

# **Legitimizing accounting change in charities: when values count more than regulation**

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# Structure of the presentation

- Research background and purpose
- Theoretical Background
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- Conclusions



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# Research Background

- The SORP has developed considerably over time: from a document applying commercially-based accounting standards to a broader, charity-specific set of recommendations and requirements.
- The aim of the paper is to explore the way key organisational actors involved in the implementation of SORP2015 (FRS 102 SORP) understand, interpret and legitimate (or delegitimate) the changes required.



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# Theoretical Background

- To implement a new accounting practice or technique, this has to be, first of all, understood and legitimated at the organisational level.
- With respect to accounting, not only is it important to understand the technicalities of what is being translated and the way it is being implemented, but also it is important to appreciate the way in which accounting practices are mobilised (Kurunmäki et al., 2010).
- In public-sector and not-for-profit contexts, accounting changes do not always yield the expected results (Connolly and Hyndman, 2001; Eldenburg and Vines, 2004; Liguori and Steccolini, 2012; Ellwood and Greenwood, 2016) and they tend to produce a layering, rather than a replacement, of practices over time (Hyndman et al., 2014).



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# Theoretical Background

- Previous studies investigated private or public sector organisations, while charities have received very limited attention:
  - Focus on the achievement of external legitimation following accounting disclosures (Connolly and Hyndman, 2001; Mack et al., 2017; Yang et al., 2017) or fundraising activities (Guéguen et al, 2015; Hind, 2017).
- In charities, change has been viewed as led by other sectors, generating conflicting pressures and risks of missions drift from the original objectives and roles of the organisation (Järvinen, 2016; Glennon et al., 2017).
- In recent years, charitable organisations have been asked to operate following business-like standards. Individual interpretations and translations of such ideas are important to understand and predict the development of this process of change.



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# Legitimacy

‘...legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support or consonance with relevant rules or laws.’ (Scott, 1995, p.45)

The more persuasive the supporting reasons justifying the introduction of a new practice, the more reasonable its adoption will be perceived, and ultimately accepted.



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# Change and legitimation strategies

Combining Green and Li (2011) and Vaara et al. (2006), the following legitimation strategies can be identified:

- Authorisation (laws, regulations, external mimetic pressures/comparisons, managers and individuals who embody power, media, etc.).
- Rationalisation (generally accepted meanings and means-end relationships, pointing out the relevant benefits in a rational and supposedly objective way; e.g. improvement in performance, etc.).
- Normalisation (professional standards and values).
- Pathos (appealing to emotions, pride, commitment, patriotism).
- Moralisation (equality, transparency, good administration and governance, etc.).
- Narrativisation (stories about events and changes).



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# Methods

- Comparative case studies (intensity sampling criterion, Patton, 2002) of charities in:
  - The UK - SORP as compulsory regulation, and
  - The Republic of Ireland (ROI) – SORP as best practice.
- Interviews (accountants and financial directors) in 11 charities in the UK (14 interviewees) and 10 in ROI (10 interviewees) – Snowball and criterion sampling: only large fundraising charities with income over £5 million (in ROI, €6 million).
- Semi-structured interviews to elicit key actors' understanding and perceptions as to the main SORP changes and the related (implicit) rhetorical strategies of legitimation or delegitimation on:
  - Trustees' Annual Report,
  - Financial statement, and
  - SORP as a whole.



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# Methods

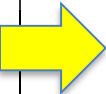
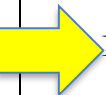
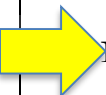
- Following Hyndman and Liguori (2016), an argument was coded when a legitimisation strategy was used with regard to one area of the SORP (Trustees' Annual Report, Financial statement, and/or SORP as a whole):
  - authorisation (political /governmental pressure, mimetic pressures, regulation, internal management, etc.),
  - rationalisation (effective planning, resources and skills, etc.),
  - normalisation (profession, comparison with public and private sector, etc.),
  - moralisation (transparency, good administration and equity),
  - narrativisation (stories and examples),
  - pathos (personal commitment, career dedication, patriotism, etc.).
- Legitimation strategies were coded as '1', whereas delegitimation strategies were coded as '2'.



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# Understanding and legitimating the new SORP

Strategy type	Code	UK Counts and frequency	ROI Counts and frequency
 Authorisation	AUT1	445 33.9%	417 37.3%
	AUT2	53 4.0%	46 4.1%
 Rationalisation	RAT1	286 21.8%	210 18.8%
	RAT2	82 6.2%	93 8.3%
 Narrativisation	NAR1	206 15.7%	174 15.5%
	NAR2	49 3.7%	35 3.1%
Number of arguments	TOTAL 1	1093 (83.2% of total)	910 (81.3% of total)
	TOTAL 2	221 (16.8% of total)	209 (18.7% of total)
	Overall total	1314	1119



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# The new SORP and its documents

UK													
Areas of change	AUT1	AUT2	RAT1	RAT2	NOR1	NOR2	MOR1	MOR2	PAT1	PAT2	NAR1	NAR2	TOT
TRUSTEES' ANNUAL REPORT	363	38	235	30	31	12	63	2	15	2	164	30	985
	36.9%	3.9%	23.9%	3.0%	3.1%	1.2%	6.4%	0.2%	1.5%	0.2%	16.6%	3.0%	100%
FINANCIAL STATEMENTS	146	14	117	58	24	7	16	3	11	7	82	29	514
	28.4%	2.7%	22.8%	11.3%	4.7%	1.4%	3.1%	0.6%	2.1%	1.4%	16.0%	5.6%	100%
SORP AS A WHOLE	144	9	67	6	12	8	20	1	20	2	51	5	345
	41.7%	2.6%	19.4%	1.7%	3.5%	2.3%	5.8%	0.3%	5.8%	0.6%	14.8%	1.4%	100%
ROI													
TRUSTEES' ANNUAL REPORT	289	26	164	38	24	9	43	4	19	5	135	22	778
	37.1%	3.3%	21.1%	4.9%	3.1%	1.2%	5.5%	0.5%	2.4%	0.6%	17.4%	2.8%	100%
FINANCIAL STATEMENTS	113	10	75	55	10	9	6	3	3	1	59	15	359
	31.5%	2.8%	20.9%	15.3%	2.8%	2.5%	1.7%	0.8%	0.8%	0.3%	16.4%	4.2%	100%
SORP AS A WHOLE	222	14	69	10	20	6	24	0	8	1	68	12	454
	48.9%	3.1%	15.2%	2.2%	4.4%	1.3%	5.3%	0.0%	1.8%	0.2%	15.0%	2.6%	100%



# Conclusions and contribution

- Legitimation of accounting changes that have been announced, but have yet to be implemented.
- UK and ROI similar responses.
- Delegitimation – strongest with respect to perceived inappropriate FRS 102 financial statement requirements.
- Enforcement by formal regulation is not absolutely necessary. Other factors (such as national culture, mimetic behaviours, and professional standards) appear to play a major role in the homogenisation and acceptance of charities' reporting rules.
- Much greater use of legitimation with the TAR changes



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# Conclusions and contribution

- Unlike the public sector (Hyndman and Liguori, 2016), charities defend their own systems of ideas and specificities: NOR, MOR, PAT.
- The research provides an example of institutional field identity at work to interpret new changes in a way that preserves shared intra-organisational values and ideas.



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# Selected quotations

- *“As far as SORP is concerned, ignoring the technical changes, providing additional disclosure is a good thing. [...] But I think then you come to the practicalities of applying it and the practical exercise of what does it actually mean. There are a few areas where there will be an uncomfortable response from journalists and the public and maybe some unintended consequences particularly in relation to fair value within the FRS requirements.”*



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- *“We have to handle this one [salary disclosure] very carefully...there is a huge public trust put on charities because it is public money. I am giving you my pounds to spend on [reference to main purpose of charity]... I think it is so important and difficult because there are so many factors about salary; there are so many factors in what can affect it. What I do think is important is the clarity of the process. When you get into comparisons between charities and comparisons between sectors that is such a difficult issue. I think of the danger that occurs if it is just picked up by individuals and journalists – that is where it can become sort of troublesome.” (UK5)*



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- *“It’s just so ridiculous. You can’t force people to put all this detail on the face of the SOFA” (UK4)*



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- *“It will be interesting to see what this change [the SORP provision relating to impact reporting] does... If you actually see the reporting being an intrinsic part of the board’s oversight strategy and delivering all that, then I think that it should lead to a slightly different way of how you approach the reporting and how that process of putting it together is managed.”*  
(UK1)



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- *“I think it [more detailed information to be provided on reserves] is a good idea because if you just look at a set of accounts and you see a very high reserves figure, [you] might think: ‘God, you’re a charity and what are you doing with all this money?’ If it’s a massive amount, you would think: ‘Well, why aren’t you spending this money; why is it sitting there?’ So to have a clear breakdown is a very good idea and so the reader can see exactly why it’s there.” (ROI9)*

