity	22	23.91	22	23.91	44	23.91
Panel C: Annual Review Availability						
Charities *with* Annual Review	39	42.39	45	48.91	100	54.35
Charities *without* Annual	53	57.61	47	51.09	84	45.65

3.6.3 Correlation matrix

Tables 3-7 and 3-8 illustrate the correlation matrix for all variables used in the regression model to test for multicollinearity. The correlation coefficients are checked for the presence of high collinearity between regressors using both Pearson's parametric and Spearman's non-parametric coefficients as a robustness check. The Pearson and Spearman's correlations in Table 3-7 reveal a statistically significant positive association between PDI and government income (Gov_Inc), board of trustees size ($BTSIZE$), CEO gender (CEO_GEN) and charity type ($Char\_type$). Likewise, Table 3-8 also revealed a statistically significant positive association between PDI and government income (Gov_Inc), board of trustees size ($BTSIZE$) and diversity ($BTGEN$) CEO gender (CEO_GEN) and charity type ($Char\_type$). Meanwhile, a statistically significant negative association was found between PDI and administrative ratio ($Admin\_ratio$).

Overall, the bivariate correlations among all variables are low, where none of the variables correlates above 0.8 or 0.9(Gujarati and Porter, 2003). This suggests that any remaining multicollinearity does not appear to be harmful statistically to the regression analysis. Furthermore, Variance Inflation Factor (VIF) tests were conducted. The results show that there is no VIF greater than 10, thus confirming that collinearity is not an issue. Additionally, investigating the scatterplots P-P and Q-Q, standardised residuals, Cook's distance and Durbin-Watson statistics for homoscedasticity, linearity, normality and auto correlation respectively, the test shows no serious violation of OLS assumption.

Table 3-7 Pearson's and Spearman's correlation matrices of the variables for 2011

2011	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**
PDI (1)		.4123*	-0.1175	-0.0104	0.2753*	0.1344	0.1306	0.0021	-0.0943	0.2621*	0.1225	-0.1273	0.0284	0.1069	-0.0994	0.1454	0.2243*
GOV_INC (2)	0.3441*		-0.0301	-0.2002	0.2176*	0.1618	0.2923*	-0.1932	0.0061	0.1288	-0.0417	-0.0565	-0.0878	0.0002	-0.136	0.0037	0.4942*
ADMIN_Ratio (3)	-0.0502	0.0499		0.0077	0.0873	0.1805	0.1965	0.0991	0.068	0.0498	0.068	-0.0691	-0.0555	0.0176	-0.0916	0.0269	0.0892
FUND_Ratio (4)	0.0125	-0.2568*	-0.0864		0.1761	0.191	0.0605	-0.0755	0.0832	0.0112	-0.0121	0.0289	0.113	0.1267	-0.0136	0.1049	-0.2939*
BTSIZE (5)	0.3107*	0.2046	0.1127	0.1555		0.1961	0.0493	-0.091	0.0548	0.0677	0.1245	0.0202	0.2429*	0.0322	-0.1675	0.1555	-0.0043
BTGEN (6)	0.1606	0.1615	0.1825	0.1713	0.2780*		0.2673*	-0.0017	-0.1634	0.149	0.0033	-0.09	-0.1187	0.1781	-0.0942	0.1125	0.0644
Chair_GEN (7)	0.1275	0.2721*	0.0636	0.1609	0.0638	0.2950*		-0.1233	-0.1349	0.1466	0.0539	-0.154	-0.0572	-0.0076	-0.1663	0.1867	0.0117
Chair_COME (8)	0.0062	-0.1694	-0.1125	-0.0874	-0.0796	-0.0065	-0.1233		-0.3595*	0.2269*	0.1463	-0.1043	-0.0076	0.0274	0.0687	0.0074	-0.0719
Chair_GOV (9)	-0.1066	-0.0705	0.0527	0.0608	0.0638	-0.1595	-0.1349	-0.3595*		-0.0942	-0.0114	0.2797*	-0.0346	0.0113	0.2063*	0.0126	0.0117
CEO_GEN (10)	0.2843*	0.0497	0.0771	0.0753	0.0771	0.1873	0.1466	0.2269*	-0.0942		-0.0181	-0.0725	-0.1663	0.0593	-0.0258	0.1586	0.1256
CEO_COME (11)	0.1003	-0.0448	-0.1705	-0.0059	0.1191	0.008	0.0539	0.1463	-0.0114	-0.0181		-0.2930*	0.0872	-0.0587	0.0438	0.0915	0.0732
CEO_GOV(12)	-0.1337	-0.1764	0.0361	-0.0022	0.042	-0.0891	-0.154	-0.1043	0.2797*	-0.0725	-0.2930*		0.13	-0.0134	-0.1362	-0.035	-0.0838
LNTA (13)	0.0173	-0.0903	-0.0575	0.0586	0.2440*	-0.117	-0.0524	-0.0143	-0.0333	-0.162	0.0863	0.1217		-0.2906*	-0.0466	0.1296	-0.2846*
LEV (14)	0.0845	-0.0259	-0.0308	0.1203	0.0838	0.1933	-0.0312	0.0675	0.0218	0.0322	-0.0316	0.0188	-0.2771*		-0.1123	-0.0402	0.0614
GROWTH (15)	-0.1556	-0.136	0.0389	-0.0369	-0.2718*	-0.1062	-0.1478	0.0443	0.1827	0.0198	0.0374	-0.0903	-0.1522	-0.1885		0.0145	0.1507
A_REV (16)	0.1551	0.0042	0.0737	0.0948	0.1447	0.1156	0.1867	0.0074	0.0126	0.1586	0.0915	-0.035	0.1296	-0.0324	0.0218		0.0348
CHAR_TYP (17)	0.2389*	0.5362*	0.0749	-0.2566*	0.0242	0.0359	0.0117	-0.0719	0.0117	0.1256	0.0732	-0.0838	-0.2660*	0.0626	0.1238	0.0348	

Table 3-8 Pearson's and Spearman's correlation matrices of the variables for 2013

2013	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**
PDI (1)		0.3247*	-0.0827	-0.1191	0.1846	0.2374*	0.1196	0.0694	-0.1717	0.2359*	0.1869	-0.119	0.0521	0.2016	0.1536	0.1294	0.1921
GOV_INC (2)	0.2579*		-0.0204	-0.2562*	0.1984	0.3150*	0.2543*	-0.183	-0.0289	0.105	0.0047	-0.0649	-0.0442	0.1116	-0.0025	-0.0051	0.3704*
ADMIN_Ratio (3)	-0.3194*	-0.0518		-0.121	0.0339	0.0783	0.1809	-0.0243	0.1242	-0.0277	0.1404	-0.0279	-0.0156	-0.0613	0.1459	0.016	0.023
FUND_Ratio (4)	-0.1105	-0.2387*	-0.1932		0.2514*	0.1122	0.0681	-0.0336	0.1253	0.0081	0.0411	0.0649	0.0919	0.1056	0.0125	0.1905	-0.3245*
BTSIZE (5)	0.2229*	0.1531	-0.164	0.2114*		0.1657	0.1457	-0.1142	0.0998	-0.0009	0.0807	0.1622	0.3589*	0.002	0.1153	0.3152*	0.0342
BTGEN (6)	0.2338*	0.2209*	-0.1586	-0.0172	0.1863		0.3534*	-0.0046	-0.1314	0.2672*	0.0133	-0.0676	-0.0999	0.2279*	0.0739	0.1354	0.1312
Chair_GEN (7)	0.1341	0.2309*	0.0233	0.0706	0.1641	0.3724*		-0.1522	-0.1446	0.0527	-0.0808	-0.0824	-0.0986	0.1281	0.1271	0.2625*	0.0614
Chair_COME (8)	0.0682	-0.156	-0.1104	-0.0652	-0.1206	-0.0082	-0.1522		-0.3679*	0.1433	0.1543	-0.0948	0.0088	-0.0654	0.0277	-0.0717	-0.084
Chair_GOV (9)	-0.1832	0.0025	0.2102*	0.1624	0.1004	-0.1314	-0.1446	-0.3679*		-0.0442	-0.0662	0.2249*	-0.0562	0.0713	0.1361	-0.0474	-0.0555
CEO_GEN (10)	0.2351*	0.0703	-0.169	-0.0218	0.0093	0.2628*	0.0527	0.1433	-0.0442		0.1439	-0.1225	-0.2322*	0.1216	0.1425	0.0843	0.0589
CEO_COME (11)	0.1734	-0.0437	-0.0757	-0.0068	0.0793	0.0123	-0.0808	0.1543	-0.0662	0.1439		-0.2749*	0.0213	-0.0742	-0.0047	0.1381	0.0883
CEO_GOV(12)	-0.1256	-0.1886	0.1259	0.1337	0.1567	-0.0842	-0.0824	-0.0948	0.2249*	-0.1225	-0.2749*		0.1318	-0.0185	0.1656	-0.0737	-0.0699
LNTA (13)	0.039	-0.0985	-0.0164	0.025	0.3505*	-0.1063	-0.0884	-0.0115	-0.0519	-0.2358*	0.0316	0.1188		-0.3113*	-0.1483	0.1323	-0.2706*
LEV (14)	0.2	0.0325	-0.0032	0.1405	0.0235	0.2575*	0.1145	-0.0554	0.0805	0.1052	-0.0585	-0.0016	-0.3163*		0.2861*	0.0356	0.1987
GROWTH (15)	0.1349	-0.0143	0.1125	-0.0152	0.0831	0.0629	0.0752	0.0594	0.0411	0.1598	0.0286	0.1211	-0.1635	0.2895*		0.0888	0.0888
A_REV (16)	0.1324	0.0251	-0.1723	0.1748	0.3322*	0.133	0.2625*	-0.0717	-0.0474	0.0843	0.1381	-0.0737	0.1447	0.0284	0.103		0.0122
CHAR_TYP (17)	0.2055*	0.4326*	-0.0693	-0.1785	0.0607	0.1272	0.0614	-0.084	-0.0555	0.0589	0.0883	-0.0699	-0.2668*	0.1931	0.1238	0.0122	

3.6.4 OLS regression analyses and discussion

Table 3-9 displays the result of the regression analysis. The coefficients in the model (with standard errors in parentheses) indicate the effects of each independent variable on performance disclosure index (PDI). The regression analysis revealed positive significant relationship between government income and PDI in 2011($\beta = 0.644$, $p < 0.1$) ; this result is in line with Zainon *et al.* (2014) disclosure study, but in contrast with both Whittaker (2013) and Tremblay-Boire and Prakash (2015) which found no impact of government income on disclosure level. Although the coefficient sign in 2013 (three years after the government cuts) is positive, however, it is insignificant. Therefore, this hypothesis is supported for 2011 but not in the case of 2013. However, when comparing the differences between government income coefficients in 2011 and 2013 it was insignificant, which means that there was no substantial difference between the amount of government income received in 2011 and 2013. A possible explanation of these results is that in 2011 (a year after the government signalled changes in funding), the government was considered to be most sailent stakeholder (resource provider) and had an impact on the charities' extent of disclosure. Thus, charities, which relied primarily on government funding, showed greater commitment to high level of performance disclosure as a response to the pressure felt by charities to operate in accordance with the expectations of powerful stakeholders and resource providers (Salancik and Pfeffer, 1978; Reverte, 2009; Ntim et al., 2017).

But given the high competition between charities to maintain their survival after the government cuts, the pattern of resource dependence may have changed by 2013, which in turn caused changes in accountability to external providers (Pfeffer, 1987; Verbruggen et al., 2011; Ntim et al., 2017). Therefore, a possible explanation is that the government in 2013 was considered to be a less powerful stakeholder and had less of a significant impact on performance disclosure.

In relation to charity efficiency hypothesis 2, the analysis shows a significant negative association between administrative efficiency cost ratio and PDI in 2013 ($\beta = -1.458$, $p < 0.01$) but this was non-significant in 2011. Therefore, H2b is partially supported. By contrast, in 2011 fundraising cost ratio show positive but non-significant association with performance disclosure level, while, in 2013 fundraising cost ratio has a negative and statistically significant association with PDI ($\beta = -0.144$, $p < 0.1$) and H2a is also partially supported for 2013.

The negative association for administrative cost and fundraising cost ratios provides empirical support for the stakeholder management and resource dependence perspective. Specifically, charities seen to be efficient (low administrative cost and fundraising cost ratio) are keen to communicate more about their performance and thereby maintain or enhance access to crucial resources. Evidence of charity efficiency (low cost ratios) is also seen to be a key indicator for stakeholders and it may be argued that this became a more pressing issue in a climate characterised by challenges in responding to the high significant demand on charitable services (Charity Commission, 2010; NCVO, 2015.), in addition to the funding cuts which increases the competition between the charities and shift the focus on securing funding resources (NCVO, 2015). Theoretically, this implies that engaging in increased performance disclosure can be effective means by which charities gain the support of powerful stakeholders and secure critical resources, especially in a time of crisis when the charity's ability to exist and maintain their operations is under threat.

Hypotheses 3 and 4 are related to governance characteristics: first, in relation to board of trustee's size, H3 is supported in that there is a significant (and positive) association between board size and PDI ($\beta = 0.008$, $p < 0.1$) in 2011, but not in 2013(positive non-significant association). The significantly positive association between board size and performance disclosure level provides empirical support for the results of prior studies related to NPO governance structure in relation to organisational performance (Berardi et al., 2016; Chen, 2009; Olson, 2009; Stone et al., 2001), while in contrast with disclosure studies conducted in charities (Zainon et al., 2014) and HEI voluntary disclosure studies (Gordon et al., 2002; Ntim et al., 2017). The results suggest that having larger board size may reflect a need to reach out to a broader stakeholder base and securing funding such as contracts and capital (Salancik and Pfeffer, 1978; Reverte, 2009; Ntim et al., 2017). However, for 2013, it may be argued that the effect of governance (board size) is less influential with time.

Second, board diversity results have shown no significant impact on performance disclosure, therefore, hypothesis 4 was not supported, as the board of trustee's gender diversity was negatively associated with PDI in 2011 and positively associated in 2013. Thus the results do not concur with previous studies (Harris, 2014; Ostrower, 2007) on the influence of a board's gender diversity.

Last, for hypotheses 5 and 6, the results indicate that average performance disclosure is less when the charity chair is female in 2011 whilst there is no statistically significant result for 2013, therefore H5a is not supported. With regards to CEO gender, the results showed that on average performance disclosure is higher when CEO is a female compared to male CEO and statistically significant only in 2011 ($\beta = 0.008$, $p < 0.1$); therefore H5b is partially supported. A possible explanation for this result is that female CEOs are more concerned in maintaining and retaining links with the stakeholders by being more accountable and transparent through higher disclosure. This result partially supports Harris' (2014) findings that female directors are less focused on financial outcome and are more tied to the mission and strategy of the organisation.

In relation to the occupational background, results revealed that on average a chair either with non- charitable background tends to disclose less than a chair with a charitable background in 2011. In 2013, a chair with commercial background tends to disclose on average more when compared to a chair with the charitable background, although the result is statistically non-significant, implying that H6a is not supported. Similarly, H6b is not supported in relation to CEO occupational background.

In addition to the control variables, the coefficient related to debt ratio shows a significant positive association with performance disclosures in 2013. Conversely, in 2011 the debt ratio was non-significant, this indicates that charities after two years from the government cuts tend to be more dependent on debts to sustain their operations, by increasing level of performance disclosure to gain the trust of the debt provider and ultimately allow for longer-term commitments (Behn et al., 2010; Whittaker, 2013). The above provides an empirical evidence to resource dependence theory perspective in term of changes in the pattern of resource dependence, which in turn leads to changes in disclosure patterns (Pfeffer, 1987; Verbruggen et al., 2011; Ntim et al., 2017).

In order to test the difference between the year 2011 and 2013, coefficients of regression where compared a cross the two years. The result showed that there was insignificant difference between 2011 and 2013 (chi2(16)=15.97 , Prob > chi2= 0.4548). In addition, insignificant difference was also found when comparing each independent variables coefficient of 2011 and 2013. The only significant differences were found between administrative cost ratio(chi2(1)=11.23 , Prob > chi2= 0.0008).

Table 3-9 Regression analysis of the determinates of Performance Disclosure Index (PDI)

Variable	PDI (2011)	PDI (2013)
Source of Income variables:		
Government Income (%)	0.644*	0.405
	(0.344)	(0.318)
Charity efficiency:		
Administrative cost ratio (%)	-0.211	-1.458***
	(0.138)	(0.387)
Fundraising cost ratio (%)	0.0288	-0.144*
	(0.125)	(0.0826)
Internal Governance characteristics variables:		
Board of Trustees size (No.)	0.00677*	0.00374
	(0.00384)	(0.00355)
Board of Trustees gender (%.)	-0.00147	0.00336
	(0.0702)	(0.0655)
Chair/CEO characteristics Variables:		
Chair Gender (1=F, 0=M)	-0.0104	0.0215
	(0.0344)	(0.0317)
Chair – Commercial Background	-0.0101	0.00321
	(0.0292)	(0.0257)
Chair – Governmental Background	-0.0230	-0.0303
	(0.0427)	(0.0280)
CEO Gender (1=F, 0=M)	0.0646**	0.0352
	(0.0289)	(0.0269)
CEO – Commercial Background	0.0149	0.0371
	(0.0334)	(0.0320)
CEO – Governmental Background	-0.0168	-0.000414
	(0.0362)	(0.0290)
Control variables:		
Total Asset (log)	0.00450	0.0156
	(0.0119)	(0.0146)
Leverage ratio (log)	0.00830	0.0261**
	(0.0140)	(0.0109)
Growth (%)	-0.0495	0.0786
	(0.0884)	(0.0891)
Annual Review (1= available,0= not available)	0.0216	-0.00437
	(0.0272)	(0.0299)
Charity Type (1= international 0 = national)	0.0258	0.0107
	(0.0379)	(0.0431)
Constant	0.304	0.220
	(0.197)	(0.269)
Observations	92	92
R-squared	0.287	0.323

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

3.7 Robustness analysis

This study conducted a number of additional analysis to check the robustness of the results. To examine whether our results are sensitive to any changes in the proxies of independent or control variables. Column (1) and (2) in Table 3-10 remain essentially the same as those contained in column (1) and (2) in Table 3-9 after adding charity age as proxy for size (control variable). Based on a study conducted by Nitm *et al.* (2017) where they found university executive team size have a moderating or interacting effect on internal governance (board size and the extent of voluntary disclosures). The study tested top management team size as control variable, the result showed changes in variable significance (for example, administrative cost ratio in 2011 and chair with governmental background in 2011). Same applies when charitable cost ratio was added as efficiency ratio proxy, there was some changes in the significant level. However, apart from slight changes in the magnitude and significance level, the results to some extent is considered as robust.

Table 3-10 Regression analysis of the determinants of Performance Disclosure Index (PDI): robustness analysis

Variables	PDI (1)		PDI (2)		PDI (3)	
	2011	2013	2011	2013	2011	2013
Source of Income variables:						
Government Income (%)	0.711*	0.442	0.555	0.326	0.665*	0.408
	(0.373)	(0.347)	(0.407)	(0.374)	(0.371)	(0.359)
Charity efficiency:						
Charitable Cost Ratio					-0.175*	-0.185
					(0.102)	(0.115)
Administrative cost ratio (%)	-0.206	-1.447***	-0.252*	-1.865***		
	(0.166)	(0.414)	(0.145)	(0.537)		
Fundraising cost ratio (%)	0.0393	-0.146*	-0.0839	-0.247*	-0.0455	-0.158
	(0.134)	(0.0871)	(0.165)	(0.126)	(0.148)	(0.108)
Internal Governance characteristics variables:						
Board of Trustees size (No.)	0.00887**	0.00580	0.00492	0.00310	0.00696*	0.00549
	(0.00395)	(0.00369)	(0.00494)	(0.00510)	(0.00396)	(0.00382)
Board of Trustees gender (%.)	0.00144	0.0254	0.0107	-0.0609	-0.0295	0.00248
	(0.0738)	(0.0731)	(0.0911)	(0.0818)	(0.0722)	(0.0790)
Chair/CEO characteristics Variables:						
Chair Gender (1=F, 0=M)	-0.0145	0.0130	-0.00994	0.0385	-0.00489	-0.00408
	(0.0348)	(0.0342)	(0.0423)	(0.0346)	(0.0365)	(0.0340)
Chair – Commercial Background	-0.0155	0.00126	-0.0399	0.00437	-0.0191	0.00846
	(0.0319)	(0.0280)	(0.0378)	(0.0345)	(0.0323)	(0.0279)
Chair – Governmental Background	-0.0343	-0.0378	-0.0684	-0.0583*	-0.0216	-0.0467
	(0.0449)	(0.0300)	(0.0508)	(0.0333)	(0.0446)	(0.0302)
CEO Gender (1=F, 0=M)	0.0704**	0.0298	0.0786**	0.0156	0.0683**	0.0372
	(0.0308)	(0.0262)	(0.0354)	(0.0306)	(0.0305)	(0.0285)
CEO – Commercial Background	0.0146	0.0301	0.0242	0.0382	0.00503	0.0185
	(0.0373)	(0.0353)	(0.0398)	(0.0366)	(0.0365)	(0.0376)
CEO – Governmental Background	-0.00699	-0.000721	-0.0161	0.0119	-0.00555	-0.0104
	(0.0370)	(0.0312)	(0.0497)	(0.0359)	(0.0382)	(0.0315)
Control variables:						
Charity age	-0.00118	-0.000335				
	(0.000964)	(0.000808)				
Total Asset(log)			0.00511	0.00226	0.00395	0.0125
			(0.0174)	(0.0207)	(0.0123)	(0.0152)
Leverage ratio (log)	-0.00177	0.0215*	0.0209	0.0325*	0.00811	0.0277**
	(0.0154)	(0.0119)	(0.0180)	(0.0164)	(0.0143)	(0.0112)
Growth (%)	-0.0723	0.0825	-0.00543	-0.0275	-0.0313	0.0225
	(0.0967)	(0.0989)	(0.123)	(0.0988)	(0.0958)	(0.0920)
Annual Review (1= available,0= not available)	0.0273	0.00255	0.0303	-0.0105	0.0234	0.00924
	(0.0280)	(0.0289)	(0.0384)	(0.0351)	(0.0292)	(0.0305)
Charity Type (1= international 0 = national)	0.0265	0.00542	0.0308	0.00471	0.0460	0.0416
	(0.0397)	(0.0412)	(0.0546)	(0.0562)	(0.0413)	(0.0449)
Top Management Team Size			0.00625	0.000261		
			(0.00668)	(0.00571)		
Constant	0.373***	0.473***	0.311	0.549	0.456**	0.388
	(0.0668)	(0.0618)	(0.280)	(0.373)	(0.225)	(0.328)
Observations	92	92	75	75	92	92
R-squared	0.301	0.306	0.297	0.298	0.301	0.289

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

3.8 Conclusion and implications

This study investigates whether and to what extent UK top 100 fundraising charities voluntarily engage in performance disclosure (PDI) and if so, what are the factors determining charity performance disclosure. The findings make a number of contributions to the literature.

First, using a sample of 92 top fundraising charities following the event of government austerity/cuts in two different point of time 2011 (a year after the government cuts) and 2013 (three years after the government cuts), the result does not show any significant increase in the extent of performance disclosure. The disclosures remain partial on many accounts and this evidence from a specific sector (fundraising charities) concur with previous studies (Connolly and Hyndman, 2004; Connolly and Dhanani, 2006; Connolly and Dhanani, 2009; Jetty and Beattie, 2009; McConville and Hyndman, 2015). Charities tend to report more on objectives/aims/missions, input, output and forward-looking, while disclosing less information on efficiency, outcome and effectiveness.

The findings signal that uncertain events such government funding cuts seem to have created a form of “accountability myopia” (Ebrahim, 2005) whereby the scope of accountability tools is reduced to short-term, economic dimensions. There seems to be a privileging of one group of stakeholders, in this case, funders/ resource providers as powerful stakeholders through the disclosure of more short-term efficiency criteria (functional accountability) such as information related to resources, resources used and immediate output and outcome. Long-term efficiency criteria (strategic accountability) are not emphasised. This might explain the homogeneity of behaviour across the fundraising charities with a high dependence on external funding. The conclusion from the above results is that the current pattern of performance disclosure is instrumentally motivated by stakeholder and resource dependencies perspectives, where the annual report is seen as fundraising tool; thereby explaining a managerial incentive to select and highlight partial success and growth indicators.

Second, the empirical findings suggest that source of income, specifically government funding, is significant in explaining the differences in performance disclosure, but only at particular junctures. Specifically, in 2011, government income was significantly associated to the extent of performance disclosure and this reflected by the fact that several service contracts between charities and public funding ended in 2011 (Charity Commission, 2010; NCVO, 2015). However, given the high competition between charities to ensure their survival after the government cuts, the pattern of resource dependence changed over the last three years (Pfeffer, 1987; Verbruggen *et al.*, 2011; Ntim *et al.*, 2017). In turn, this may explain the absence of a significant association between government income and performance disclosure in 2013.

Third, the negative association between administrative cost and fundraising cost efficiency ratio provides empirical support for stakeholder management and resource dependence perspective. Specifically, the findings in 2013 show that efficient charities (low administrative cost and fundraising cost ratio) are likely to lead to a higher extent of performance disclosure and thereby help to ensure access to crucial resources. It may be argued that concerns about efficiency were less prominent in 2011 and did not materially influence the extent of performance disclosure.

Fourth, a larger board size seeks to reach out to more stakeholders and securing funding (i.e. resource dependence theory) (Salancik and Pfeffer, 1978; Reverte, 2009; Ntim *et al.,* 2017). The result shows that board size has a significant effect when the charity was first exposed to highly competitive environment and government funding cuts but not at a later stage. Contrastingly, board gender diversity had no significant impact on the extent of performance disclosure and this challenges the extant evidence on the role of gender diversity in boards. One possible consideration is that the gender balance on charity boards is far higher than in corporate boards and it may be argued that there is a limit to the influence of higher levels of gender diversity on organisational practices and disclosure.

Finally, for top leadership gender and occupational background characteristics (e.g. chair and CEO), the findings suggest that chair gender is not associated with the level of performance disclosure. On the other hand, female CEO has a significant impact on performance disclosure level when compared to male CEO, especially when charities facing limited resources and operations are under threat. Moreover, no significant impact has been found in relation to a chair and CEO occupation (charitable background). Whilst it may be wise to recruit leaders from within the sector to enable great linkages and networks with relevant stakeholders and resource providers, a reliance on insider individuals (i.e. Chair and/or CEO from a charitable background) may preclude the need for more detailed and public disclosure of performance information.

The coefficient related to debt ratio shows a significant positive association with performance disclosures in 2013. Conversely, in 2011 the coefficient for the debt ratio was not significant. This indicates that charities have been aiming to rely on debt providers in subsequent years to sustain their operations by increasing the level of performance disclosure to gain the trust of the debt provider and ultimately allow long-term commitments (Behn *et al.,* 2010; Whittaker, 2013). The above provides an empirical evidence of the stakeholder and resource dependence perspectives in term of changes in the pattern of stakeholder salience and resource dependence in the latter period (Pfeffer, 1987; Verbruggen *et al.*, 2011; Ntim *et al.*, 2017).

The findings of this study have important regulatory, policy and practitioner implications. Evidence of a continued low level of performance disclosure (PDI) suggests urgent attention to the type and quality of information disclosed by charities is required. One possible suggestion is to develop performance-related voluntary disclosure guidance for each charity type (e.g. social services, health services) with the collaboration of social impact practitioners. In addition, the Fundraising Standards Board (FRSB) could establish a mechanism for monitoring the extent and nature of performance disclosures and make regular assessments of the quality of information provided charities.

The limitations need clearly to be acknowledged. Due to the labour intensive nature of data collection and the absence of a database relating to charity information and governance, the sample is limited to only two different point of time to covering on year after the government (2011) cuts and three years after the government cuts (2013) and only considered annual reports. Further studies may provide new insights by re-examining the level of PDI disclosure on a longitudinal basis, and consider data from annual reviews and websites. Likewise, due to data limitations, the analysis has only focussed on few internal governance structures. Future studies might improve their analysis by investigating how the diversity of trustee boards (independence, educational and occupational background) might be associated with strategic decisions such as performance disclosure. Moreover, the findings of this study also highlighted some evidence of CEO gender impact on disclosure level; however, the study did not consider other CEO and top management characteristics.

This study also provides further support that future research should acknowledge the multi-dimensional nature of the non-profit organisations, which highlight the need to rely on broader theoretical frameworks. Therefore, further studies could explore how other theories could be combined and relied upon to provide a deeper basis to explain different motivations for performance disclosure.

3.9 Appendices

Appendix 1. List of charities

CC No.	Charity Name	Charity Type
1089464	Cancer Research UK	Health and Medical
225971	British Heart Foundation	Health and Medical
261017	Macmillan Cancer Support	Health and Medical
202918	Oxfam GB	International activities
207544	Sightsavers International	International activities
209603	Royal National Lifeboat Institution	Health and Medical
220949	British Red Cross Society	Social services and relief
214779	Salvation Army Trust	Social services and relief
213890	Save the Children	International activities
216401	NSPCC	Health and Medical
219099	RSPCA	Conservation and protection
207994	Marie Curie Cancer Care	Health and Medical
1072612	UNICEF-UK	International activities
219279	Royal British Legion	Social services and relief
208217	PDSA	Conservation and protection
328158	Islamic Relief	International activities
209617	Guide Dogs for the Blind Association	Health and Medical
227523	Dogs Trust	Conservation and protection
207076	RSPB	Conservation and protection
226227	Royal National Institute of Blind People	Health and Medical
205846	National Trust	Conservation and protection
235825	Great Ormond Street Hospital Children's Charity	Health and Medical
1105851	Christian Aid	International activities
1081247	WWF UK	International activities
296645	Alzheimer's Society	Health and Medical
1076822	Save the Children International	International activities
288701	WaterAid	International activities
265956	Cambridge Foundation (Chaplaincy to people at work)	Education,training and research
263710	SHELTER - National Campaign for Homeless People Limited	Housing and community affairs
285908	World Vision UK	International activities
251549	Elim Foursquare Gospel Alliance	Religion
274467	ActionAid	International activities
203644	Cats Protection	Conservation and protection
216250	Barnardo's	Social services and relief
1026588	Medecins sans Frontieres (UK)	International activities
265464	Tearfund	International activities
1128267	Age UK	Social services and relief
1079675	Prince's Trust	Social services and relief
285776	CAFOD	International activities
208231	Scope	Health and Medical
1077961	Watch Tower Bible and Tract Society of Britain	Religion
215199	Diabetes UK	Health and Medical
242451	Church of Jesus Christ of Latter Day Saints Great Britain	Religion
276035	Plan International UK	International activities
1077216	Compassion UK Christian Child Development	Social services and relief
221124	Children's Society	Social services and relief

258197	Parkinson's Disease Society of the United Kingdom	Health and Medical
264818	Donkey Sanctuary	Conservation and protection
803428	Foundation and Friends of The Royal Botanic Gardens, Kew	Education,training and research
294344	Woodland Trust	Conservation and protection
206394	Battersea Dogs & Cats Home	Conservation and protection
295224	Muslim Aid	International activities
1000851	Amanat Charitable Trust	International activities
224392	Blue Cross (Incorporating Our Dumb Friends League)	Conservation and protection
1120920	Help for Heroes	Social services and relief
211775	Royal Opera House Covent Garden Limited	Culture, sport and recreation
207711	Arthritis Research UK	Health and Medical
1081849	WORLD ANIMAL PROTECTION	Conservation and protection
211015	Stroke Association	Health and Medical
294354	Motor Neurone Disease Association	Health and Medical
216647	International Bible Students Association	Religion
224223	Royal National Theatre	Culture, sport and recreation
1107328	CLIC Sargent Cancer Care for Children	Health and Medical
1139257	Multiple Sclerosis Society	Health and Medical
242552	United Synagogue	Religion
1095197	Royal Marsden Cancer Campaign	Health and Medical
229476	International Planned Parenthood Federation	International activities
1016532	National Deaf Children's Society	Health and Medical
1082947	Crisis	Housing and community affairs
235468	Roman Catholic Diocese of Southwark	Religion
299509	National Gallery	Culture, sport and recreation
216227	Blind Veterans UK	Social services and relief
1132208	Methodist Church In Great Britain	Religion
1126808	Al-Khair Foundation	Social services and relief
802559	Jewish Care	Social services and relief
1062559	Teenage Cancer Trust	Health and Medical
1001349	Samaritan's Purse International Limited	Religion
1024806	International Fund for Animal Welfare	Conservation and protection
216032	Bloodwise	Health and Medical
1097940	Action for Children	Health and Medical
209174	National Art Collections Fund(Art Fund)	Culture, sport and recreation
218186	Leonard Cheshire Disability	International activities
1085760	Brooke Hospital for Animals	Conservation and protection
1068298	Keeping Kids Company	Social services and relief
313757	Voluntary Service Overseas	International activities
1081009	Royal Air Force Benevolent Fund	Social services and relief
1000739	Worldwide Cancer Research	Health and Medical
1058226	Mission Aviation Fellowship International	International activities
1052076	Sue Ryder	Health and Medical
1126283	National Museum of Royal Navy	Culture, sport and recreation
1017658	Breast Cancer Care	Health and Medical
1051681	Amnesty International UK Section Charitable Trust	International activities

Appendix 2. Performance Disclosure Index coding sheet

Performance Reporting Indicators	Examples	disclosed item
1. Goals/ Objectives/mission: Outline the key tasks or intentions the organisation wants to achieve, often framed as purpose, mission or vision		
1.1 Statement of statuary objects/aims/mission	"Our way the world treats children and to achieve immediate and lasting mission is to inspire breakthroughs in the change in their lives."	
1.2 Description of primary activities/charity type	"we work together as one Save the Children; encouraging global adoption of our theory of change; and inspiring breakthroughs in the areas of health and nutrition, education, child protection and child rights governance"	
1.3 Description of how these primary activities relate to organisation's mission and strategic goals	Strategic goals of the charity	
1.4 Description of programmes and projects the charity is involves in	We also campaigned to ensure that this is a new beginning for the people of Haiti. In July 2010, the IMF announced the Cancellation of Haiti's outstanding debt of US$268m after concerted campaigning by Oxfam and others".	
2. Input: resources that contribute to the activities being undertaken by the organisation		
2.1 People:		
2.1.1 Information on staff (e.g. number of staff)	"Across England, Wales and Northern Ireland, over 9,000 people (2,200 staff and 7,500 volunteers) contribute to the work of society."	
2.1.2 Information on volunteers (e.g. number of volunteers)	"Across England, Wales and Northern Ireland, over 9,000 people (2,200 staff and 7,500 volunteers) contribute to the work of society."	
2.1.3 Information on type of activities staff or volunteers are involved in	"Working with our army of 5,000 volunteers in newer and more diverse ways than ever – as Diabetes Voices, as fundraisers, as Community Champions, as well as through our 332 voluntary groups nationwide."	
2.1.4 Information on volunteer involvement in activities per hour	"Increased our Research Network to 250 volunteers. Involved in every aspect of our research, these carers, former carers and people with dementia gave an estimated 12,800 hours of support to our research programme last year."	
2.1.5 Information on training programmes for staff and volunteers	"100 volunteers completed a training course to help blind people as guide helpers."	
2.2 Finance and Income:		
<u>2.2.A Information on fundraising income</u>		
2.2.A1 General Information / measure on Income growth (change in income)	"Tear fund's total income for the year was £70.3m (2010/11: £63.9m), which is an all-time high."	
2.2.A2 Specific information on main source of income	"Our main source of income is from donations."	
<u>2.2.B Information on Expenditure</u>		
2.2.B1 General Information / measure of general expenditure	"Analysis of expenditure on the lifeboat service during the year, together with a description of the different types of lifeboat used by RNLI."	
2.2.B2 Specific information on main type of charitable expenditure	"We spend most of our charitable income on research."	

(continued)

Performance Reporting Indicators	Examples	disclosed item
3. Output: The direct and countable goods/services produced as a result of the activity being carried out		
3.1 Information/ measure of beneficiaries served with direct products or services	"26,000 people received regular Red Cross parcels containing basic foodstuffs, clothing and first aid kit." Or "We helped 1,100 people to get jobs."	
4. Outcome: The benefits or impact for the beneficiaries or wider society.		
4.1 Individual outcome (measure of the effect of the output on beneficiaries)	"63% of participants found employment."	
4.2 Societal outcome (measure of the effect of the output on society)	"Reoffending in the area decreased to 22%."	
5. Efficiency: The relationship between the organisation's output and its inputs or the amount of input per unit of output.		
5.1 Efficiency measures (a ratio or calculation comparing inputs to outputs)	"Cost per student was £15.60 per week."	
5.2 Charitable activity ratio (charitable activity cost as a percentage of total costs or income)	"87 pence in every £1 is spent on charitable activities."	
5.3 Administration cost ratio (admin cost as a percentage of total costs or income)	"Our administration cost ratio is 22%."	
5.4 Support cost ratio (support cost as a percentage of total costs or income)	"Our support cost ratio is 15%."	
5.5 Governance cost ratio (governance cost as a percentage of total costs or income)	"Our governance cost ratio is 1%."	
5.6 Programme cost ratio (programme cost as a percentage of total costs or income)	"Our programme cost ratio is 25%"	
5.7 Fundraising cost ratio (fund-raising cost as a percentage of total costs or income)	"Cost per student was £15.60 per week."	
6. Effectiveness: The relationship between the output or outcome and the objectives set.		
6.1 Output-based effectiveness (comparison between output and specific pre-set target)	"We provide education for 300 children's in Pakistan compared to our target of 200."	
6.2 Individual outcome-based effectiveness (comparison between individual outcome and specific pre- set target)	"650 inoculations, compared to our target of 15%."	
6.3 Social outcome-based effectiveness (comparison between social outcome and specific pre-set target)	"youth reoffending decreased by 10%, against our target of 15%."	
6.4 Client satisfaction	"60% of patients were satisfied with our services."	
7. Forward-looking information : Related to the future plans and intensions of the charity		
7.1 Future activities and plans to meet objectives and strategies	"During 2011/12 we will continue to raise awareness of dementia and reach people worried about their own or a loved one's memory in their own communities, through our Dementia Community Roadshow, funded by Tesco. This includes visiting community fairs, town centres, and rural areas."	
Total out of 28 items		

Appendix 3. Classification Rules

- To be classified, the information must be highlighted in the main narrative only.
- Only SMART indicators were included, where indicator had to be specific, measurable, achievable, relevant and time-bound, regardless type of information. Performance indicators appeared in annual reports (quantitative or qualitative type)
- Information in tables or graphs were excluded.
- Audit reports, financial statements and notes were excluded.
- If the item is disclosed it will take a score of (1), and if not item will take a score of (0).
- Inapplicable items were treated by excluding them from index items (28) to avoid Penalizing

Chapter 4 Charity Disclosure and Narratives in Times of Crises: A Case Study

4.1 Abstract

The aim of this paper is to investigate the voluntary disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events until its final collapse in 2015. This case study is framed within a multi- theoretical perspective to understand the rationales underlying the form and content of the annual report disclosures, specifically by relying on (1) the sociological perspectives of legitimacy theory and stakeholder theory to interpret the legitimation strategies used in response to specific critical events, and (2) the cognitive psychological perspective, to analyse how the narratives also reflect deeper behavioural traits of key organisational leaders (i.e. hubris, overconfidence, personal attribution), such as the chief executive officer (CEO). The research comprises of a longitudinal study of (narrative) voluntary disclosure annual reports over the period of 2000-2013, using quantitative and qualitative content analysis. The analysis is also enriched by comparing the charity's annual report narratives to the findings of two formal investigations into the activities, performance and finances of Kids Company during the same period. Three key findings' categories emerged from the research: First, the narrative disclosure was dominated by positive and uncertainty word frequencies; the charity emphasised more positive news related to their performance, and the use of hyperbole words were extensive. Second, the charity responded reactively to concerns, sometimes proactively. Specifically, the charity's disclosures reacted each time officials raised concerns and proactively at the end of each grant term (for example, offering statements of an excuse to justify the lack of action by blaming the external factors). Third, informed by hubris literature, it is indicated that the most common form of hubris found in the CEO statements were overconfidence and attribution of performance to self. Overall, these findings could be attributed to either a deliberate bias arising from opportunistic behaviour and considered as the subconscious cognitive bias of the CEO. This study provides important insights for regulators, practitioners and stakeholders (funders) in terms of highlighting the role of disclosure in signalling any red flags in the charity performance from the voluntary disclosure. This is a rare longitudinal study of voluntary disclosure in the context of crises

experienced by, and eventually the downfall of, a charitable organisation. It also highlights the relevance of the behavioural traits of charity leadership (e.g., hubris) in studying voluntary disclosure in addition to the mainstream stakeholder and legitimacy perspectives.

Keywords – Kids Company, CEO, hubris, narrative disclosure, insolvency

4.2 Introduction

In recent times, attention from the UK's TV and press media has turned towards the charity sector. This was in response to the allegation by the Daily Mail in relation to the unethical practices employed in fundraising activities and the case of 'Kids Company' allegations of financial mismanagement, which led to collapse (Siddique, 2016). Shortly after its establishment in 1996, Kids Company was considered to one of the high-profile charities; such charities have good reputation and popularity for the work they do serving vulnerable children and young people, and securing financial support from government and private donors. However, it collapsed in 2015 amidst allegations of malpractices and financial mismanaged. Initial media and anecdotal sources suggested that the primary responsibility of this collapse rested on the charity's trustees (PACAC, 2016b). The Public Administration and Constitutional Affairs Committee (PACAC) report and investigation showed that Kids Company was enjoying privileged access to senior ministers, including one the Prime Minister, throughout successive governments over the 15-year period. In particular, the report highlighted how Company Kids, received many grants from the government, although the charity was facing concern by officials questioning its effectiveness and, cost control. This was corroborated by a separate report from the National Audit Office (NAO, 2015). The reports suggested that the primary responsibility of this collapse rested on the charity's trustees' failure to fulfil their statutory duties due to the following; first, as the charity relied on hand–to mouth existence and a demand-led operating model, this exposed the charity to undue risk on both the charity capacity and financially. Second, they ignored the auditor's warning about the charity's unwarranted financial status (insufficient reserves). The third reason was ascribed to the trustees' lack expertise in the charity's area, and the high level of admiration for, confidence in, and reliance on the CEO and founder of the charity's vision, her fundraising capabilities and, crucially, her high contact with senior politicians. This had left the trustees unable to comprehensively challenge or review the decisions of the founder-CEO and less able to ensure the sustainability and reputation of the charity (PACAC, 2016a).

The above case of Kids Company led people to question whether the collapse of this charity was partly caused by the CEO's (founder) hubris and how the charity responded or reacted towards the pressures of officials' concerns at each funding request.

In light of the above, the study raise the question as to the charity's level of public accountability and disclosure during this period, specifically in relation to how the charity publicly addressed these official concerns and the seemingly dominant and very personalised role of the CEO-founder in 'fronting' the organisation. Therefore, the aim of this paper is to investigate the narratives' disclosure trends, strategies of communication and rationales thereof in the annual reports of Kids Company, until its final collapse in 2015. In general, previous studies in NGO narratives have been limited to studying the narratives' accountability and performance disclosure (see for e.g. Hyndman, 1990; Connolly and Hyndman, 2003; Connolly and Dhanani, 2006; Connolly and Dhanani, 2009; Jetty and Beattie, 2009), in isolation of specific events. Therefore, to the best of the author's knowledge, there has been no case study of charity narrative disclosure over time around such critical events or circumstances. In addition, there has no study in the non-profit context which has examined the implications of CEO influence on narratives and disclosure.

Accordingly, this case study is framed within a multi-theoretical perspective to understand the rationales underlying the form and content of annual report disclosures, specifically by relying on legitimacy theory and stakeholder theory (sociological perspectives) to interpret the legitimation strategies used in response to specific critical events, and hubris (cognitive psychological perspective) to analyse how the narratives also reflect deeper behavioural traits of key organisational leaders (i.e. hubris, overconfidence, personal attribution), such as the chief executive officer (CEO). The research comprises of a longitudinal study of narrative disclosures of annual reports over the period 2000-2013, using quantitative and qualitative content analysis. The analysis is also enriched by comparing the charity's public narratives to the findings of several formal investigations into the activities, performance and finances of Kids Company during the same period.

This study seeks to make two contributions to the literature. First, this is a rare longitudinal study of voluntary disclosure in the context of crises experienced by, and eventually the downfall of, a charitable organisation, which extends the knowledge of the narrative disclosure studies in not-for-profit organisations. Second, this study contributes uniquely to the not-for-profit narrative disclosure studies by considering more explicitly the behavioural traits of charity leadership (e.g., CEO hubris) in studying narrative disclosure in addition to mainstream stakeholder and legitimacy perspectives. The finding of this study in relation to CEO hubris adds and extend the work of Merkl-Davies and Brennan (2011), Brennan and Conroy (2013) in providing evidence of the CEO deeper behavioural traits implications on the narrative disclosure in not-for profit context.

The remainder of this study is organised as follows: Section 4.3 provides a review of the literature followed by the context of the study in Section 4.4. A discussion of the multi-theatrical perspectives adopted by the study presented in Section 4.5, while the research design is explained in Section 4.6. Section 4.7 presents quantitative and qualitative findings, and Section 4.8 includes discussion and analysis. The paper concludes in section 4.9 with a discussion of the implications and limitations of the study.

4.3 **Literature review:**

Narrative reporting by charities:

A considerable amount of literature has been published on charities accountability. These studies have focused on annual reports and financial statements. Therefore, the literature can be broadly divided into two strands: financial accountability studies (e.g. examine information provided in the financial statements) and disclosure studies (e.g. narrative or non-financial disclosure in the annual report). Recently, there is a gradual shift in the literature towards performance accountability and government aspects of charities. Hyndman (1990) identified a relevance gap between information disclosed by the charity (audited financial statements) and information required by the contributors/ stakeholders (performance- related information). Financial accountability provides a narrow and incomplete picture of the charity. Given the nature and role of those organisations and their ethically (morally) driven activities in society, wider information on performance, particularly the impact of the organisation's activities on society and beneficiaries, is considered to be crucial in the discharging of accountability (McConville and Hyndman, 2015). Therefore, there have been a continuous research calls (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; McGeough, 2015) for comprehensive form of disclosures in the charity sector to disseminate performance information to stakeholder and to allow them to evaluate charity efficiency and effectiveness.

Connolly and Dhanani (2006), examined the narrative content of the 2000/01 annual reports for the top 100 fundraising charities in the UK, by focusing on accountability disclosures related to organisational structure and policies, reviews of financial information and overall performance and achievements. They noted that charities are more likely to provide fiduciary accountability than managerial accountability; specifically, disclosing information related to policies, risk management and organisational structure than organisational efficiency and achievements and plans for the future information. Following that study, Jetty and Beattie (2009) likewise found limited disclosure of performance and forward-looking information. Similarly, Connolly and Dhanani (2006) noted that the disclosure practices in charities are influenced by two factors; size and performance. On the basis of the impression-management hypothesis, a recent evidence by Dhanani and Connolly (2012, 2015) reveals a drift in charities' accountability practices from ethical or moral behaviour towards instrumental or strategic behaviour, where charities are found to be motivated to legitimise and present their organisations in a positive light by selectively discharging more fiduciary and strategic accountability levels, and by using a language that is more positive in annual reports (Dhanani and Connolly, 2012). In the same vein, Dhanani and Connolly (2015) found some organisations tend to manipulate the content strategically to present the organisation in a positive light. As the findings suggest, charities' annual reports may be dominated by self-promotion and may include distraction techniques of impression management to convey that their practices are in line with the stakeholder expectations (Dhanani and Connolly, 2012, 2015).

Prior research showed that performance related disclosures practices in UK charities are in need of significant improvement, particularly in relation to efficiency and effectiveness, (Hyndman, 1990, 1991; Connolly and Hyndman, 2003, 2004; Connolly and Dhanani, 2006, 2009; Jetty and Beattie, 2009; McGeough, 2014a, 2015, 2016; McConville and Hyndman, 2015).

In general, previous studies of NGO narratives have been limited to financial accountability and performance accountability (see for e.g. Hyndman, 1990, 1991; Connolly and Hyndman, 2003; Connolly and Dhanani, 2006, 2009; Dhanani, 2009; Jetty and Beattie, 2009), in isolation of specific events (such as government spending cuts, insolvencies and social and political pressures). Therefore, to the best of the author's knowledge, there has been no case study of charity narrative disclosure over time around such critical events or circumstances. In addition, there has been no study in the non-profit context, which has examined the implications of CEO's influence on narratives and disclosure. Therefore, the aim of this paper is to investigate the narrative disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events until its final collapse in 2015.

Accordingly, this case study is framed within a multi-theoretical perspective to understand the rationales underlying the form and content of annual report disclosures, specifically by relying on legitimacy theory and stakeholder theory (the sociological perspective) to interpret the legitimation strategies used in response to specific critical events and the cognitive psychological perspective to analyse how the narratives also reflect deeper behavioural traits of key organisational leaders (i.e. hubris, overconfidence, personal attribution), such as the chief executive officer (CEO).

4.4 Context of the study

4.4.1 Challenges facing the UK third sector

In the UK, charities are the largest component in the third sector[11]. According to the National Council for Voluntary Organisations (NCVO) Almanac report, there were around 165,800 charities operating in the UK in 2016 and it was estimated that the sector income in England and Wales was £73.1 billion, where charities with over £5 million accounted for 72% of the total income. According to 2011 data, the most common activities of UK

[11] The third sector is a term used to describe a range of organisations that are neither public nor private sector. The government currently refers to this sector as civil society and usually includes voluntary and community organisations, charities, social enterprises, mutuals and co-operatives. The third sector organisations (TSO) are independent from the government and value driven which they are motivated to achieve social goals rather than to distribute profit but instead they reinvest any surpluses to purist their goals. TSOs can take any legal form where some have a company status with not- for-profit approach and many have a charitable status. www.nao.org.uk/successful-commissioning/introduction/what-are-civil-society-organisations-and-their-benefits-for-commissioners/

charities were the provision of social services (18%), followed by cultural and recreational services (14%), and religious activities (9%) (NCVO, 2011). The third sector has been important in providing social care services by concentrating on the supplementary provision rather than primary sources of care (Dickinson *et al.*, 2012). However, up until the creation of the modern welfare state, the third sector has played a much greater role in delivering primary public services; this was evident throughout the three successive governments; the conservative government (1979-1997), the New Labour government (1997-2010) and the new Conservative/Liberal coalition government (2010-2016).

During these different periods, the third sector has maintained an important role but there have been significant changes and government reforms due to the 2008 financial crisis, leading to major austerity and public-sector funding cuts by the Conservative/Liberal coalition government (Dickinson *et al.*, 2012). Total income by the government to third sector fell by £1.3 billion between 2010/11 and 2011/12 (NCVO, 2014). In October 2010, the government published its new strategy, labelled *Big Society* whereby the (then) Prime Minister David Cameron aimed to put a stronger sense of society at the heart of the Government agenda through a radical transfer of power and information, which is consistent with the ideological commitments of the conservative government (Dickinson *et al.*, 2012). The Big Society agenda was seen to have the potential to create massive opportunities for charities, voluntary and community groups, and social enterprises, with the government committed to expanding the role of those organisations in running public services and pushing for closer integration between government and the third sector. The Big Society policy agenda consisted of three core components (HM Government, 2010): first, empowering communities by giving local councils and neighbourhoods more power to take decisions and shape their area. The second component was opening up public services, where the government public service reforms will enable charities, social enterprises, private companies and employee-owned co-operatives to compete to offer people high-quality services. The third was promoting social action by encouraging and enabling all people to have a more active role within the society through volunteering and philanthropy.

In financial terms, the government provided the largest contribution to the sector, through the contracting of services and grant- aiding other activities. Particularly for social services, third-sector organisations received the largest share (35%) of their total voluntary sector income from the government income in 2014/15. In addition, the income from central government was higher than from the local government for the first time in a decade (Keen and Audickas, 2017).

4.4.2 **The case of Kids Company**

Kids Company was founded by Camila Batmanghelidjh (the CEO of Kids Company) in 1996 and has been registered as a charity since 1998. Kids Company was considered as one of the high-profile charities, where the charity has great reputation and popularity for serving vulnerable children and young people, in addition to the support it received from government and high-profile donors. The charity's main activity was to support vulnerable young people and their families in London and more recently in Bristol by providing young people (ranging from children to those in their early 20s) with a range of support services such as health, housing, emotional well-being, mental health, young justice, education and employment (e.g., street-level resilience centres, safeguarding, the 'heart yard', service in schools). The charity adopted a demand-led operating model whereby young people could self-refer since the charity's central premise was that no child should be turned away. Kids company operated its services using different sources of funding from private and third sectors (e.g., private individual donors, corporate donors, charitable and foundation trusts), local government (e.g., local authorities, lottery bodies and schools) and was highly supported by the central government (e.g., Home Office, Department of Education and Cabinet Office). Over the course of its existence, successive governments provided the charity with grants of at least £42 million. Since the summer of 2015, the media's attention was directed towards the charity sector particularly in response to the allegation made by the Daily Mail in relation to the unethical practices employed in fundraising activities. Shortly after that, Kids Company collapsed on 5 August 2015 and registered for insolvency, ostensibly following the launch of a (subsequently abandoned) police investigation into allegations of sexual abuse at the charity. At the same time, operational allegations related to financial mismanagement surfaced and led to media and regulatory enquiries.

In relation to the case of Kids Company, initial media and anecdotal sources suggested that the primary responsibility of this collapse rested with the charity's trustees. It was argued that the board of trustees failed to fulfil their statutory duties and responsibilities, as set out by the Charity Commission, particularly in terms of protecting charity assets, beneficiaries and donors (PACAC, 2016b). Instead, it was alleged that the CEO and the trustees exposed the charity to undue risks by over-committing the charity since it appeared that the charity relied on hand-to-mouth existence due to the demand-led operating model adopted by the charity which was based on the principle or belief that 'no child should be turned away'. This imposed constant risks on both the capacity and the finance of the charity (PACAC, 2016b). Moreover, the board of trustees repeatedly ignored auditor's warnings about the charity's unwarranted financial position and refusal to prioritise and build significant reserves. Beside this, there seemed to be a lack of board (trustee) experience in relation to youth and psychotherapy services provided by the charity, coupled with an apparent high level of admiration for, reliance on and confidence in the CEO's (Ms Batmanghelidjh's) vision, fundraising capabilities and perhaps, crucially, her contacts with senior politicians. According to the PACAC (2016b), this lack of experience and overconfidence appears to have left the trustees unable to comprehensively challenge or review the decisions of the founder-CEO and less able to ensure the sustainability and reputation of the charity. Notwithstanding that, the Charity Commission trustees' guidance warned trustees to make their decision objectively and not allow their judgements to be influenced by personal favouritism or dominant personality, but this seemed to have been the case for Kids Company (ibid).

According to PACAC (2016b) report, Kids Company enjoyed privileged access to senior ministers and prime ministers throughout successive governments (labour and conservative). Kids Company succeeded in attracting this high-profile support from the government, by setting an agenda about the need to improve support for vulnerable children and young people through a consistent promotion of the charity message that 'children and young people must be valued, trusted and supported with compassion'(ibid). This was in line with the Conservative/Liberal Democrat government's direction towards empowering the role of the third sector in communities by providing competitive grants to those charities who work alongside the public sectors and supporting similar groups to provide statutory public services. Kids Company received at least £42 million of public-sector funding between 2000 - 2015, to support its work to deliver services to the vulnerable young people or provide support grants in periods of financial hardship. The funding was mostly in the form of multi-year grants from central government departments (mainly via the Department of Education, £41.4 million). In addition, the charity received *ad hoc*-based grants from central government departments and lottery bodies (£2.6 million), and finally funding from local authorities/councils (£2 million) and schools. However, it was reported that Kids Company displayed a consistent behaviour at the end of each grant period; the government was lobbied for more grant funding commitments rather than the charity competing for grants. The officials raised concerns every time the charity requested more grants, the charity directly corresponded with the ministers expressing their fears of redundancy, and the impact of closing the services this was evident in 2002, 2005, 2010, 2012, 2013 and in 2015 when they requested more funding. Specifically, in 2007, the charity approached the media and issued several statements that the charity would close if the government funding did not continue.

Despite the concerns raised by the officials over time (refer to 4.10 Appendix 1), where they criticised the charity's poor financial management and cost control, not being compliant with the conditions of emergency grants, continuing issues with cash flow, high reliance on government funding and being favoured by the government over other charities, the political leaders or ministers overrode the officials' concerns. They continued to support the charity by reviewing options of funding through wider grant programmes or authorisations of multiple grants outside the normal competitive process by accessing the Charity Act 2006 (direct grant award) twice prior to the collapse in 2015. The main justification behind the government's behaviour towards the case of Kids Company was to reduce the reputational damage to the government's wider Big Society agenda if they withdrew funding.

The Public Administration and Constitutional Affairs Committee reports (2015) noted in the investigations that Government's consistent funding support to Kids Company was on the basis of personal prejudice or political consideration. However, the series of events could indicate that the Kids Company representative, founder and CEO Ms Batmanghelidjh exploited her access to the Government in a way that may be unethical. She started to cultivate her contacts with a senior politician and appeared on the platform with David Cameron at the Conservative party conference in 2006. Also, it was noted from the oral investigation that "*Ms Batmanghelidjh was almost the poster girl*" at the Big Society summit that was held by the MP David Cameron in May 2010 within weeks of election" (PACAC, 2016b, p 38)In addition, she continued her "Dear David letters" to No. 10 in 2011, 2013 and 2014 at the end of each grant term, requesting new future statutory funding commitments; however, these letters contained "veiled threats", that if the official resisted the funding requests, the charity warned ministers and media of the impact of redundancies and service closures impact (ibid).

4.5 Theoretical Framework

4.5.1 Legitimacy theory

Organisations such as charities can only survive or sustain their activities and objectives if they are supported by society; and only in that case are they perceived to be legitimate. Legitimacy has been defined as status or condition which exist when an entity's value system is congruent with the value system of the larger social system of which the entity is a part of (Lindblom, 1994). Likewise, Suchman (1995, p.574) defined legitimacy as a "generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Therefore, organisations continually seek to ensure that they operate in congruence with the norms and values of their respective societies (Brown and Deegan, 1998). These norms and values do change over time, and organisations are expected to be responsive to these changes (ibid). Legitimacy can also be seen as reflective of a social contract between the organisation and those affected by the organisation's operations (Deegan and Unerman, 2011). The organisation is expected to comply with the terms of this social contract by meeting public expectations on how the organisation should conduct itself. If there is an actual or potential disparity between the organisation's value system and the social value system, organisation legitimacy is under threat. In this regard, it is argued that organisations can adopt different strategies to gain, maintain or repair (in times of crisis) their legitimacy by communicating their activities and asserting commitment to given values/norms and related actions. In this regard, public narratives and disclosures in annual reports are seen as crucial elements of the organisational communication process, which is at the heart of legitimacy theory (Lindblom, 1994).

Prior research, particularly in the context of social and environmental disclosure and voluntary disclosure studies (see for example, Gray *et al.*, 1995; Hackston and Milne (1996); Islam and Deegan (2008); Ntim and Soobaroyen (2013); Soobaroyen and Ntim (2013)), have shown that legitimacy is a social-led motivation for voluntary disclosure where managers use certain disclosure strategies to legitimise the organisation when faced with legitimacy crisis through disclosures. Suchman (1995) refers to the process of organisational decision makers responding to legitimacy threats as "strategic legitimacy". In addition, Suchman (1995) identified three different dynamics which organisational actors can rely on to gain, maintain or repair their legitimacy, namely through pragmatic, moral and/or cognitive strategies. Pragmatic legitimacy is seen here as a narrow means of legitimacy, which is achieved as result of fulfilling direct exchange with an immediate targeted audience (Soobaroyen and Ntim, 2013) (example; "if we get anything out of this, then we consider it legitimate." Dart, 2004, p 416) which means when NGOs receive donations, there is an exchange — funds for legitimacy. Moral legitimacy is based on an evaluation of activities that are deemed to be appropriate relative to the prevailing societal norms and beliefs, rather than seeking legitimacy from a particular audience (Suchman, 1995). Stakeholders can evaluate the moral legitimacy of an organisation through assessing the following; acceptable output achievement (consequential evaluation), adoption of best practices (procedural evaluation) and organisational characteristics are worth being supported (structural evaluation) (ibid). The final kind of legitimacy, cognitive legitimacy, is the implicit form of legitimacy. Suchman (1995) describes it as "the most subtle and powerful", where organisations are considered to be legitimate when they are understandable (i.e. greater awareness, as a result, less uncertainty involved within the organisation) rather than when they are desirable (Shepherd and Zacharakis, 2003). Therefore, cognitive legitimacy is considered as a deep conceptualisation of legitimacy, which refers to the level of taken-for-grantedness rather than the level of evaluation (ibid).

4.5.2 **Stakeholder theory**

Generally speaking, stakeholder theory has been seen to overlap with or be closely aligned with legitimacy theory (Deegan, 2002). The stakeholder perspective (instrumental branch) is similarly related with legitimacy perspective in seeking the long-term survival and success of an organisation. But stakeholder theory places a greater emphasis on the identification and management of key targeted interest groups of stakeholders with the purpose of gaining support and approval from them (Roberts, 1991). This can be contrasted to legitimacy theory, which adopts a broader view by seeking an alignment with the expectations of the society as a whole (i.e. meeting general public expectations by being congruent within the social norms to obtain and maintain resources and their long-term survival (Donaldson and Preston, 1995).

Stakeholder theory focuses on the relationship between the external and the internal groups of stakeholders; those who are affected by or who affect the achievement of the firm's objectives (Freeman, 1984). Donaldson and Preston (1995) distinguished three different branches of stakeholder theory: normative (moral), instrumental (positive) and descriptive. This helps to reflect that how the firm manages the relationship with their stakeholders depends on the organisation's stakeholder culture (Jones *et al*., 2007). The normative (moral) perspective essentially argues that all stakeholders should be treated fairly by the organisation, with no favouritism (Deegan and Unerman, 2011) and focuses on the moral and philosophical principles (Donaldson and Preston, 1995). Organisations are expected to be responsible in honouring all stakeholders equitably and ethically, and can also be regarded as "moralist organisations", based on the Jones *et al*. (2007) typology of stakeholder culture, whereby these organisations uphold moral principles and care for all stakeholders. However, they are likely to be less caring when facing a financial crisis. Contrast to "altruist" organisation, who are "moralist", but these organisations do not compromise over morality when facing a financial crisis (Chen, 2015). The ethical principles of an organisation and accountability will serve to ensure public trust, and accountability here is characterised as "felt responsible" (Ebrahim, 2003).

In contrast, the instrumental branch of stakeholder theory as mentioned above is similarly related to legitimacy theory in seeking the long-term survival and success of an organisation. However, the instrumental model attempts to explain how corporate management can fulfil the expectations of powerful stakeholders (Donaldson and Preston, 1995) with the purpose of gaining support and approval from targeted stakeholders (Roberts, 1991). Over time, though, the position of power in terms of stakeholder saliency pattern might change depending on the uncertain external and/or internal events, where the organisation will manage to control the trade-offs between competing stakeholders which are more powerful, legitimate and urgent (Mitchell *et al.*, 1997). Jones *et al*. (2007)

classified these self-interest organisations as “corporate egoist” organisations, whose emphasis is on satisfying their most powerful shareholders while ignoring the less powerful ones in the interests of maximising short-term gains (e.g., profits; donations) profits.

The above theories treated disclosure primarily from an organisational standpoint; however, there is evidence to suggest that powerful agents within the organisation may also influence decisions relating to disclosure for example characteristics of board members such as board size (see e.g. Berardi *et al.*, 2016*;* Chen, 2009) board diversity (see for e.g. Ostrower, 2007; Harris, 2014), CEO background and profile. Specifically, when powerful agents are closely intertwined with the organisation (e.g., founder member; long-term internal involvement; family connection; key financial relationship), their managerial and personal characteristics may become significantly reflected in organisational narratives. Upper echelons theory, for instance, does highlight how the executives’ values, personalities and experiences shape, to some extent, their interpretation of a given situation and their reactions thereof (including disclosure and narratives). In a similar vein, Merkl-Davies, Brennan and McLeay (2011) outline the issue of hubris in relation to impression management tactics and, in view of the case of Kids Company and the peculiarities of its founder and CEO, this paper adopts a second theoretical strand.

4.5.3 **Chief Executive Officer (CEO) Hubris**

Hubris in ancient Greece was described as a behaviour in which a leader or other powerful individual is intoxicated with excessive pride, unflagging self-belief and over self-confidence, often treating others with disregard, disrespect and contempt (Claxton *et al.*, 2015). This chronic self-regard and power of the hubristic leader can potentially lead to misperceived, misinterpreted and misjudged realities of the situation and result in serious and fatal errors of judgment. The literature has provided useful insights on hubris in the corporate context where the concept of hubris was modernised and described as “exaggerated pride or self-confidence” resulting in a cognitive unconscious bias (Hayward and Hambrick, 1997). Most of the prior literature in strategic leadership and CEO studies has identified some incidence of a hubris syndrome amongst senior leaders by relying on personality traits of the CEO such as narcissism to proxy for the effect of hubris on a leader’s strategies (Maccoby, 2004; Pincus and Lukowitsky, 2010). CEOs are recognised as crucial individuals from an organisational image perspective since CEO inevitably become (even on a transitory basis) the personification of corporations vis-a-vis stakeholders. Therefore, they often significantly influence the perceptions and attitudes towards trust in management and overall firm performance (Park and Berger, 2004). Furthermore, whilst acknowledging the crucial positions of other leaders within the top management team and the board of directors, CEOs have a mandate to lead to the company and thus have a powerful influence on a firm 's outlook and strategic choices (Adams *et al.* 2005). Several studies concluded that a CEO imbued with narcissistic and hubris characteristics can negatively impact on strategies and organisational performance (Maccoby, 2000; Craig and Amernic, 2004; Resick *et al.* 2009).

In addition, hubris also encompasses cognitive bias in the form of overconfidence, where the analysis focuses on the psychology and the behaviour of corporate leaders. CEO hubris/overconfidence was mostly studied in the takeover literature, which was initiated by Roll in 1986. He stated that bidding-firm managers made mistakes in valuing target firms, but undertook the acquisitions anyway with the "overbearing presumption" that their valuations are correct but which results in them paying too much for their targets — i.e. known as value-destroying acquisitions. Thus, hubris, in the form of overconfidence, is viewed as a negative characteristic, which can then be used to explain the negative outcomes for the firms. Researchers have suggested two main mechanisms that might underpin this kind of overconfidence and tendency to take risks. First, hubristic CEOs may overestimate their own problem-solving capabilities and their company's resource capabilities, and second, they may tend to underestimate the resources required and the uncertainties to be reckoned with (Kahneman and Lovallo, 1993; March and Shapira, 1987; Shane and Stuart, 2002). Thereby, hubristic CEOs present themselves with a simplified and optimistic picture of the situation they face.

Kroll *et al.* (2000) examined hubris in three different corporate situations —acquisitions, growth for its own sake, and disregard for rules — where they broadly concluded that hubris is borne of a personality that is prone to narcissistic tendencies. The findings of this study showed that top executives employ strategies out of their inflated self-confidence in their skills and unreal beliefs. Hubris is thus associated with a personality disorder or a psychiatric syndrome. Relatedly, Owen and Davidson (2009) defined *hubris as an extreme behaviour with featured symptoms mainly evoked by power which usually settles when the power is diminished.* They have also provided a set of 14 tangible criteria for individuals suspected to be suffering from hubris syndrome. Most of the above-mentioned studies confirm that narcissism is an important contributory factor in developing hubris, and Owen and Davidson (2009) identified three main external factors that which contribute to hubris; these are holding substantial power, minimal constraints on leader authority, and length of time leader remains in power. Hayward and Hambrick (1997) also identified four wellsprings of managerial hubris: (1) a track record of recent organisational success. Thus, this increases the risk of fuelling hubris when such successes are credited exclusively to the CEO's efforts when in fact they could be more objectively attributed to external factors. (2) Media praise and 'celebrity status' of a CEO creates a romantic, larger-than-life and heroic aura of talent and invincibility that CEOs themselves may eventually come to believe. (3) CEO's systemically inflated views of their own abilities and skills are not due to demonstrable accomplishments but to an inflated ego and sense of self-importance. (4) Weak board vigilance often associated with a powerful CEO particularly when he or she is also the firm owner.

Hubris has also attracted attention in disclosure studies. Merkl-Davies and Brennan (2011) put forward hubris as an explanation for discretionary narrative disclosure, as the managerial overconfidence creates self-deception or egocentric bias resulting in sub-conscious cognitive bias in corporate narratives. This is in contrast to the impression management explanation which assumes that managers opportunistically deliberate information between them and their targeted audience, resulting in biased reporting. Some studies were conducted to uncover the personal traits such as hubris in CEO narratives (Craig and Amernic, 2004; Amernic and Craig, 2007; Amernic *et al.*, 2010 and Brennan and Conroy, 2013); however, the area remains understudied. Most of the studies analysed the CEO narratives using linguistic techniques to understand the mind-set of the CEO and their strategic outlook (Craig and Amernic, 2004). When the CEO narrative language includes words related to self-image and inflammable aura of hubris might prove a liability to the organisation when problems emerged (Amernic and Craig, 2007). A study by Amernic *et al.* (2010) focused on measuring the tone of CEO's letter to understand their ways of thinking. Brennen and Conroy's (2013) conducted a rare study examining CEO's letter by focusing on the psychological state of mind using 14-hubris symptom developed by Owen and Davidson (2009) in addition to other linguistic techniques.

The above theories, which are mostly used in disclosure studies, are applied in this research to understand and interpret what happened in the case of Kids Company more directly, and to gain insight into all relevant characteristics of the charity. The research considers the insights of legitimacy theory, stakeholder theory and hubris to investigate the change in the narrative disclosure pattern and strategies/rationale employed over time and in specific critical events until the final collapse, as well as to address the implications of CEO cognitive behavioural traits on disclosure. This implied a deeper analysis of Kids Company disclosures by relying on a mixed methods approach, which is discussed in the next section.

4.6 Research design

This research is based on a single case study of Kids Company narrative disclosure to enable us to learn and interpret what happened in this insolvent charity more directly, and to gain insights into all relevant characteristics of the case which led to its collapse.

4.6.1 Method of analysis

The study applies a mixed-method approach using both quantitative (computer-aided analysis) and qualitative content analysis (manual analysis) in order to understand the narrative disclosure patterns and communication strategies employed to explain the performance and activities of Kids Company over time and around specific critical events until the final collapse of the charity.

4.6.2 Sample selection and data source

The case of Kids Company was selected for many reasons; the main being that Kids Company was one of the most successful, high-profile and reputable charities in the UK serving a special group of vulnerable children and young people (NAO, 2015 and PACAC, 2016b). Regardless of the high and continuing funding support from the Government, this success was followed by extreme failure, allegations in relation to their operations and financial mismanagement, and eventually insolvency. The collapse of this charity has attracted significant media attention and led to major public concern over the funding, accountability, and governance of Kids Company and the UK charity sector more generally. The researcher reviewed reports and investigatory evidence of the Kids Company collapse case and assumed that this collapse might be due to CEO hubris (overconfidence), which eventually led to misperceived realities of the situation and contributed to fatal errors of judgment. In addition, the failure might be due to symbolic management (impression management) used to manage the perceptions of the stakeholders (Stakeholder theory) and transform the social conflicts (Legitimacy theory) which eventually biased the stakeholder judgment. The following is evidence found in the National Audit Office report (NAO) [12] and House of Commons-published Public Administration and Constitutional Affairs Committee reports (PACAC)[13], which triggered the author's assumptions:

- ***CEO hubris evidence:***

1. The charity was successfully awarded multiple-year grants from the government throughout it's existence because of the CEO's high connection and good relationship with the government. The official record evidently has raised concerns (in 2002, 2003, 2013, and 2015) regarding their outcome effectiveness, operational and financial mismanagement, and high reliance on government funding; however, the government continued to support the charity. [*Hubris evidence*- Hayward and Hambrick (1997) stated that CEOs systematically inflated views of their own abilities and skills which can cause inflated ego and self-importance due to the high connection with elite people.]
2. The length of tenure of the CEO, in addition to the fact that the Kids Company CEO is also the founder of the charity. [*Hubris evidence* – power and dominance (Owen and Davidson, 2009).]
3. The identity of the company and the CEO were inextricably linked in the media. [*Hubris evidence* - 'celebrity status' of a CEO creates a romantic, larger-than-life and heroic aura of talent that CEOs themselves may eventually come to believe (Hayward and Hambrick, 1997).]
4. Board of trustees were less experienced in charity-specific area coupled with an apparent high level of admiration for, reliance on and confidence in the CEO's (Ms Batmanghelidjh's) vision, fundraising capabilities and perhaps crucially, her

[12]National Audit Office Report(NAO):" Investigation: the government's funding of Kids Company" https://www.nao.org.uk/wp-content/uploads/2015/10/Investigation-the-governments-funding-of-Kids-Company.pdf
[13] House of Commons - Public Administration and Constitutional Affairs Committee reports (PACAC): " The Collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission, and Whitehall." https://publications.parliament.uk/pa/cm201516/cmselect/cmpubadm/433/433.pdf

contacts with senior politicians. [*Hubris evidence* – overconfidence, power and dominance.]

5. The charity demand-led operating model 'whereby young people can refer themselves to the charity since the charity's central premise was that no children should be turned away', thus carried a constant risk for the charity's ability to ensure their commitments would be matched by their resources. [*Hubris evidence* – overconfidence, where CEOs may overestimate their own problem-solving capabilities and their company's resource capabilities, and may tend to underestimate the resources required and the uncertainties faced (Kahneman and Lovallo, 1993; Shane and Stuart, 2002) and thereby hold a simplified and optimistic picture of the situation they face.]

- ***Symbolic management evidence:***

1. In 2013, Kids Company was awarded cross-government grants which were paid on a quarterly basis. The Department for Education (DfE) set tailored interventions as terms and conditions (the basis of assessment) before paying the grants for each quarter to improve the outcomes. However, the reports show that Kids Company regularly reported surpassing its delivery targets for the quarter, sometimes by substantial amounts. For example, Kids Company reported that against a target of 1,347 interventions in 2013-14, they delivered 30,217 interventions (NAO,2015).

The primary source used in this research is the discretionary narrative disclosure in Kids Company annual reports covering a period from 2000-2013. Due to data availability issues, annual reports were downloaded from the Charity Commission website and from the Companies' House website. In addition, no annual report was found for the year 2002 and therefore only 13 annual reports were used for the analysis. In order to provide in-depth investigation of the 'how and why' of a phenomenon (the collapse of Kids Company) this research used two credible sources to understand the reality of the situation faced by the charity; namely, the investigation by the National Audit Office report (NAO) and the House of Commons' Public Administration and Constitutional Affairs Committee (PACAC) reports .

4.6.2.1 **Quantitative content analysis**

To track the extent of narrative disclosure (overall and by section), and the changes thereof during the period under review, the study initially started with a quantitative content and linguistic analysis. The quantitative analysis was conducted using computer-based analysis software, called Corporate Financial Information Environment (CFIE, 2015). The aim of this software is to advance research on narrative aspects of corporate disclosures by developing a suite of statistical Natural Language Processing (NLP) tools for analysing a firm's narrative communication practices.

Moreover, it measures the linguistic characteristics of key disclosures to identify determinants of cross-sectional variation in these characteristics and relate them to disclosure in formativeness. The annual reports were first uploaded to CFIE software; it then analysed the extent of the overall narrative disclosure as a word count proportion from the total annual report word count, in addition to the word count proportion of each narrative section (e.g., CEO statement, etc.) from the total narrative disclosure word count. A word count is used, as a unit of analysis to express the importance of a particular category or section of disclosure, which suggests that high volume of disclosure is a sign of disclosure importance placed by the reporting entity (Campbell *et al.*, 2006). The study also utilised the linguistic features of the CFIE software to fulfil a number of objectives: first, to assess the textual tone used in narrative disclosure (overall and by section), a thematic analysis was applied using word frequencies of four built-in keywords — positive, negative, uncertainty, and forward-looking words. Most of the previous narrative disclosure studies, specifically thematic or form-oriented studies, focused on analysing frequencies of positive or negative words and sentences and classifying them accordingly into themes to identify if there is any thematic manipulation in narratives (impression management) (see, for example, form-oriented studies by Abrahamson and Park, 1994; Abrahamson and Amir, 1996; Clatworthy and Jones 2003 and 2006).

4.6.2.2 **Qualitative Content analysis**

Subsequently, the study employed qualitative content analysis as the means of qualitative and interpretative assessment of text. This approach is not only able to quantify text, but is also can provide interpretation of meanings, intentions, consequences and context (Krippendorff, 2012). Therefore, this study promotes or exemplifies both qualitative and interpretative analyses of text and context through considering legitimacy, stakeholder, or CEO hubris perspectives to encompass how Kids Company used disclosure as a means to mediate, suppress, confound and transform any social or stakeholder pressure. The content analysis provides a more in-depth understanding of how Kids Company framed their narrative disclosure practices throughout most of their existence until the collapse. The study examines the disclosures to identify the prominent themes, modes of expression, argument structure, patterns in the language, related to aims and objectives, with reference to their activities, funding issues, and other matters.

4.6.2.3 **CEO statement — hubristic analysis**

The CEO statement is an unregulated discretionary accounting narrative, which appears in the annual report in support of the audited financial statement (regulated accounting disclosure), as a part of the procedure of discharging accountability to stakeholders. Amernic and Craig (2007) noted that CEO statement matters greatly, particularly, after the recent accounting and corporate governance scandals. Regulatory authorities and other stakeholders are now highly vigilant over the moral and legal obligations implied in narratives, including those that are personally signed by the CEO (ibid). The words, metaphors and keywords are chosen by the CEO to describe company matters such governance, management control, performance measures and accountability, and these can influence stakeholders to win their support. At the same time, the CEO statement or words also offer insights into the CEO's personal mindset, ideology and strategic thinking (Amernic and Craig, 2007). Given that the second focus of this study is to uncover whether a cognitive behavioural trait such CEO hubris might have contributed to the CEO's disclosure strategy and ultimately lead to the collapse, the study uses overconfidence and performance attribution as two proxies/linguistic markers for recognising manifestations of hubris in CEO statements. To examine each of the two proxies for hubris, a coding procedure was adopted and developed from Brennan and Conroy (2013) and Clatworthy and Jones (2003) to analyse the CEO statement using manual content analysis by reference to CEO overconfidence, which is represented as good or bad news themes, and performance attribution of good news internally and bad news externally. This method is highly subjective and the author should take into consideration of the context surrounding the information influencing the coding decision. A sentence was chosen as a unit of analysis; it is one of the widely used methods in narrative analysis studies (see, for example, Hackston and Milne, 1996; Milne and Adler, 1999), as sentences help to identify not only the words used but their context and attribution; therefore they are more reliable as an unit of analysis (Weber, 1990).

The coding procedure comprised of two stages; first, the classification of news (good or bad news) to analyse overconfidence; sentences that contained positive keywords related to charity performance were coded as good news, while negative keywords attached to the performance of the charity were coded as bad news. Sentences that cannot be classified as good or bad news have been classified as neutral news. With regards to the coding procedures, Clatworthy and Jones (2003) highlighted that sentences need specific substantiation, which means they must be related to company performance, otherwise, without substantiation, they are considered rhetorical sentences. In this study, the performance was defined from prior literature in a not-for-profit context, where performance is assessed based on the production model — i.e. inputs, outputs, and outcomes[14] (see, for example, Hyndman, 1990, 1991; Connolly and Hyndman, 2003; Connolly and Dhanani, 2006, 2009; Dhanani, 2009; Jetty and Beattie, 2009). Given that the classification takes a subjective meaning-oriented approach, the coder considers the context surrounding the sentence. Therefore, according to the case of 'Kids Company' the coder (researcher) focused on funding matters as an input; moreover, the output was referred to as direct countable goods and services provided to the beneficiaries, and outcome was considered as the impact of charity services on beneficiaries or wider society.

Second, the coding procedure was undertaken to identify the extent of performance attribution. After classifying the sentences as good, bad or neutral news, the next step was to classify the sentence related to performance as being attributed to the CEO, the organisation, or external parties or factors. The study followed the method of Clathworthy and Jones (2003) in classifying sentences, where sentences were attributed to the CEO if

[14] Performance disclosure was evaluated in the non-profit literature using the production model basis (i.e. Input, output and outcome) which was defined in the non-profit context as following: Inputs are the resources that contribute to the activities being undertaken by the organisation (Connolly and Hyndman, 2004; Jetty and Beattie, 2009; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011). Outputs are the direct and countable goods/services produced as a result of the activity being carried out (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011). In addition, outcomes are the benefits or impact on beneficiaries or the wider society (Connolly and Hyndman, 2004; Connolly and Dhanani, 2009; Bagnoli and Megali, 2011).

the sentence referred to personal pronouns such as “I, me, we and ours” while taking the context of the study into consideration.

The manual coding procedures steps are as following:

1. Construct classification schemes and a set of rules related to coding, measures and data classification (for example; performance definition within the context of the case of Kids Company),
2. Identify sentences (as a unit of analysis),
3. Count number of sentences,
4. Overconfidence - identify sentences containing good news, bad news or neutral news by reference to the keywords concerning charity performance; and
5. Performance attribution – examine the use of attribution in sentences by classifying sentences related to charity performance as being attributed either to the CEO, the organisation, or external parties.

4.7 Findings and analysis

4.7.1 Quantitative analysis

4.7.1.1 Comprehensive analysis of overall narrative disclosure

Table 4-1 represents the overall narrative disclosure, the results indicate that the number of narrative disclosures varied over the 13-year period. In 2007, 2008 and 2013, Kids Company tends to disclose more narratives when compared to other years (71%, 72% and 67% of total narratives from total disclosures, respectively). The lowest amount of narratives provided by the charity was in 2000 (21% of total narrative from total disclosure). In terms of the tone used in the overall narrative disclosure, the results showed that the frequency of positive words and uncertainty words were the most dominating tones in the narrative disclosure. In 2008 the frequency of negative words was relatively higher than in other years (84% of negative words), this could be due to the financial crisis. In addition, uncertainty and forward-looking frequency was the highest when compared with others (91% and 92%, respectively).

Section 4.10, Appendix 2 shows the breakdown of the disclosure per section. The analysis showed that, starting from 2009 and onwards, the sections per year increased. As evident from the table, the CEO statement started to appear as well between the same periods. From 2011 to 2013, the charity started to provide narrative sections highlighting more about the importance of the charity in the society, and more sections related to their achievements, success, and key priorities and principles. Previously, 2000 to 2008 annual reports focused only on the trustee reports.

Table 4-1 Quantitative analysis of narrative disclosure

Year	Quantity of narrative disclosure		Textual tone used in narratives disclosure				Overview of narrative disclosure sections			
	Total narrative disclosure (No.)[a]	Percentage of narrative disclosure (%)[b]	Positive words frequency [c] (%)[d]	Negative Words frequency [c] (%)[d]	Uncertainty Words frequency [c] (%)[d]	Forward-looking words frequency [c] (%)[d]	No. of sections [e]	No. of common sections [f]	No. of new sections [g]	CEO statement Availability
2000	392	21%	1 (50%)	9 (35%)	2 (18%)	7 (35%)	2	-	-	-
2001	755	29%	4 (36%)	10 (26%)	11 (39%)	18 (38%)	2	2	-	-
2003	1882	41%	22 (85%)	46 (61%)	26 (46%)	28 (68%)	2	2	-	-
2004	3438	54%	26 (81%)	51 (65%)	50 (66%)	47 (72%)	2	2	-	-
2005	7758	67%	50 (79%)	132 (77%)	126 (83%)	95 (77%)	2	2	-	-
2006	8667	69%	59 (84%)	143 (77%)	144 (88%)	95 (79%)	2	2	-	-
2007	10340	71%	60 (80%)	170 (78%)	172 (85%)	86 (83%)	2	2	-	-
2008	12334	72%	80 (83%)	238 (84%)	273 (91%)	213 (92%)	2	2	-	-
2009	6901	60%	55 (70%)	136 (78%)	134 (77%)	133 (81%)	4	2	2	√
2010	8402	63%	70 (76%)	176 (81%)	187 (80%)	119 (72%)	4	4	-	√
2011	8848	63%	86 (83%)	166 (81%)	217 (80%)	150 (76%)	9	4	5	√
2012	10300	65%	89 (85%)	198 (81%)	234 (80%)	162 (81%)	7	6	1	√
2013	12155	67%	84 (77%)	178 (64%)	219 (76%)	152 (71%)	14	5	9	√

Quantity of narrative disclosure is represented as [a] Total number of narrative disclosure: total word count of all narrative sections included in the annual report excluding the auditor's report, and as [b] Percentage of narrative disclosure (%): total word count of all narrative sections included in the annual report divided over the total word count of the whole disclosure (annual report). Textual tone of narrative disclosure is represented as – [c] total word frequency of each themed tone (e.g. positive, negative, uncertain and forward-looking) appeared in all narrative sections included in the annual report, and as [d] percentage (%), where total word frequency of each themed tone (e.g. positive, negative, uncertain and forward-looking) appeared in all narrative sections divided to the total word frequency of each themed tone of the overall disclosure. [e] No. of sections- is counted as a number of headings represent narratives disclosure in the table of content. [f] No. of common section is number of headings represent narratives repeated every year in table of content . [g] No. of new sections - is counted as number of new headings added in the table of content, which are not included in the previous year.

4.7.1.2 In-depth analysis of CEO statement (hubris)

Table 4-2 shows that the overall length of CEO statement declined over the time, the lengthiest statements were written between 2009 and 2010 (1551 words and 1008 words, respectively), while the shortest statement was written in 2013 (723 words). In terms of the tone used in the CEO statement, frequency of positive words and forward-looking words were the most dominating tones in the CEO statement when compared to the negative and uncertainty word frequency, but in 2009 and 2012 the frequency of negative words was comparatively higher among the others (40 words and 27 words, respectively).

The CEO statements were also analysed for hubris by reference to the overconfidence in terms of good news, bad news and CEO attribution of performance. The results in Table 4-3 indicate that more than half of the content of the CEO statement contained good news about the charity and its operating performance. Only four sentences were classified as bad news, most of which were related to the funding matters and appeared in 2013:

> "Kids Company continues not to receive any local authority funding for its therapeutic programmes as the state does not recognise financially a child who asks for help without a commissioning agent paying" (Kids Company Annual report, 2010).
>
> "In 18 years we have not received any local authority funding for the social care or mental health services we deliver" (Kids Company Annual report, 2013)

The results are in line with the prior studies showing that the CEO or managers tend to focus on and emphasise good news, which is related to the output and the impact of their services on their beneficiaries; for example:

> "We have seen the number of children turning to us at our street level canters double since 2011" (Kids Company Annual report, 2013).

Table 4-4 represents the extent of the attribution of both good news and bad news in the CEO statement either to herself, the charity or to external parties. The results indicated that the majority of the good news was attributed to the CEO herself where almost all of the sentences related to the charity performance, specifically output and outcome of the delivered services sentences, usually started with personal pronouns (we, our):

> "We currently assist approximately 14,000 children with therapeutic and practical interventions, reaching the most deprived and traumatised children whose parents struggle to care for them due to their own disturbing life experiences" (Kids Company Annual report, 2009).

There was a limited amount of bad news, but all such news was attributed to external parties such as blaming local authority for their shortage in funding, in addition to the external factors such as the financial crisis. Most of the good news was attributed to the CEO herself more than to the organisation; 2010 and 2013 were the years for which the CEO attributed the performance to herself (9 and 10 sentences related to good news, respectively).

Table 4-2 Background information of CEO statements

		Tone Used in the CEO statement			
Year	CEO letter length in Words	Uncertainty (Freq)	Negativity (Freq)	Positivity (Freq)	Forward-Looking (Freq)
2009	1551	8	40	35	30
2010	1008	3	21	26	8
2011	946	9	11	19	17
2012	885	11	27	25	10
2013	723	7	9	26	12

Table 4-3 Number of sentence containing good, bad or neutral news

Year	CEO letter length in sentences	Good	Bad	Neutral	Total
2009	26	2	1	0	3
2010	38	15	1	0	16
2011	32	11	1	0	12
2012	29	4	0	0	4
2013	32	11	3	1	15

Table 4-4 Attribution of news to the CEO, the charity and other parties

		Attribution of performance		
Year	Good/ Bad News	The CEO	The Charity	Others
2009	Good	1	1	-
	Bad	-	-	1
	Neutral	-	-	-
2010	Good	9	5	1
	Bad	-	-	1
	Neutral	-	-	-
2011	Good	4	6	1
	Bad	-	-	1
	Neutral	-	-	-
2012	Good	2	2	-
	Bad	-	-	-
	Neutral	-	-	-
2013	Good	10	1	1
	Bad	-	-	2
	Neutral	-	1	-

4.7.2 Qualitative analysis

To obtain a deep understanding of the narrative disclosure activities and its surrounding circumstances and event, the findings are presented in chronological based analysis. The relevant timeline can be separated into seven separate periods based on the grant awarded from the government:

a. 2000: New Opportunities fund (First government grant awarded)

In this year the charity records show that Kids Company was awarded its first government grant of £50,000 from the New Opportunities Fund. The annual report for this year was simple and short, and most of the information provided was a description of their activities. This could be because the charity at that time was following the Companies Act 1985 when preparing the annual report.

b. 2001- 2002: Home office cross- government grant

The annual report of 2001 was comparatively more detailed than of 2000. The director's report mainly focused on the funding issues using different arguments. Given the fact that the National Audit Office Report (NAO) stated that Kids Company requested £300,000 as its sources of funding were drying up, therefore, the charity needed an injection of emergency funding to avoid insolvency for the year 2002. However, the officials raised some concerns over Kids Company related to their poor cost control and financial management, which was not effective compared with other organisations; and they also noted that there were no guarantees that a government grant would keep the charity afloat. There was evidence of how the charity responded to the above concerns raised by the officials in relation to funding request: first, by justifying that the need of funding was because of the high demand on their service and, second, blaming the local authority for the lack of the support; however, the charity succeeded in securing the funds from the central government nevertheless. For example:

> "We had an unexpected number of self-referrals from young people off the street who had no education and nowhere to live. We initially attempted to get mainstream Local Authority provision to assist with these cases. The attempt proved fruitless and we, therefore, turned our attention to Central Government in 2002. Within a period of 7 days, we received £300,000 worth of government funds with pledges of more to come" (Kids Company Annual report, 2001).

The charity tended to provide very optimistic and future-oriented statements when discussing future funding collaboration specifically with the government, although there were no future guarantees. This is also consistent with the quantitative results where the total of forward-looking words was 39%. For example*:*

> "There are currently meetings being held in Downing Street with Ministers making decisions about how Kids Company should be assisted in the future." (Kids Company Annual report, 2001)

There was also another form of response to the official concerns related to the charity effectiveness and quality of services, by highlighting the excellence of their services in a form awards and external evaluation of their activities. Most of the words attached to those statements tend to be positive and hyperbole words. See for example:

> "The Evening Standard has chosen Kids Company as their charity of the Year 2002" (Kids Company Annual report, 2001).

> "Kids Company's strategy has been to fund its services to a high quality in order to achieve outstanding outcomes with its client group. Seven independent evaluations now confirm the organisation to be outstanding in its ability to engage the 'hard to reach" (Kids Company Annual report, 2001).

The annual report also showed some statements, where the charity responded to official concerns in relation to its financial position by providing reassurance through naming credible and trusted organisations which would help them in raising more funding through partnership. See for example:

> "In addition, we have entered into a partnership with the Princes Trust to assist with fundraising and infrastructure using their staff. Business in the Community has now gathered on board 30 Chief Executives of major companies to match fund what government will pledge. We are also due to be adopted as a charity by Credit Suise First Boston who are assisting us in maximising our fundability" (Kids Company Annual report, 2001).

c. 2003-2004: Home office one-off emergency grant

Starting from 2003, the charity prepared their accounts according to the charity law using the current statutory requirements of the company's governing documents and SORP issued in October 2000. Accordingly, the charity objectives were redefined in clearer and more detailed form compared with previous years. There was also some evidence of the charity's reaction towards the official concerns in the annual report of 2003. This was evident in each year when the charity requested funding from the government. In 2003, the charity requested £500,000 emergency funding to prevent closure. The officials again raised some concerns in regards the following: no compliance with the grant conditions in 2002; debt increased despite the grant provided by the government in 2002 (which meant that the requested funds would simply defer the crisis); and the need for long-term financial evaluation of the charity viability. They also commented on the absence of a chief operating officer to run the charity effectively and they advised the government to provide a one-off emergency funding, not to be repeated. The following are the examples from the annual report showing how the charity has responded or reacted to the above concerns:

The charity responded to the officials' concerns by appointing Simon Tuker as Chief Operating Officer and Company Secretary and by providing some evidence of different independent evaluations the charity undertook to give some confirmation regarding the approach adopted by the charity, effectiveness and efficiency of their services, and value for money. In addition, they highlighted the importance of the role of Kids Company role in society and specifically to the targeted group. All these statements were attached with positive words; for example:

> "Kids Company are pioneering a radically new approach to engaging young people, based on a distinctive philosophy and ethos that has much to teach those who design and deliver childrens services." Crime Concern, February 2003" (Kids Company annual report, 2003).
>
> "Kids Company provides an effective and cost-effective service for young people who would not or could not engage with other services and who might otherwise be at risk of harming themselves or others." Anti-Social Behaviour Unit, May 2003" (Kids Company annual report, 2003).
>
> "The supportive role of Kids Company cannot be underestimated in the lives of these young people. [The children] themselves strongly believed that without the organisation, many children would be on the streets engaging in a range of criminal activities" Howard League, November 2003. (Kids Company annual report, 2003.)

Two patterns of statements usually appeared when the charity discussed fundraising matters: first, to explain the need for funding (giving excuse), and second, attributing bad news or blaming external parties or factors; for example, in this case, local authority and other fundraisers failed to honour their commitments, followed by statements of rescues from other donors or governmental parties (by reference to names of the rescuing charities or companies). The charity also tended to assure their financial position by giving the impression that they were redefining their strategy (clarify their strategy and reorganise their operations) using all positive statements. Although, in the financial review section the charity showed deficit in their accounts, while they reported that their financial position has significantly improved, the perceived improvement was actually achieved by increasing the debts, not by increasing the funding schemes. [This is consistent with the official concerns regarding the increase in the level of debt — which means that the charity did not actually improve their financial position – they improved it symbolically. This could be considered as impression management in order to meet the stakeholders' expectations and highlight their financial position in a positive light.] One of the items on the charity's agenda was to secure money mainly from sustainable sources (particularly when they are experiencing funding problems) such as government and local authority. Therefore the charity's agenda was to appoint more trustees with high connections with the local authority and central government as a shortcut to secure more funding rather than reviewing funding strategies and operations. See for example:

> "In April 2004, two additional trustees have been appointed, bringing valuable experience of dealing with central and local government authorities on a wide range of issues at the heart of Kids Company's ethos" (Kids Company annual report, 2003).

In 2004, after receiving the grant from the Home Office in 2003, the charity started to report their performance using hyperbole words (such as remarkable; the work continued to win awards: Play Therapy International described Kids Company as having made an outstanding contribution to the field and Regeneration & Renewal Magazine recognised Kids Company as being one of the ten best risks which paid off; in excess of 95% of the children refer themselves to our services, hearing about us through word-of-mouth on the streets). Mostly statements related to performance appeared in both quantitative and qualitative forms. Hyperbole words were mainly attached to statements related to aim, performance or when describing the image and reputation — this could be explained as an opportunistic approach where the charity purposely selected such words to impress or meet the stakeholders' expectations — or could reflect some unconscious or egoistic–led motives that ended in praising or overestimating the charity's performance — which might counter the real performance and bias the stakeholders' decisions in relation to the charity's position.

In 2004 the charity started to appear in the media to cover it's activities on television and also in the press media. The charity provided some evidence reflecting their effectiveness by quoting from the press media which mainly included hyperbole words when describing the charity. See for example:

> "Shrinking Childhoods received very positive reviews in the print media: The Evening Standard described it as "extraordinarily powerful"; The Observer thought it had "a collective raw power you would search in vain

> for inside the [Tate Modem] gallery"; and The Daily Telegraph commented that it was "some of the most thought-provoking art you are likely to see this year". The event closed with 1,000 adults attending a drumming event in the Turbine Hall of the Tate to 'Drum It Up For Kids'".

The strategy used here by the charity was to legitimise their activities to the community or society as whole — in addition, it is also obvious from the narrative statements mostly connected with positive words or good news that this is also a strategy which is considered as self-serving, where the charity was viewed in a positive light by their main stakeholders; in this case, the central government.

d. 2005–2008: Invest to save grant

In March 2005, the charity was for the first time awarded a multi-year grant from the 'Invest to save budget', which was a competitive grant received from HR Treasury, and where 37 organisations were competing for a total of £37 million multi-year grants. In 2005 (beginning of this grant), there were some changes in the annual report length and level of details provided and some changes in sections due to the changes in the reporting requirements where the charity had to follow Statements of Recommended Practice (SORP) 2005 to show their compliance (to meet the expectations of regulators). Some proactive strategies were also adopted by the charity to mitigate any future pressure from the officials in relation to the effectiveness of services provided and cost control. The charity also responded to the requirement of DfE by providing more information related to their performance such as output and outcome performance indicators which were mostly in quantitative form. For example: providing output information such as "Our work in schools supports around 7,719 individual children" and outcome information "94% reduced their level of substance misuse and 89% improvement in anger management". The charity statements which describe activity were mostly attached with hyperbole words which might be a strategy to show the quality of service provided by the charity. In addition, the charity also responded to DfE by appointing a senior experienced public sector manager as the Senior Responsible Owner (SRO) for implementing the Invest to Save Project. However, according to the NAO report, the SRO left after four months of his appointment, highlighted his concerns to the DfE and to Kids Company Trustees about some issues related to senior management structure, governance and about some of the individuals receiving cash payments from the charity. According to the evidence provided, the DfE monitoring process was lacking; and there was no evidence documented or filed about this case by the DfE relating to such important issues which should be taken into account based on the NAO report.

In the previous year (2004) the charity appeared in the media and continued to appear in the following year on TV programmes covering the charity, as well as in press media reports. This could have been a strategy implemented by the charity to legitimise their activities to the public or to the society as whole and at the same time as a strategy to increase their fundraising. In addition, there was also some initial evidence which might be leading over time to CEO hubris where the CEO started to appear more frequently on TV and press media, particularly after the release of her book which received a high number of positive reviews most of which expressed, praise for the for the CEO and linked the charity's success to her. The reviews also described the 'heroic' role of the CEO and high recognition of her work through the different prestigious awards she received; see for example:

> "Camila's work with children who have suffered abuse, trauma and emotional deprivation is outstanding. To hear her reflect on their experience is always to have mind and heart expanded, and it is wonderful that we now have such reflection available in this book for a wider public - so that the urgency of what she is talking about just might at last make an impact on the public and on government" (Kids Company annual report, 2005).

> "During the year, Kids Company was invited to contribute to twenty-three seminars and conferences. We participated in twenty-four media interviews and the organisation's work was recognised by the University of Staffordshire, which gave the Chief Executive an Honorary Doctorate. Camila Batmanghelidjh was also recognised by Ernst & Young, Coutts and the Stock Exchange as 'Social Entrepreneur of the Year 2005'. The readers of Saga magazine chose her as the 'Wisest Person of 2005'. We also contributed to numerous publications with clinical papers" (Kids Company annual report, 2005).

To sum up, in 2005 the number of times the CEO was referenced in the annual report increased, which indicates that the annual report also reflected some hubristic evidence. This evidence can also be explained by the fact that the CEO's personality traits were not just identified in her statements but also could also be found in the narrative reports as well.

The annual report of 2006 (second year of the grant) was repeated which indicates that there was no major change during this year; this reflects that the increase in the annual report length does not necessarily mean the level of accountability increased. In addition, there was some evidence of manipulation in performance measures used when compared with 2005, where the charity suppressed the output statistics by using a per-year measurement which was not consistent with the previous year measurement per -week. From this it could be inferred that the charity used this strategy to mislead the stakeholder and to show that there was some progress, specifically at this stage in the second year of the grant where there is some expectation to see the charity's achievement a year after receiving the grant. See for example the following comparison:

> "Approximately 370 meals are provided to children per week at the Arches II" (Kids Company annual report, 2005).
>
> "Approximately 60,000 meals are provided to children per year on our" (Kids Company annual report, 2006).

In this year the annual report also showed some evidence of CEO hubris which, over time, may have increased the CEO's perceived importance and image as a celebrity.

> "Readers of New Statesmen voted Camila Batmangheldjh as their 'Person of the Year 2006'."
>
> "Camila was voted 'Woman of the Year 2006' by The Woman's Association and Good House Keeping."
>
> "In 2006 Camila BatmanghelldJh received the Clanns 'Dynamiste Woman of the Year Award'" (voted by You magazine Daily Mail Readers).
>
> "The assistance of Camila Batmanghelidjh and the Kids Company team is requested by the media 140 times a year, on average These include appearances on the Today Programme, Newsright, Channel 4, BBC and ITN News, The World Today, Radio 4, all broadsheets, tabloids and key magazines and international media Between 2000 and 2007, Kids Company has been the subject of 6 half-hour documentaries on radio and television" (Kids Company annual report, 2006).

The end of the term of the Invest to Save Budget grant was in 2007. The NAO reported that, in 2007, the charity advised the government as the grant term approached its end that they were unable to achieve sustainability (as they set out an intention to develop strategic partnerships and secure statutory funding to ensure that The Arches centre was financially sustainable in the long term); the charity faced difficulties in obtaining the contracts from local authorities due to the changes in local government and shortage of local authority funds. The charity also informed the government that, without new funding, Kids Company would need to close services and issue redundancy notices. Therefore, they requested a commitment from the government for statutory funding in the future; rather than having to compete for grants Kids Company requested £4.5 million annual funding. It is evident from the NAO report , PACAC report and after analysing annual reports that the charity tended to behave the same at the end of each term of grant by first giving excuses for not meeting the targets set at the beginning of the grant and tended to blame the local authority for their shortcomings in services and lack of funding support. Example: " We had an unexpected number of self-referrals from young people off the street who had had no education and nowhere to live. We initially attempted to get mainstream Local Authority provision to assist with these cases. The attempt proved fruitless"). In other words, all the bad news was attributed to external parties. This action was similarly evident in 2001 and 2003, but in 2007 the charity used a different strategy to secure future funding. In the summer of 2007 Kids Company went to the media and reported in their statement that it would close if the government funding did not continue when its grant ended. The charity obviously took proactive action by using the media as a tool to raise their case. They pressurised the government by going to the media and built up a public opinion case; the charity was subsequently successful in securing future funding from the government.

The annual report of 2007 overall shows no major changes when compared to those of 2005 and 2006. However, in this year the charity mostly focused on providing information related to the performance by providing some statistical results covering the three years' grant period compiled by London University. The annual report also showed a significant increase in the number output of activities undertaken by the charity, when compared to 2006. The statements related to the charity's effectiveness showed high use of positive and hyperbole words (there is a sense of exaggeration) which might show the charity's strategy of highlighting their performance in a positive light, particularly when approaching the end of each grant term. However, the unit of measurement was still not consistent each year for the same activity. This could be a strategy implemented by the charity to distort the reader's perceptions and to meet the stakeholders' expectations by highlighting their performance in a positive light — selecting different units of measurement each year to show the progress of their performance (output).

The charity reported more detailed statements of their awards, conference and press media appearances than they had in the previous year (this indicates the charity's behaviour by the end of grant term following the media exposure). This is considered new approach that the charity followed in this year as a tool to raise more funds and to pressurise the government by escalating the case of possible charity closure as a public opinion case. The following is an example of extensive media appearance.

> “Kids Company's media profile developed substantially throughout 2007 Initially coverage was focused largely around responses to youth knife and gun crime” (Kids Company annual report, 2007).
>
> “Kids Company spokespeople made 28 radio appearances in 2007” (Kids Company annual report, 2007).
>
> “Kids Company workers speak at 80 conferences and events on children's issues per year” (Kids Company annual report, 2007).
>
> “In the printed media, Kids Company made 153 appearances (approximately three per week)” (Kids Company annual report, 2007).

The CEO continued to appear in the media more than they had the previous year; this also could be considered as hubris evidence:

- The identity of the charity is attached to the CEO; see for example:

> “Camila was frequently called upon to act as a spokesperson on these and related issues” (Kids Company annual report, 2007).

- The CEO appeared frequently in the media (CEO as a celebrity); see for example:

> “Camila featured in 25 television interviews in 2007” (Kids Company annual report, 2007).
>
> “The majority of interviews and appearances were undertaken by Camila BatmanghelidJh”.

- The CEO’s high connection with members of elite groups:

> “She is a member of the Conservative Party's Social Justice Review Group and the Government Office for London's Child Mental Health Review”.

e. **2008 -2011: Youth Sector Development Fund (YSDF)**

As mentioned earlier in 2007 Kids Company succeeded in securing future funds from the government. In March 2008 Kids Company was awarded a pathfinder grant through the DfE’s Youth Sector Development Fund programme of £12.7 million over three years (equivalent to around £4.2 million per year). Kid Company’s grant value was 20% of the total funding available. This was the largest grant awarded to any individual organisation in the programme; as Kids Company was one of five pathfinders that were identified and funded ahead of others so that they could disseminate learning to future grant recipients.

Most of the statements in the annual report could be considered as a response to the official concerns (the government favouring Kids Company over other organisations). The charity’s response was to report more information related to their effectiveness by providing feedback of beneficiaries and staff in addition to other performance indicators or measures such as output and outcome. The charity continued to appear in both media and press media which could reflect the charity's intention in legitimising their activities to the general public to gain support and trust and as a strategy to raise more funds. In this year there is some evidence of the charity's high connections with political parties (which could be used by the charity to build up a good relationship for future funding). The charity also tended to point out the deficiencies of the local authority in providing services to those groups of young people in order to highlight the importance of and need for their services. In relation to the financial review, the charity still provided some excuses when discussing the insufficient reserves, by arguing that they had operated a 'hand to mouth' strategy since its establishment.

2009 was the second year of YSDF grant – the annual report developed new headings, one of which was the "needs of Kids Company". The charity tend to apply this strategy when discussing their importance through highlighting the shortcomings of the local authority and the limitations of the child protection system in the UK (the charity mostly provided factual numerical information). However, performance statements reported were few; the charity mainly tended to report more quantitative output as a measure of the performance (for example: **"**reaching a total of around 12,000 children; "In 2009 the Urban Academy supported 200 over-16s in education" and In 2009, some 90 young people started university courses". It also tended to report short-term outcome statements and included some information in relation to their effectiveness through providing evidence of independent evaluations. for example: The University of London evaluated Kids Company over three years (2005-2008) One aspect of their research focused on 3,383 children who were receiving help in our schools programme, and the results showed 100% engagement with therapy, 83% positive engagement with education and 79% improvement in anger management. Teachers identified 89% efficacy in relation to our therapeutic programme.". [The charity provided very high percentage of effectiveness measures although, according to the facts, the officials continued to express concerns regarding the effectiveness of the charity. However, the annual report reflects different picture which might indicate that the charity is providing information which does not reflect the real position of the charity — manipulation.] The main theme found in this report was that the charity tended to highlight their status to the society, by providing detailed descriptions of the activities they undertook using hyperbole words – which might indicate that the charity was responding to the officials' concerns that the government favoured Kids Company over other organisations. For example: "The YSDF has issued a letter of recommendation as to the high quality of Kids Company's services and systems. Kids Company is the only YSDF pathfinder to have received such a recommendation". CEO hubris or charity hubris could be considered one, because, in this case, the CEO of Kids Company is also the owner. There was some evidence of overconfidence statements of the charity's ability to provide some services (For example: "We believe that we are piloting a potential solution by devising new ways of working in challenging neighbourhoods and by creating a new paradigm of care"). Statements related to the financial and business reviews seemed positive, since this was the second year of funding from the YSDF grant programme; however, there were some negative and uncertainty words, or blaming external factors such as the financial crisis, which increased the demand on their services; this was actually used as an excuse for the poor amount of reserves they held. [Also, the charity stated their further agenda of securing additional government support after the end of the term of the YSDF grant in March 2011.]

The Youth Sector Development Fund grant (YSDF) ran out in 2010, and as usual, the charity again approached the government and asked for future funding and commitments on a statutory basis. The charity already stated in the annual report their priority which was to "*secure additional government funding to replace the YSDF grant post-2011" (Kids Company annual report, 2010)*. But, at the beginning, the officials declined the request as it would be difficult to justify why the government was favouring Kids Company above other voluntary organisations. In November 2010, DfE invited funding bids from organisations for the VCS Transition Grants programme. This was a two-year grant programme worth around £60 million each year. There was some change in the annual report such as new headings (such as performance review), the language used when describing their principles (more commitment words) and more details of the types of services undertaken by the charity. For the first time, the charity reported their effectiveness in a format that matched the targets with actual outputs. See for example:

> "The grant was awarded so that we could work with 400 high risk young people over three years.in fact, Kids Company was able to work with 668 clients" (Kids Company annual report, 2010).

Overall, information related to performance and charity activities was mostly positive, which could be a strategy used particularly at the end of the grant term to meet the expectations of stakeholders to gain or sustain their trust and also secure future funding. The charity and the CEO of the charity continued to appear in both media and press media.

f. 2011 -2013: VCS transition grants programmes

The charity was awarded the VCS transition grant programme from DfE, receiving a grant of £8.97 million over two years (equivalent to around £4.5 million per year). As with the previous DfE grant, Kids Company received significantly more than any other charity, including those operating nationally. It can be seen here that the government was still favouring Kids Company – but, after reading and observing the real events reported in both parliament report and NAO — that the CEO at that time had already started to build up a good relationship with the new government — it was seen that the CEO started to appear in pre-election conferences of the new government campaign. According to the investigation evidence reported by PACAC (2016b), the Kids Company CEO was described as the lady poster of David Cameron's campaign and the government's new 'Big Society' agenda. Ultimately, the charity succeeded in reserving a place in the next government grant stage.

The annual report of 2011 basically focused on highlighting the need for and the importance of the Kids Company in the society by either pointing out the shortcomings of local authority and social agencies (this was repeated more than once in the annual report) relating to those targeted young people supported by the charity particularly in this year, in addition to the positive news and hyperbole words used when discussing their performance and the high demand for their services; for example:

- Highlighting the local authority shortcomings:

> "Kids company works collaboratively with social care agencies, but unfortunately there are times when these agencies fail to meet their statutory obligations in relation to protecting vulnerable children and young people." (Kids Company annual report, 2011).

- Positive news – Performance:

> "Last year we set out a number of priorities for the organisation, financial and quality-based, andwe are happy to report that we succeeded in delivering these outcomes" (Kids Company annual report, 2011).

- High demand on services:

> "Our services continue to be over-subscribed."(Kids Company annual report, 2011).
>
> "85% of our children depend on Kids Company for their main meal" (Kids Company annual report, 2011).

The examples mentioned above illustrate the charity's response to the official concerns of the government favouring Kids Company; therefore the charity's strategy was to display all of the shortcomings in the local authority and highlight the need for their services by those targeted groups. In addition, they highlighted their performance in a positive light. There was some evidence that the charity in this year had a political connection. The statements related to the financial status were positive because they had received the government funding.

As noted earlier, the VCS grant was a two-year grant; therefore in July 2012 the charity wrote to the Prime Minister to ask for a further funding commitment of £10 million from the government for the charity when its VCS Transitions Grant ended in March 2013. Because the charity stated that the funding was required to avoid services closures and issuing redundancies, the Prime Minister told Kids Company that he would ask senior officials to consider possible funding sources for the charity. By October 2012 the DfE invited bids for a successor grant programme, the National Prospectus Grants programme 2013-15, but it rejected the Kids Company's bid for £9 million from the VCS National Prospectus grants scheme as it found that the bid did not meet the required standard for quality and did not fit with national priorities or offer value for money.

The annual report of 2012 continued to highlight the shortcomings in the local authority services to highlight the importance of their activities, by stating the problem and attributing the bad news to external factors such as local authority shortcomings in providing services to those hard-to-reach young people, lack of a kids' protection plan, economical changes/recessions and the cuts in the governmental spending. All these imposed a high demand on the charity services by the young people. The charity also provided some statements showing their high and continuous investments in staff and continuous monitoring and supervision to ensure high quality of services provided. They also have reported a significant increase in number of beneficiaries (output). In this year the charity provided detailed information related to government-funded outcomes. The charity overall provided high rates of effectiveness when matching the targets with the actual outcome, but there was an inconsistency when reporting the outcomes Sometimes this was reported in percentages and sometimes in numbers (this also could be considered as manipulation). All the above show that the charity was responding to the official concerns. They achieved this by highlighting their positive performance (output, outcome and effectiveness) and their efforts in delivering the high-quality services (investing in staff), even during the challenging circumstances they faced of high service demand due to the local authority shortcomings in providing services, lack of kids protection plan, economic recession and the government spending cuts. This was to showcase their heroic role regardless of the challenges they faced.

It was evident previously that the charity's common practice at the end of each grant was not only to request funding from the government but to also use media as a tool to pressurise the government to fund the charity by reporting the impact of possible services closure. But in 2012, the charity raised the concerns of the media on an identified problem facing children (hunger); they reported that the charity was experiencing high numbers of referrals and that 85% of the young people depended on the charity meals. The charity in this year appeared in both printed media and press media to report and spotlight the case (Hungry children in London and the UK). This could also be a strategy used to pressure the government to respond to this request, as a reaction to the decline of the request to the VCS National Prospectus grants' scheme. The Prime Minister's Office convened a meeting between the DfE, the Department for Work & Pensions (DWP), the Department of Health (DH) and the Department for Communities and Local Government (DCLG) to discuss future funding. It was agreed that each department should make a financial contribution to a cross-government, two-year grant to Kids Company.

As a result, DfE considered a Public Interest Case for providing ongoing funding, and issued a grant offer letter to the charity to extend Kids Company's previous grant under the 2011–2013 VCS Transition Grant programme. It was considered that declining the request might also affect the new Big Society agenda which the new government had recently implemented. The CEO succeeded in securing the funding from the government given her high connections and good relationship with the government. The annual report showed evidence of CEO hubris reflecting the overconfidence and trustees' reliance on the CEO's connections and abilities in securing money. See for example:

> "We are delighted to say that through the efforts of our Chief Executive and continued support of the public we have increased our income to support this expenditure which has allowed us to build a modest free reserve" (Kids Company annual report, 2012).

g. **2013-2014: Extension of transition grant programme**

The charity received a cross-government grant of £4.5 million in 2013, although the officials raised concerns related to favouring Kids Company. The DfE prepared a Public Interest case to support the continued funding of Kids Company by the government despite its failure to win a competitive grant (VCS Transition Grant schemes) which recommended that the government needed to continue funding Kids Company in order to reduce the reputational damage of the Big Society agenda if they withdrew funding.

Kids Company's key objectives were assessed over the grant period, as set out in the grant offer, through tailored interventions to improve outcomes for children, young people and families. The government's overall aim was to improve outcomes, but in fact, the expectation was in terms of the number of interventions rather than the level of improvement (PACA, 2015).

The annual report of 2013 included some information of the current assessment undertaken by the government-appointed assessor on the impact of the charity. This showed the charity's compliance with requirements for all charities to meet the expectations of their salient stakeholder (government). At the same time this could show the charity's attempts to impose some control over the charity; for example:

> "We have historically and regularly brought in independent assessors. Recently, the government, as part of their due diligence in relation to the grant they give us, appointed the independent auditors, Methods,to oversee the results related to the grant and its impact on the children we work with" (Kids Company annual report, 2013).

The charity continued to provide positive news in relation to their performance and achievement attached to hyperbole words when described. Given the fact that DfE and Cabinet office reviewed performance quarterly before releasing the next instalment, according to the NAO report, the charity regularly reported suppressing delivery targets for each quarter, sometimes by an extensive amount. For example, according to the NAO, against 1347 interventions, the charity reported that they had delivered 30217 interventions. This could be considered as an opportunistic managerial behaviour, where the charity exaggerated number of interventions to mislead the stakeholder and to give impression that the charity is progressing and meeting the expectations. The charity did not provide annual reports for 2014 and 2015.

4.8 Discussion and analysis

In considering the narrative disclosure of Kids Company over the 13-year period, the study has two main objectives, first to investigate narrative disclosure over time around such critical events or circumstances. Second, to examine the implications of CEO influence on narratives and disclosure.

After analysing the CEO narratives to detect any indications of hubris, the CEO statement and the narrative disclosure, revealed some evidence of CEO personality and behaviour which might lead over time to hubris. The analysis of the CEO statements showed that positivity and forward-looking are the most dominating tones used by the CEO when compared with negativity and uncertainty words. In addition, more than half of the CEO statements contained positive news about the charity and the operating performance. Furthermore, the results indicated that the majority of good news sentences related to the charity performance — specifically outcome and output — was attributed to the CEO herself. Those results are in agreement with those obtained by Clatworthy and Jones (2003) and Brennan and Conroy (2013). This result may indicate that the most common forms of hubris found in the CEO statements were overconfidence and attribution of performance. The study also found some evidence of Hayward and Hambrick (1997) four wellsprings of managerial hubris in the other narrative sections reported in the annual report which was in line with the research assumptions — see for example the following: first, the CEO (Camila Batmanghelidjh) had a track record of recent organisational success in fundraising through government grant, using her high connections with members of the elites and politicians regardless of the concerns aroused by the officials. Second, the identity of Kids Company was inseparably linked with the CEO in the media (for example: “The majority of interviews and appearances were undertaken by Camila BatmanghelidJh” (Kids Company annual report, 2007)), where the CEO of Kids Company was conferred celebrity status (for example: 'Person of the Year 2006'; ‘Camila was voted Woman of the Year 2006'). This aspect is created systematically by time-inflated views of the own abilities and skills, which can cause inflated ego and self-importance. The charity’s strategy of hand-to-mouth (demand-led operating model) and insufficient reserves indicates that the CEO was putting the charity under constant risk and hid the charity’s true resource ability. This could be due to the CEO’s overconfidence about the own problem-solving ability which leads to underestimation of resources required, and uncertainty (Kahneman and Lovallo, 1993; Shane and Stuart, 2002). After analysing the report, it was evident that the board of trustees’ reliance on the CEO’s (Ms Batmanghelidjh’s) vision, fundraising capabilities and, perhaps crucially, her contact with senior politicians, this could have led to the increase of CEO’s confidence, power and dominance. In addition, the fact that the CEO of the charity in the case of Kids Company was also the founder could be a further factor to give the CEO more power and dominance (Owen and Davison, 2009). From all the above evidence, it can therefore be postulated that not only the CEO narratives in the annual report but other narrative sections provided in the annual report could also reflect other aspects of hubris particularly when the CEO is also the founder of the organisation.

Second, the study investigated the narrative disclosure trends, strategies and rationales in the annual report of Kids Company to communicate its performance over time around critical events until its final collapse. It was obvious from the findings section, above, that at the end of each government grant period, the charity tended to request more funding commitments from the government. This was a common behaviour relating to the securing of government grants noticed throughout the charity's history. The charity's strategy was to offer statements of excuses to justify the lack of action by blaming external factors such as lack of local authority support, economic changes, changes in the government and local authority, and government spending cuts, which increased the demand on charity services. A possible explanation for this might be that, in this instance, the CEO or the management uses symbolic management as an assurance to preserve flexibility and recourse from their salient stakeholders (government) (in line with stakeholder theory and dispositional legitimacy). It could also be due to CEO hubris given the fact that the CEO in this case is the founder of the charity so both are equal. In this instance, the managerial information processing may be characterised as bounded rationality (Mekl-Davies and Brennan, 2011); therefore the attribution could be biased in the sense that they take credit only for success and deny any failure (Knee and Zuckerman, 1996). In relation to the official concerns raised each time the charity requested future funding commitment from the government, Kids Company tended to respond either reactively or proactively in order to meet the stakeholders' expectations (this in line with stakeholder theory). According to the analysis, the changes in the disclosure seems to be substantive — for example, providing independent evaluations of the charity activities. However, there was also some evidence of symbolic management disclosure such as emphasising more good news of performance and activities, or manipulation of a unit of measurement used for output, an impression management technique was used to portray the charity in a positive light to convince stakeholders of validity. However, in this case, it could be classified either as deliberate bias arising from opportunistic behaviour or, at the same time, it could be also considered as the sub-conscious cognitive bias of the CEO.

In 2007, the charity appear to have used a proactive strategy to secure future fundraising, where the charity used the media as a tool to legitimise their activities to gain or sustain the image and reputation of the public (in line with dispositional legitimacy). They achieved this by justifying the consequences of services closure and redundancy if the government stopped funding them (blaming government if the charity closed their services) and warning ministers. This strategy might be used to pressurise the government by appearing in the media and presenting their profile as a public opinion case; as reported in PACAC (2016b). The charity appears to have used emotive and emotional language about their client group or used veiled threats, stating that the government will face a hard time from the media. Therefore, ministers seemed compelled to ask the officials to review their decisions. This possibly could be related to CEO hubris creating an egocentric bias highlighting the importance of their services for those targeted groups by blaming the government (having more power than the government) and at the same time could be considered as an opportunistic behaviour to secure sustainable funding. Between the periods of 2010 until 2015, the CEO started to build up a good relationship with the new government as the CEO of Kids Company (Ms Batmanghelidjh) as described in PACAC (2016b) the CEO of Kids Company was almost the poster girl at the Big Society summit held by the Prime Minister David Cameron. Since then, the charity strategy in approaching the government for funding changed, as they tended to send a letter to the Prime Minister asking for future funding; this approach was evident in 2011, 2013 and 2014. However, in 2012, the charity again used media and press media to report and spotlight the case of "Hungry children in London and the UK". This action could be considered as reactive action taken by the charity after declining Kids Company's bid for £9 million from VCS National Prospectus grant schemes, to pressure the government to respond to their funding request. Therefore, the DfE prepared a Public Interest case to support the continued funding to Kids Company by the government despite its failure to win a competitive grant which recommended that the government needed to continue funding Kids Company in order to reduce the reputational damage to their wider "Big Society" if they withdrew funding.

Overall, it can be seen that despite the pressure they faced from the officials each time they requested future funding from the government, Kids Company succeeded in securing funding from the government by taking advantage of the CEO's high connections with senior ministers and politicians. The analysis of annual reports has revealed that the charity relied on symbolic management as a response strategy to the concerns raised by the officials, through deliberately manipulating the charity performance by providing more positive news, manipulating the output measurement each year to show continuing progress, and attributing good performance to the charity and attributing bad news to external parties. This opportunistic managerial behaviour was used to gain or maintain the perception of the salient stakeholders and exchange legitimacy to secure the charity's survival in the long term (in line with stakeholder theory (instrumental branch) and legitimacy theory). In relation to the CEO personality traits, the analysis showed some hubris evidence when analysing the CEO narrative which tends to show overconfidence and the attribution of positive performance and good news to self. Given the fact that the CEO of Kids Company is also the founder, the other narratives in the reports also reflect some of the egoistic language used when describing the charity's performance and achievements with hyperbole and positive words. Furthermore, the charity's approach also in appearing in the media tends to show the charity's egoistic behaviour in defending itself by attributing and legitimising their activities in the public and blaming and pointing out the shortcomings of the government. This could be a deliberate bias arising from opportunistic behaviour, but at the same time it could also be considered as the subconscious cognitive bias of the CEO hubris by underestimating the real problems faced by the charity, putting the charity under constant risk, and overconfidence in securing funds from the government. Both behaviours have counter-product the real picture of the charity's financial position leading the charity to collapse.

4.9 **Conclusion**

This paper investigates the narrative disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events, until its final collapse in 2015. It also examined the impact of CEO cognitive behavioural traits (e.g., hubris) on disclosure. There is a relative lack of empirical research in the context of crises experienced and the downfall of charitable organisations; in addition, the researcher found only very limited study in for-profit context examining hubris to understand top executives and their impact on charitable organisations' performance. This longitudinal case study was framed using the multi-theoretical perspectives of legitimacy and stakeholder theory (sociological perspective) and attribution theory and hubris (cognitive physiological perspective) to analyse annual reports over a period from 2000 to 2013 using the mixed-method approach employing quantitative and qualitative content analysis.

Overall, the level of narrative disclosure varied over the 13-year period, and the charity tends to report more narratives when facing in a specific critical financial position such as in 2007, 2008 and 2013. Unsurprisingly, the most dominant tones used in the annual reports were positivity and uncertainty; this was in line with the qualitative analysis where the charity mostly tended to use positive news when discussing their performance and activities using hyperbole words. Moreover, there was a manipulation of a unit of measurement used for output as an impression management technique to convince their stakeholders. The charity tended to behave similarly at each year-end-term of the grant by approaching the government and asking for future funding commitment. Each time the government officials raised some concerns in relation to the charity's poor cost management and effectiveness, and accuse the government of favouring Kids Company. The charity responded to the concerns reactively and sometimes proactively. Specifically, the charity reacted reactively each time officials raised concerns and proactively at the end of each grant term (for example, offering statements justifying the lack of action by blaming the external factors). In relation to the CEO hubris analysis, the findings indicate that the most common forms of hubris found in the CEO statements were overconfidence and attribution of performance to self. In addition, the analysis of the CEO statements showed that positivity and forward-looking are the most dominating tones used by the CEO. In the case of Kids Company, the analysis could be either attributed to a deliberate bias arising from opportunistic behaviour, or considered as the subconscious cognitive bias of the CEO.

This study makes two contributions to the literature. First, this is a rare longitudinal study of voluntary disclosure in the context of crisis experienced by, and eventually the downfall of, a charitable organisation, which extends the knowledge of the narrative disclosure studies in not-for-profit organisations. Second, this study contributes uniquely to the not-for-profit narrative disclosure studies by highlighting the relevance of the behavioural traits of charity leadership (e.g., CEO hubris) in studying narrative disclosure in addition to the mainstream stakeholder and legitimacy perspectives. It is worth mentioning that, after the collapse of Kids Company, the government undertook an extensive investigation, which led to changes in the board of trustees' responsibilities to assure good governance. In addition, the findings of this study have important regulatory, policy and practitioner implications. They show that the role of the Charity Commission should be more authorised to monitor the performance of charities, ensure the minimum quality of performance, and act as an intermediary between the charities and the government particularly for the issuing of governmental grants. The limitations of the research is that its findings cannot be generalised. The paper also applied qualitative content analysis that might raise issue of subjectivity. In addition, the paper used only two proxies of hubris. A further extension of the research might be to use the 14 symptoms of hubris identified by Owen and Davidson (2009) to measure the CEO hubris and the linkage between the collapsed charities.

4.10 Appendix

Appendix 1: Table of Critical Events (source – NAO and PACAC 2016b)

Year	Kids Company (Funding requests)	Officials' Concerns	Government Funding
2000			First record of Kids Company receiving grant from public sector – £50,000 from the New Opportunities Fund
2002	**Funding Requests from Home office:** 1. Kids Company requests £300,000 in emergency funding. **Reasons for funding requests:** Other sources of funding drying up. Charity needs emergency funding to avoid insolvency.	**Concerns were raised by officials:** **1.** Kids Company has poor record of cost control and financial management. **2.** Funding might set a dangerous precedent. **3.** Other similar organisations were more effective. **4.** There were no guarantees that the proposed government funding would be sufficient to keep Kids Company afloat.	**Outcome of the request:** Home Office coordinates cross-government financial rescue package of £300,000 for Kids Company.
2003	**Funding Requests from Home office:** **1.** Kids Company requests £500,000 in emergency funding. **Reasons for funding requests:** To prevent closure and lever in additional charitable funds.	**Concerns raised by officials:** **1.** Conditions of 2002 emergency grant not complied with. **2**. Payment may simply defer crisis: debts increased despite the 2002 grant. **3.** Need for evaluation of the long-term financial viability of Kids Company. **4.** Funding should be a one-off and not repeated. **5.** Absence of a chief operating officer to run Kids Company effectively.	Kids Company's accounts for 2003 report that HM Revenue and Customs (HMRC) wrote off tax debts of £590,000. **Outcome of the request:** Home Office issues a one-off emergency grant of £158,000 to Kids Company
2005			*HM Treasury awards grant from Invest to Save budget to Kids Company of £3.4 million over 3 years, the charity's first major, multi-year government grant. The Department for Education (DfE) acted as the sponsor department for the grant).
2008	**Funding Requests: (from - Department of Education):** **1.** Kids Company requests £4.5 million annual funding **Reasons for funding requests:** Funding required to avoid closing	**Concerns were raised by officials:** **1.** One-off direct funding may prolong Kids Company's dependency on government funding. **2.** The government might be seen to be favouring Kids Company over other charities	**Outcome of the request:** Kids Company is awarded a pathfinder grant through the DfE's Youth Sector Development Fund programme of £12.7 million over 3 years.

	services and issuing redundancies		
2010	**Funding Request:** Towards the end of the grant period, in autumn 2010 Kids Company again asked the government for commitments for future funding on a statutory basis.		**Outcome of the request:** The request ***<u>was declined</u>*** as officials concluded it would be difficult to justify favouring Kids Company above other voluntary organisations. ****Government actions:** **In November 2010**, DfE invited funding bids from organisations for the VCS Transition Grants programme. **This was a 2-year grant programme worth around £60 million each year.**
2011			* DfE awards £8.9 million grant over 2 years to Kids Company from VCS Transitions Grant programme.
2012	**<u>Funding Requests:</u>** **1. In July 2012** Kids Company **wrote to the Prime Minister to ask** for a further funding commitment of £10 million from the government for the charity when its VCS Transitions Grant ended in March 2013. **<u>Reasons for funding requests:</u>** Funding required to avoid closing services and issuing redundancies		**Outcome of the request:** The Prime Minister told Kids Company that ***he would ask senior officials to consider possible funding sources for the charity.***
2013	**Funding Requests: (from - Department of Education):** **1.** Kids Company requests £10 million annual funding. **Reasons for funding requests:** Funding required to avoid closing services and issuing redundancies	**Concerns were raised by officials:** **1.** Suggested amount significantly higher than other grants to similar organisations. **2.** Financial management: limited reserves and consistent cash flow difficulties. **3.** Continued dependency on government funding.	* DfE rejects Kids Company's bid for £9 million from the VCS National Prospectus grants scheme. **Outcome of the request:** **1.** DfE extends Kids Company's previous grant under the 2011–2013 VCS Transition Grant programme and awards Kids Company £1 million over 3 months. **2.** Kids Company receives cross-government grant of £4.5 million.
2014			**1.** Feb: PKF Littlejohn undertakes review of financial and governance controls at Kids Company. Kids Company receives cross-government grant of £4.5 million.

			2. Nov: Kids Company's bid for DfE competitive grant funding for 2015-16 rejected.
2015	<u>**March 2015**</u> **Funding Requests from - Cabinet Office:** 1. Kids Company requests £20 million annual funding. **Reasons for funding requests:** Funding required to ensure the sustainability of Kids Company. <u>**June 2015**</u> **Funding Requests from - Cabinet Office:** 1. Kids Company requests £3 million emergency funding for restructuring. **Reasons for funding requests:** Funding required to support restructuring of the charity to secure its future viability.	**Officials raised concerns:** <u>**(March 2015):**</u> **1.** Continued issues with cash flow and dependence on government funding to avoid insolvency. **2.** Concern that Kids Company would continue to request financial support from the government rather than achieving long-term sustainability. **Concerns raised by officials:** <u>**(June 2015)**</u> **1.** Limited confidence in the charity's ability or willingness to restructure. **2.** Funding sets a precedent. **3.** Lack of confidence in the financial figures being produced by Kids Company. **4.** Other initiatives would have greater benefit to the government's objectives, rather than supporting restructuring and payment of debt for Kids Company.	**Outcome of the** <u>**March 2015**</u> **request:** **1.** Mar: £4.3 million cross-government funding confirmed. Kids Company asks ministers to pay whole sum upfront. **2.** Apr: £4.3 million paid to Kids Company. *** **paid upfront with conditions relating to Kids Company's financial management** **Outcome of the** <u>**June 2015**</u> **request:** **1.** 2 Jun: Kids Company requests £3 million emergency funding. **2.** 29 Jun: Cabinet Office receives ministerial direction to pay £3 million grant. ****Officials advised ministers not to pay the grant. Ministers <u>formally directed officials to pay £3 million to support restructuring.</u>*** **Kids Company sexual abuse allegations and followed consequences:** **1.** 29 Jul: Metropolitan Police contacts Kids Company to request a meeting about allegations of crime, but does not give details of the allegations. **2.** 30 Jul: Kids Company signs grant agreement. Cabinet Office pays £3 million grant. Police announce investigation into alleged physical and sexual abuse at the charity. Cabinet Office told us it learned of the allegations after it paid the grant. **3.** 5 Aug: Kids Company closes. **4**. 5–18 Aug: DfE and Cabinet Office arrange to have Kids Company's clients referred to local authority services. **5.** 12 Aug: Kids Company files for insolvency.

Appendix 2 Quantitative analysis of narrative disclosure per section

Section Name	Section Word Count	Uncertainty Freq	Negativity_F req	Positivity_ Freq	Forward Looking_Freq
2013					
Representing the Children and young people	207	0	1	5	1
Letter from the Chief Executive	723	7	9	26	12
Introducing Kids Company	967	2	22	24	8
Why Kids Company is needed	909	8	24	19	10
Kids Company And The Arts	261	1	7	0	3
How Does Kids Company Deliver Its Services	646	5	1	13	6
Advocacy For Vulnerable Children	953	1	4	19	8
We Share Our Learning	1198	5	9	30	24
We Couldn't Have Done It Without You	316	7	2	1	21
With Special Gratitude To	1121	4	22	23	13
John Frieda the School of Confidence	600	11	17	15	12
Gifts in Kind	411	14	20	6	6
Company Information	1514	14	24	21	11
Strategic Report	2329	5	16	17	17
Auditors Report	678	0	5	3	2
Statement of Financial Activities	227	0	2	2	0
Balance Sheet	419	3	7	8	12
Cash Flow Statement	120	0	1	1	0
Note to the Financial statements	1097	2	0	3	9
2012					
Trustees and Advisers	134	0	0	1	0
Letter from the Chief Executive	885	11	27	25	10
Key Priorities and Principles	1192	10	15	21	20

Why We Are Needed	1160	20	27	32	34
A Snapshot of Services at Kids Company	4132	22	66	108	71
Company Information	1323	5	30	19	9
Financial and Business Review	1474	21	33	28	18
Auditor's Report	708	6	7	13	0
Statements of Financial Activities	232	0	1	4	0
Balance Sheet	188	0	2	0	0
Cash Flow Statement	123	0	1	1	0
Notes to the Financial Statements	3999	10	31	39	38
2011					
Trustees and Advisers	145	0	0	1	0
Letter from the Chief Executive	946	9	11	19	17
Key Priorities and Principles	1255	13	21	40	24
Strategy	540	6	8	18	21
Why Kids Company is needed	330	4	11	7	3
What We Do	2175	25	46	50	30
Our Successes	816	7	9	31	18
Report From the Trustees	1033	5	22	14	12
Finanical and Business Review	1608	17	38	37	25
Auditor's Report	745	7	7	11	7
Statements of Financial Activities	196	0	0	2	0
Balance Sheet	145	0	2	0	0
Cash Flow Statement	206	0	0	4	0
Notes to the Financial Statements	3619	11	28	34	41
2010					
Trustees and Advisers	152	0	0	2	0
Message from the Chief Executive	1008	3	21	26	8

Report from the Trustees	6041	47	122	138	99
Financial and Business Review	1201	20	33	21	12
Auditor's Report	702	7	7	10	4
Statement of Financial Activities	214	0	0	2	0
Balance Sheet	151	0	3	0	0
Cash Flow Statement	218	3	5	1	4
Notes to the Financial Statements	3519	12	27	35	39
2009					
Trustees and Advisers	144	0	0	2	0
Executive Summary	1551	8	40	35	30
Report from the Trustees	4009	36	64	75	75
Financial and Business Review	1197	11	32	22	28
Auditor's Report	666	7	7	3	3
Statement of Financial Activities	190	0	0	2	0
Balance Sheet	159	0	3	0	0
Cash Flow Statement	229	6	2	3	4
Notes to the Financial Statements	3274	11	26	31	25
2008					
Legal and Administrative Information	151	0	1	2	0
Report of the Trustees	12183	80	237	271	213
Auditor's Report	745	7	13	3	6
Statement of Financial Activities	211	0	0	2	0
Balance Sheet	286	0	3	0	0
Cash Flow Statement	124	0	2	1	0
Notes to the Financial Statements	3346	9	28	22	13
2007					
Legal and Administrative Details	151	0	1	2	0

Report of the Trustees	10189	60	169	170	86
Auditor's Report	772	7	17	3	3
Statement of Financial Activities	192	0	1	2	0
Balance Sheet	137	0	3	0	0
Notes to the Financial Statements	2969	8	26	26	15
2006					
Reference and Administrative Details	157	0	0	1	0
Report of the Trustees	8510	59	143	143	95
Auditor's Report	775	7	17	4	3
Statement of Financial Activities	226	0	1	2	0
Balance Sheet	173	0	4	1	0
Notes to the Financial Statements	2690	4	21	13	22
2005					
Reference and Administrative Details	175	0	2	3	0
Report of the Trustees	7583	50	130	123	95
Auditor's Report	613	6	10	2	3
Statement of Financial Activities	231	0	1	3	0
Balance Sheet	173	1	4	1	2
Notes to the Financial Statements	2706	6	24	19	24
2004					
Legal and Administrative Details	138	0	4	2	0
Board of Directors report	3300	26	47	48	47
Auditor's report	622	6	7	4	5
Statement of Financial Activities	188	0	1	3	0
Balance Sheet	175	0	3	2	0
Notes to the Financial Statements	1876	0	17	17	13
2003					
Legal and Administrative Information	132	0	2	2	0

Report of the Trustees	1750	22	44	24	28
Auditor's report	574	4	9	4	3
Statement of Financial Activities	192	0	1	4	0
Balance Sheet	182	0	3	2	0
Notes to the Financial Statements	1714	0	17	20	10
2001					
Company Details	36	0	0	0	0
Report of the Directors	719	4	10	11	18
Auditor's report	424	3	10	3	10
Statement of Financial Activities	137	0	0	1	0
Income and Expenditure Account	84	0	6	4	0
Balance Sheet	117	0	0	0	0
Notes to the Accounts	854	4	11	9	19
Schedule of Tangible Assets	116	0	2	0	0
2000					
Company Details	37	0	0	0	0
Report of the Directors	355	1	9	2	7
Auditor's report	295	1	6	1	1
Statement of Financial Activities	128	0	0	1	0
Income and Expenditure Account	87	0	5	4	0
Balance Sheet	138	0	0	0	0
Notes to the Accounts	659	0	4	3	12
Schedule of Tangible Assets	123	0	2	0	0

Chapter 5 Conclusion

5.1 Introduction

This chapter concludes the thesis by summarising the findings and identifying the main contributions of this research to the field. The first section revisits the research aim, objectives, and related sub-questions. The second section discusses the contributions and implications of the thesis to the academic debate and to practice. Finally, the limitations of the study are outlined and recommendations made for further research.

5.2 Revisiting research aims and research questions

The overarching aim of the thesis was to examine the UK charities' accountability through the use of annual reports and annual reviews as formal accountability tools. Given the overall aim of the thesis, three research objectives were formulated and addressed in three papers. Each paper is summarised below:

5.2.1 Revisiting the First paper: Investigating UK Charity Accountability: Evidence from Chairman's Statements

The first paper undertook an examination of the effectiveness of narrative communication, specifically chairman's statements, in the context of the role that trustees play in delivering charity accountability. The paper was motivated by recent research which questions the ethics of those charities that engage in manipulative business strategies when discharging accountability in order to manage stakeholder expectations. First, the author specifically examined the readability levels and readability variability of chairman's statements over a six-year period as proxy of obfuscation presence. Second, the author developed a self-constructed index, to examine the extent to whom chairman's statements accountable for. Finally, the author evaluates the accountability practice of chairman statement in the light of stakeholder theory (instrumental or ethical basis). By, testing the association between the obfuscated statements with financial variables, non-financial variables and stakeholder orientation.

The paper demonstrated that the overall readability level of chairman's statements tends towards 'difficult' and this difficulty level was stable over the entire six-year period reviewed. The results indicate that charities chairman statements are ineffective and written beyond the comprehension level of the targeted audience (or stakeholders).

Furthermore, 177 statements (out of 363; accounting for approximately 49%) met the dual criteria and may be referred to as obfuscated chairman's statements. The study further revealed weak and non-significant correlations between the readability of obfuscated chairman's statements and organisational characteristics (both financial and non-financial variables). However, further analysis (chi-square test) showed a significant association between high administrative costs and an obfuscated chairman's statement's readability level, indicating that the preparers of the chairman's statements might be using difficult writing styles deliberately in order to manage stakeholder's perceptions. Moreover, full sample results showed significant associations between low reading ease and both high programme cost ratios and surpluses. Ultimately, the statements appeared to be most accountable towards charity mission and staff (internal accountability), followed by charity beneficiaries and community (downward accountability), and finally donors and funders (upward accountability). Overall, the charities tend to behave instrumentally when preparing chairman's statements covering both bad and good news that might affect their survival, particularly when administration and programme costs are high – and even when the charity is experiencing a surplus - in order to manage donors. On the other hand, charities still reflect some ethical sense by adopting a felt accountability regime instead of an imposed accountability regime, as well as by prioritising internal accountability.

5.2.1.1 **Contributions and implications of the first paper's**

The first paper contributes to the growing body of literature in two ways. First, to the best of the researcher's knowledge this paper adds to the readability literature within the context of not-for-profit organisations. Second, it adds to the NGO accountability literature by extending the work of Dhanani and Connolly (2012, 2015) in assessing NGO accountability through chairman's statements, and using readability to empirically evaluate the pattern and motivation through the use of both the ethical and instrumental bases of stakeholder theory. In addition, to the best of this researcher's knowledge, this is the first study to empirically assess the 'target audience' of the accountability narratives by developing a self-constructed index under the basis of stakeholder-direction orientation of accountability, which extend the work conducted by Edwards and Hulme, 1995; Najam, 1996; Ebrahim, 2003, 2005; Ben- Nar, 2006 and Kilby, 2006. As such, this study has important implications for policy makers and preparers in understanding narrative reporting practices in charities.

5.2.2 Revisiting the second paper: What are the Determinants of Performance Disclosure by Charities? Empirical Evidence from UK Fundraisers

The second paper examined the extent and determinants of performance disclosure in the top 100 UK fundraising charities in the face of government cuts. The paper analysed annual reports of a sample of 92 top fundraising charities following the event of government austerity/cuts in two different points of time - 2011 (a year after the government cuts) and 2013 (three years after the government cuts). This was achieved through developing a performance disclosure index (PDI) to measure differences in the levels of performance disclosure. In addition, using the integrated lens of stakeholder theory (ST) and resource dependence theory (RDT). The paper investigated empirically the association of the organisational characteristics (e.g., charity's source of income, charity performance), internal governance structure (e.g., board size and board diversity), and top leadership characteristics (e.g., chair/CEO occupational background and gender) on the level of performance disclosure.

The research found that PDI remains low with no major changes from 2011 to 2013, with a high emphasis on efficiency criteria (e.g., resources, resources used, and immediate outputs and outcome) and less emphasis on long- term outcome criteria (e.g., charities impact and wider society). In addition, while in 2011 government income, board size, administrative cost efficiency ratio, and female CEO were positively associated with the extent of PDI, in 2013 administrative cost efficiency ratio, fundraising cost efficiency ratio and debt ratio were positively associated with the extent of PDI. By contrast board diversity, chair gender and chair and CEO occupational background are not significantly associated with PDI. The results are consistent with the prediction of stakeholder and resource dependence theories and reveal that instrumental benefits highly motivate charities to disclose performance, particularly when charities' resources and operations are under threat and due to uncertain events such as government reforms and austerity agendas.

5.2.2.1 Contributions and implications of the second paper

The second paper contributed to the limited literature on performance disclosure, particularly on the impact of organisational characteristics and internal governance and top leadership characteristics' performance determinants in the UK charity context. In light of the continued accountability, funding and strategic challenges faced by charities (Cordery *et al*., 2017), this study brings to the fore implications for policy makers in understanding the nature and drivers of performance disclosure practices in UK charities.

The findings of this study have important regulatory, policy and practitioner implications. Evidence of a continued low level of performance disclosure (PDI) suggests that urgent attention to the type and quality of information disclosed by charities is required. One possible suggestion is to develop performance-related voluntary disclosure guidance for each charity type (e.g., social services, health services) with the collaboration of social impact practitioners. In addition, the Fundraising Standards Board (FRSB) could establish a mechanism to monitor the extent and nature of performance disclosures and undertake regular assessments of the quality of information provided by charities.

5.2.3 **Revisiting the third paper: Charity Disclosure and Narratives in Times of Crises: A Case Study**

The aim of the third paper was to investigate the voluntary disclosure trends, strategies and rationales in the annual reports by Kids Company to communicate its performance and activities over time and around critical events until its final collapse in 2015. The paper conducted a longitudinal study of (narrative) voluntary disclosures covering a period of 13 years (2000-2013). A mixed method approach - quantitative and qualitative content analysis - was adopted to analyse the annual reports. The case study was framed within a multi-theoretical perspective to understand the rationales underlying the form and content of the annual report disclosures, relying on legitimacy theory and stakeholder theory (sociological perspective) to interpret the legitimation strategies used in response to specific critical events. Additionally, hubris (drawn from the cognitive psychological perspective) may reflect deeper behavioural traits of key organisational leaders such as Chief Executive Officer (CEO) overconfidence, attribution of performance and how this may impact on the form and content of disclosures.

The research revealed that narrative disclosure was dominated by positive and uncertainty word frequencies; the charity emphasised more positive news related to their performance; and the use of hyperbole words was extensive. In addition, the charity responded to concerns reactively and sometime proactively. Specifically, the charity's disclosures reacted relatively each time officials raised concerns and proactively at the end of each grant term (for example, offering statements containing excuses to justify the lack of action by blaming external factors). Finally, informed by attribution theory, it is indicated that the most common forms of hubris found in the CEO statements were overconfidence and attribution of performance to herself. Overall, the narrative disclosure of Kids Company could be either attributed to a deliberate bias arising from opportunistic behaviour or considered as the subconscious cognitive bias of the CEO.

5.2.3.1 Contributions and implications of the third paper

The third paper makes two key contributions to the literature. First, this is a rare longitudinal study of voluntary disclosure in the context of crises experienced by, and eventually the downfall of, a charitable organisation, which extends the knowledge of the narrative disclosure studies in not-for-profit organisations. Second, this study contributes uniquely to the not-for-profit narrative disclosure studies by highlighting the relevance of the behavioural traits of charity leadership (e.g., CEO hubris) in studying narrative disclosure in addition to the mainstream stakeholder and legitimacy perspectives. The finding of this study in relation to CEO hubris adds and extend the work of Merkl-Davies and Brennan (2011), Brennan and Conroy (2013) in providing evidence of the CEO deeper behavioural traits implications on the narrative disclosure in not-for profit context.

The implication of this paper is that the role of Charity Commission should incorporate more authority to monitor the performance of the charities, ensure the minimum quality of performance, and act as an intermediary between the charities and the government, particularly in the awarding of governmental grants.

5.3 Thesis limitations and opportunities for future research

Although every effort was made to ensure the robustness and rigour of the study, there were some limitations that have to be acknowledged. To address these limitations the study suggests future research opportunities to improve the literature in the context of this study as follows:

The first paper examined the accountability and readability of the chairman's statements over a period of six years. However, the researcher identified some limitations, which should be recognised when interpreting the results. First, the findings of this study are limited to chairman's statements and may not be transferable to other narratives or financial reporting in the annual reports. Second, this study did not consider the thematic structure effect on readability and variability levels. Third, not all organisational factors were considered in this study (i.e. financial variables – press coverage, organisational complexity and statement length, or non-financial variables – tones of sentences in statements). In terms of directions for future research, a fruitful area for further work would be to test the thematic effect and other organisational characteristics that might influence the complexity and variability levels in the chairman's statement. Another possibility for future research would be to investigate chairman's statement readability and accountability using different theoretical backgrounds (e.g., institutional theory might help in understanding the apparent uniformity of readability level in charities).

The second paper, which mainly focused on the determinants of performance of disclosure, was also subject to some limitations which need to be clearly acknowledged. Due to the labour-intensive nature of data collection and the absence of a database relating to charity information and governance, the sample is limited to only two different points of time – the first covering one year after the government (2011) cuts and the second covering three years after the government cuts (2013) - and only considered annual reports. Further studies may provide new insights by re-examining the level of PDI disclosure on a longitudinal basis, and consider data from annual reviews and websites. Likewise, due to data limitations, the analysis has only focused on a few internal governance structures and not consider other external governance characteristics.

Future studies might improve their analysis by investigating how the diversity of trustee boards (independence, educational and occupational background) might be associated with strategic decisions such as performance disclosure. Moreover, the findings of this study also highlighted some evidence of CEO gender impact on disclosure level; however, the study did not consider other CEO and top management characteristics. This study also suggests that future research should acknowledge the multi-dimensional nature of the non-profit organisations, which highlights the need to rely on broader theoretical frameworks. Therefore, further studies could explore how other theories may be combined and relied upon to provide a deeper basis from which to explain different motivations for performance disclosure.

Giving the nature of the third paper, which investigated the narrative disclosure in a time of crisis using Kids Company as a single case study, the findings of the paper cannot be generalised. The paper also applied qualitative content analysis that might raise issues of subjectivity. In addition, the paper used only two proxies of hubris. A further extension of the research might be to use the 14 symptoms of hubris identified by Owen and Davidson (2009) to measure the CEO hubris and the linkage between failed charities.

5.4 Chapter summary

This chapter has given an overall summary of the study findings and their contribution to theory and practice. A summary of the research objectives and their associated sub-questions was followed by a description of the contribution of this study to the current body of published research and practice. The final section discussed the limitations of the study and gave suggestions for future research.

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