The University of Hull

An exploration of the accountability practices of Muslim charity organisations in the UK: A legitimacy perspective

being a thesis submitted for the degree of Doctor of Philosophy

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by

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An Exploration of the Accountability Practices of Muslim Charity Organisations in the UK: A Legitimacy Perspective

Sofia Yasmin

Submitted for the Degree of Doctor of Philosophy

The University of Hull Business School

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ABSTRACT

This thesis presents an exploratory analysis into the communicated and lived accountability practices of Muslim charity organisations in the UK, utilising Suchman’s perspective on legitimacy and the Islamic theoretical framework.

Communicated accountability was explored by examining the extent to which Muslim charity organisation’s [MCO’s] trustee annual reports [TARs] comply with the narrative elements of the Charities Statement of Recommended Practice (SORP) 2005 through a comparative analysis with the TARs of Christian charity organisations [CCO]. 123 CCO TARs and 238 MCO TARs were analysed. This part of the research sought to understand how MCOs managed their pragmatic legitimacy. Findings from this stage of the study suggest CCOs and larger charities of both groups of RCOs provide more disclosure and better quality TARS, RCOs do not disclose the whole range of accountability as required by the SORP framework, none of the MCOs provided any disclosure in relation to how their zakah or waqf funds have been distributed and there was evidence of complacency by external examiners and account preparers.

Lived accountability was explored using a qualitative approach. Interviews with 18 trustees, senior executive, management and charity personnel of the eight largest MCOs in the UK were undertaken. This stage of the research sought to understand how MCOs enacted accountability to achieve moral and cognitive legitimacy. It was found that functional accountability of MCOs and the subsequent moral legitimacy was linked to two core areas of accounting and auditing, and governance and oversight. A number of aspects were identified which either drove or impeded accountability in MCOs. Islamic religious values were found to be important aspects helping MCO members navigate cognitive legitimacy.

This study provides a unique lens through which the theoretical analysis of accountability within religious organisations and charity organisations can be extended.
ACKNOWLEDGEMENTS

This thesis would never have been completed without the kind and unreserved help of a few people to whom I wish to express my sincere gratitude.

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Finally, yet importantly, I also owe much gratitude to my family (my husband, my daughter and my parents) whose unflinching support throughout these past few years has been invaluable.
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<th>Full Form</th>
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<tr>
<td>AAOIFI</td>
<td>Accounting and Auditing Organisation for Islamic Financial Institutions</td>
</tr>
<tr>
<td>CCO</td>
<td>Christian Charity Organisation</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>DEC</td>
<td>Disasters Emergency Committees</td>
</tr>
<tr>
<td>DfiD</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>NFP</td>
<td>Not for Profit</td>
</tr>
<tr>
<td>MCO</td>
<td>Muslim Charity Organisation</td>
</tr>
<tr>
<td>MCF</td>
<td>Muslim Charities Forum</td>
</tr>
<tr>
<td>PPA</td>
<td>Programme Partnership Arrangement</td>
</tr>
<tr>
<td>RCO</td>
<td>Religious Charity Organisation</td>
</tr>
<tr>
<td>SORP</td>
<td>Statement of Recommended Practice</td>
</tr>
<tr>
<td>SSB</td>
<td>Shariah Supervisory Board</td>
</tr>
<tr>
<td>TAR</td>
<td>Trustees Annual Report</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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PART I

CHAPTER 1: INTRODUCTION

1.1 Background

The UK Charity sector is an important player in the UK economy having an annual income of over £60billion, with a total of 163,095 registered charities as of June 2013 (Charity Commission 2013a). The Charity sector is a major driver for delivering public benefit (Dhanani, 2009) and as such, plays an important role in society.

All charities in England and Wales, including religious charities, are regulated by the Charity Commission for England and Wales\(^1\) and they have to abide by the Charities Act (2006) as well as the Statement of Recommended Practice [SORP] 2005. These regulations are to ensure that charity accounting is ‘tighter’ with respect to financial matters and are much broader and more meaningful with respect to performance and governance issues (Hyndman and McMahon, 2011). Chesterman (1979) suggests that interest in accountability of charities seems to surge when the role of the state as a provider of services to the underprivileged undergoes significant change, when the share of wealth of charities becomes a concern, or when levels of abuse in charities increases. As such, there has always been some level of interest in the accountability of charities in the UK. One of the earliest academic studies conducted into the financial accountability of UK charities was by Bird and Morgan-Jones (1981). Their findings painted a grim picture of the financial reporting practices during that time

\(^1\) The Office of the Scottish Charity Regulator [OSCR] is responsible for the monitoring of charities in Scotland and the Charity Commission for Northern Ireland monitors charities in that region. Each body has slightly different rules which it requires registered charities to follow.
which led to a series of initiatives which have culminated in the current SORP regulations. The research directly led to the issuance of a discussion paper by the Accounting Standards Committee. This was followed by Exposure Draft 38 and subsequently the first SORP for charities (Connolly and Hyndman, 2004).

In 1987, a report by Sir Phillip Woodfield highlighted that the Charity Commission failed to adequately supervise charities and the recommendations from this study led directly to the enactment of the Charities Act 1992 which increased the regulatory powers of the Charity Commission. When the first SORP was released in 1989, a number of researchers conducted studies to assess the extent of compliance, (Ashford, 1989; Gambling, Jones, Kunz and Pendlebury, 1990; Hines and Jones, 1992). All these studies found a lack of compliance with the SORP which was not surprising as at this point the SORP was non-mandatory (Hines and Jones, 1992). These studies found the charities sector to still suffer from inconsistencies and ambiguities in its accounting and reporting frameworks. Hence, the SORP was re-designed and made mandatory and later evolved into the present SORP 2005\(^2\).

Throughout this process of regulatory change, research has continued to guide what should and should not be included in the SORP (Hyndman, 1990; 1991; Palmer and Vinten, 1998; Hyndman and McMahon, 2010) and the extent to which charities are complying with the recommendations (Palmer, Isaacs and D’Silva, 2001; Connolly and Hyndman, 2000; 2001; 2004).

More recently, in 2009, the Charity Commission conducted a far-reaching survey to take the views of all charity stakeholders on the importance of the SORP (Connolly.

\(^2\) The SORP reporting requirements were updated in Jul 2008 for larger (>£500k income) sized charities. All TAR reporting items were made mandatory for large charities, as opposed to having mandatory and recommended items.
Hyndman and McMahon, 2010), the effect of which facilitated much wider stakeholder engagement than experienced before and potentially helped legitimise the SORP further as it was seen as providing a better managed, more accountable and healthier charity sector in the UK (Connolly, Hyndman and McConville, 2013). However, an issue of key concern which was highlighted by omission in these studies mentioned was the lack of input provided by religious charities in the development of the SORP. Of the current twenty SORP committee members, only one has links to a religious organisation as a finance director (Charity Commission, 2013b). Therefore, this study focuses on the applicability of the SORP to the religious charity sector in the UK.

1.1.1 Religious charity organisations

Religious charity organisations [RCOs] represent a substantial subset of the non-profit community. As the concept of charity is a core teaching in all the major religions, it is not surprising that RCOs are a strong force in the charitable sector. Approximately 90% of the RCOs’ income in the UK comes from individual donations rather than corporate or government funding (Hoge et al., 1999). They are also less likely to rely on fundraising than non-faith based charities (Hodgkinson, 1999), pointing to a regular localised donations structure. In addition, Jeavons (1994, p.58) notes how society expects much more from RCOs compared to normal philanthropic organisations because “the outward expression of religious values is an essential facet of their mission”.

A charity is regarded as a religious or faith based charity by the Charity Commission if it has ‘the advancement of religion for the public benefit’ as a core objective.
Therefore, RCOs may also be called faith based charity organisations and the two terms are often used interchangeably. The March 2009 charities register indicates nearly 30,000 registered RCOs in England and Wales, with a combined income of more than £9 billion. Table 1.1 shows a breakdown of the different religious charities (Charity Commission, 2009).

### Table 1.1 Breakdown of RCOs in the UK

<table>
<thead>
<tr>
<th></th>
<th>Number of charities</th>
<th>Percentage of charities by faith</th>
<th>Total Income</th>
<th>Average Income per charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christian</td>
<td>24424</td>
<td>83%</td>
<td>£7,708,841,890</td>
<td>£315,625.69</td>
</tr>
<tr>
<td>Jewish</td>
<td>2369</td>
<td>8%</td>
<td>£912,720,195</td>
<td>£385,276.57</td>
</tr>
<tr>
<td>Muslim</td>
<td>1551</td>
<td>5%</td>
<td>£276,309,110</td>
<td>£178,149.01</td>
</tr>
<tr>
<td>Hindu</td>
<td>350</td>
<td>1%</td>
<td>£46,577,925</td>
<td>£133,079.79</td>
</tr>
<tr>
<td>Buddhist</td>
<td>259</td>
<td>1%</td>
<td>£35,231,676</td>
<td>£136,029.64</td>
</tr>
<tr>
<td>Sikh</td>
<td>242</td>
<td>1%</td>
<td>£32,107,268</td>
<td>£132,674.66</td>
</tr>
<tr>
<td>Interfaith</td>
<td>200</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baha’i</td>
<td>79</td>
<td>Below 0.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jain</td>
<td>32</td>
<td>Below 0.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ravidassi</td>
<td>20</td>
<td>Below 0.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zoroastrian</td>
<td>12</td>
<td>Below 0.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>29538</td>
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Source: Charity Commission (2009)

**1.1.2 Muslim charity organisations**

Muslim organisations can be split into business and non-business organisations. Muslim non-business organisations comprise mainly of charitable organisations, mosques, state religious councils (in Islamic countries) and religious schools (Madrassah). The mosque can be seen as the *sine qua non* of the Islamic religious organisation and serves as a place of worship for Muslims. In the time of the Prophet, the mosque was initially formed as a place of worship. However, as the Islamic state became established, the role of the mosque also widened. Mosques became places of administrative control whilst also functioning as the centre of
social and community activities (Sulaiman et al., 2008). In most Islamic countries today, the mosque is no longer used for administrative purposes (as the role has now been taken on by the state). Nevertheless, they still play a key role in shaping society. In western countries, for example the UK, mosques and religious schools are often classed as charities due to the role they play in serving the welfare and propagating the religion as a form of public benefit. The regulatory structure surrounding mosques is much weaker than that of religious schools (particularly so in western countries) and the external pressures on mosques comes mainly from political and social angles. Mosques and religious schools (both in Islamic countries and non-Islamic countries) are often seen as mechanisms through which funding and training is provided to terrorist organisations (Benthall, 1999), and as such, the focus on them has steadily increased, especially after 9/11.

Muslim charitable organisations deal with three main types of charity; waqf (endowment of property or money), sadaqah (voluntary charity) and zakah (compulsory charity). The way these different forms of charity are handled usually depends on whether the country is an Islamic country or a non Islamic country. In Islamic countries, such as Iran and Pakistan and Muslim dominated countries like Malaysia and Indonesia, charity can be channelled through the state or through private organisations. In non-Islamic countries, it is only private organisations which will handle such donations. Thus, the role of the Muslim Charity Organisation [MCOs] in countries such as the UK cannot be understated. There are many MCOs which operate freely in the UK, co-existing and often competing with other religious and secular charity organisations.
1.2 Motivation for study

The charity sector plays an important role in society and stakeholder trust is vital in ensuring its long-term sustainability. However highly publicised scandals in the charity sector in recent years have corroded public trust and confidence (Pratten, 2004) on organisational accountability (Ebrahim, 2003). These scandals include the collapse of two major charity organisations, Breast Cancer Relief and Moonbeams in 2003 (BBC, 2003). More recently, concerns have been raised over financial irregularities within Awema, a race relations charity (BBC, 2012). Consequently, there has been increased discussion by both academics and regulators on the need for enhanced transparency and accountability in the sector. However, much of the focus has been largely on the wider charity sector rather than sub-sectors within it. Given the variety and differences in prosperity within the sector itself (Jochum et al., 2007), considerable attention should also be paid to some of these sub-sectors especially the faith-based religious charity sector, which makes up 18% of the total charity sector in the UK (Charity Commission, 2013a).

Scandals within the religious charity sector are also becoming more common, with a number of high profile cases of malpractice and mismanagement of funds being reported in various countries with the majority of widely publicized cases being found in the US (Gibelman and Gelman, 2001). There have also been a number of such cases in the UK context. For example, in December 2011, a Christian pastor was found guilty of swindling £2.6 million from the public through a charity which was used to directly fund his lavish lifestyle (Camber and Evans, 2011). More recently, a treasurer for two Christian charities was jailed for 5 years for embezzling £500,000 through an elaborate scheme involving gift aid (Robbins, 2012).
The relatively low number of negative publicity of UK religious organisations does not suggest the examples highlighted are rare exceptions. In fact in 2011, 38% of charities investigated for poor accounting and management practices by the Charity Commission comprised of RCOs and 11% of all investigative actions taken by the Charity Commission since 2005 involved Muslim Charities (Charity Commission 2012). Despite these concerns and with public money being a key driver of activities within the religious charity sector (Hoge et al., 1999), only recently have parts of this sector began strengthening their reporting regimes in the face of regulatory changes (Morgan, 2009a). Therefore, an evaluation of transparency and accountability between various organisations within this sector is long overdue.

Furthermore, studies on accounting practices in religious non-profit organisations, in particular churches, reflected a belief that profane (Booth, 1993) accounting systems were not part of the sacred agenda and should not interfere with more important spiritual matters (Laughlin, 1988). This led to the neglect of the profane accountability activities over the sacred activities of the organisation. However, in Islamic religious organisations, it is found that accounting is considered "one of the required sacred support tools" (Abdul-Rahman and Goddard, 1998, p. 192), and "the separation between the sacred and secular activities is not as significant as that experienced by western Christian churches" (Ibid, p. 197). Given that the Islamic religion emphasises the non-separation between sacred and secular aspects of life, it has more potential to affect accounting and accountability practices. Hence, an understanding of accounting practices within the situated context of Muslim charity
organisation and, utilising the Islamic theoretical framework, is an important area to consider.

In addition, Muslim charity organisations play an important role in providing a medium for Muslims in the UK to channel their religious charity such as sadaqah and zakah, the latter of which must be distributed in conformance with the Shariah. Since there is no obligation upon such charities to have their accounts religiously audited, the extent to which these organisations conform to the prescribed rulings of the Shariah on the distribution and management of Islamic religious charity must be explored. Thus, an investigation of accountability within MCOs should provide rich contextual information on how accountability is communicated and enacted within such organisations.

1.3 Research objectives and questions

Religious organisations and charity organisations have traditionally been approached separately in the literature. Studies of accountability within religious organisations have predominantly been focused on the organisational level and undertaken in a qualitative manner using social theories to help explain the empirical findings. On the other hand, studies examining accountability within charity organisations have mainly focused on information disclosure at the wider sector level, with studies taking a more positivist, quantitative focus in analysing empirical data using functional theories for understanding. This thesis brings together these two separate bodies of literature, methods and theory and aims to provide a more holistic understanding of accountability within the religious and in particular the Muslim
charity sector. (See Figure 4.4 in chapter 4 which illustrates the literature, methodological and theoretical gap which this thesis seeks to bridge).

The aim of this thesis is therefore to explore the accountability practices of Muslim Charity Organisations [MCOs] in the UK, using a two stage approach and a number of theoretical analytical tools. Given the two-fold nature of the study, i.e. it seeks to examine both communicated compliance accountability and lived accountability. The study utilises Suchman’s (1995) theory of legitimacy as an overarching framework, together with key accountability concepts derived from the literature and is explained in detail in chapter 5. To briefly summarise here, Suchman (1995) identified three types of legitimacy, namely pragmatic, moral and cognitive. For the purpose of this study, pragmatic legitimacy has been utilised to understand communicated compliance accountability and research objective 1, as it is linked to the expected value of an organisation’s activity to immediate stakeholders (Dart, 2004). Moral and cognitive legitimacy are utilised to help understand the lived accountability of MCOs and the findings from research objective 2. Figure 5.5 of Chapter 5 illustrates the conceptual and theoretical framework of the thesis.

The first stage of the research explores communicated accountability and how this helps achieve pragmatic legitimacy:

**Research Objective 1a:** To examine the extent to which RCOs communicate compliance accountability.

Research Question 1a (i): To what extent do RCOs’ Trustees Annual Reports [TARs] demonstrate compliance accountability?
Research Question 1a (ii): Is there a significant difference in the communicated compliance accountability between MCOs and Christian Charity Organisations [CCOs]?

**Research Objective 1b:** To examine if there has been significant changes in the communicated compliance accountability of MCOs TARs between 2008 and 2010.3

Research Question 1b: Is there a significant change in the communicated compliance accountability of MCO TARs between 2008 and 2010?

The second stage of the research explores the lived practice of accountability and how this helps achieve moral and cognitive legitimacy:

**Research Objective 2:** To explore the lived accountability practices of MCOs.

Research Question 2a: How do individuals within MCOs enact functional accountability to achieve moral legitimacy?

Research Question 2b: What aspects of personal accountability and responsibility help individuals within MCOs navigate cognitive legitimacy?

Research Question 2c: What factors facilitate or impede moral and cognitive legitimacy in MCOs?

1.4 **Research method**

This study employs a mixed methods approach in answering the research questions.

The first stage of the study which examines communicated compliance

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3 The SORP was introduced in 2005 and as it takes a couple of years for charities to fully implement regulatory changes (Connolly and Hyndman, 2004), reports which had a year-end between March 31 2008 - December 31 2008 were chosen as the base year for investigation. However, once examination of the accounts was undertaken, the levels of disclosure found within MCOs were unexpected. To ensure the findings were not due to a lag in implementing reporting procedures or due to any adverse effects caused by the 2007 financial crisis, the reports for year end 2010 were also examined for comparative purposes. On-going regulatory changes in 2009 meant this year was deemed unsuitable for selection.
accountability, adopts a positivistic research design using quantitative method of analysis as this lends itself to statistical analysis and statistical generalisability. This approach has been used considerably in the literature exploring charity reporting and disclosure. A total of 361 Trustee Annual Reports [TARS] were analysed, of which 123 were from Christian Charity Organisations\(^4\) [CCOs] and 238 were from MCOs. The study compares the disclosure practices of MCOs with CCOs, thereby satisfying research question 1a, and then assesses if the disclosure practices of MCOs have changed from 2008 to 2010, thereby answering research objective 1b.

The relevance, reliability and timeliness of the TARs as well as their narrative disclosure practice in accordance with SORP 2005 are also assessed. Disclosure was examined by dichotomous scoring, through the presence/absence of the disclosure item to capture the broad accountability practices in accordance with prior studies on charity disclosure (Connolly and Hyndman 2000; Palmer \textit{et al.}, 2001). An item scored one (1) if disclosed and zero (0), otherwise. The scores for each item were then added to derive a final score for that particular theme of disclosure for each TAR.

The second research objective explores the lived accountability practices at the organisational level. Such in-depth examination of accountability practices are best explored using a qualitative approach. Hence, in order to address the second research objective, this study undertook 18 semi-structured interviews\(^5\) with the trustees, senior executive and management of Muslim charity organisations operating in the

\(^4\) Using CCOs as a benchmark for accountability within RCOs – see chapter 6

\(^5\) The researcher originally intended to carry out case study research, however due to issues gaining full access to the research site this was not possible. The researcher also found some difficulty in accessing interviewees due to confidentiality issues.
UK. Interviews were conducted over a 6 month period. The research method for the study is explained in detail in chapter 6.

1.5 Overview of findings

Research objectives 1a and 1b were explored using a quantitative approach and the findings presented in chapter 7 of the thesis. Findings from this stage of the study mirror earlier findings of poor accountability practice in the charity sector and suggest MCOs are undertaking preparations of accounts as rituals, rather than paying attention to the detail which is contained within them. The results suggest CCOs and larger charities of both groups of RCOs provide more disclosure and better quality TARS than MCOs and smaller charities respectively. Furthermore, the charities’ TARs mostly disregard judgment based disclosure and do not disclose the whole range of accountability as required by the SORP framework. Also, none of the MCOs provided any disclosure in relation to how their zakah or waqf funds have been distributed. There were also concerns about the complacency of examiners in signing off these non-compliant reports.

Research objective two was explored using a qualitative approach and the results are presented in chapter 8 of the thesis. This stage of the research found that functional accountability of MCOs and the subsequent moral legitimacy was linked to two key areas: 1) The function of accounting and auditing, which encompassed activities related to reporting and communication, budgeting and internal controls, and 2) the function of governance and oversight, which included aspects of strategic planning and compliance to legislation. Furthermore, the interviews indicated that Islamic values based on the notion of accountability to oneself, society and God, combined
with the knowledge and experience of individuals, helped shape how individuals fulfilled mission and vision and acquired cognitive legitimacy. Consequently, it was suggested that institutional funding, an increase in legislation targeting MCOs and charities in general, donor trust in the sector and the work of the Muslim charities forum were key facilitators of accountability in the sector. It was also found that factors impeding accountability included a lack of internal capacity, a lack of focus on accounting and reporting within the MCOs, a negative public perception on administration costs, issues surrounding trustee appointments and expertise and a hesitance for sharing practice. This stage of the research therefore suggests that aspects of personal accountability help drive functional accountability in MCOs, and these are guided by Islamic belief and values.

These findings strengthen our understanding of Suchmans (1995) typology of legitimacy and suggest that aspects of moral legitimacy, which include structural, procedural, consequential and personal legitimacy, all influence the way pragmatic legitimacy is handled by an organisation. It was also found that cognitive legitimacy, driven by religious values and beliefs, was important in strengthening the moral legitimacy of MCOs.

1.6 Contributions of the study

This research makes a number of contributions and these are outlined below in terms of contributions to literature, theory, method and policy.

In terms of contribution to the literature, the focus and analysis on reporting as a form of communicated accountability provides a more refined understanding of
disclosure and reporting practices of not only sub-sectors within the charity sector but more importantly, highlight the status quo of reporting by two major sub-sectors within the RCOs. Furthermore, the study provides a systematic analysis of the way trustee annual reports are presented by RCOs, an area which has been neglected, even though annual reports are an important medium through which organisations can discharge their accountability (Steccollini, 2004). In addition, the exploration of lived accountability within UK based MCOs using both a functional and personal perspective of accountability is a novel approach in getting a holistic picture of accountability practices. Thus, the findings from the second stage of the study help in enhancing the literature which calls for a better understanding of accounting as a social practice (Hopwood, 1983; Laughlin, 1990). Since prior literature has been particularly concerned with understanding accountability practices in Judaeo-Christian organisations, this study provides much needed empirical data on how accountability is practiced in a different setting, and more importantly in the context of Muslim organisations in the UK. Furthermore, such prior literature has focused considerably in attempting to understand accountability in the light of social theory and/or the writings of Christian thinkers such as Eliade and Durkheim. An understanding of accountability using an Islamic theoretical framework, with reference to Islamic values is therefore a highly appropriate and much needed way of understanding accountability within Muslim charity organisations.

In terms of theory, the study develops a framework to help explain accountability communication and lived practice, in examining the interplay between pragmatic, moral and cognitive legitimacy in MCOs through Suchman’s (1995) typology of legitimacy. This unique perspective may also have implications for other religious
charity organisations. The first stage of the study innovatively applies some form of accounting measurement constructs to accountability concepts, which previous studies have failed to consider. By utilising the SORP framework as a benchmark in understanding baseline accountability, this study provides a comprehensive framework for a better understanding of the minimum accountability requirements (and thus pragmatic legitimacy) incumbent upon all charity organisations and also in improving the quality of non-financial reporting. In addition, by locating the disclosure and reporting practices of these charities on a hierarchy of accountabilities, this research is better able to distinguish the various type(s) of accountability that RCOs prefer to disclose. This theoretically guided understanding can be of particular interest to regulators when initiating further charity reform and guidance. Combined with the second stage of the research, which takes a closer look at moral and cognitive legitimacy, this study provides a unique lens through which the theoretical analysis of accountability within RCOs can be extended.

In terms of research method, prior research has been concerned with providing a limited focus when analysing accountability, either using a case study approach to understanding religious organisations or via information disclosure when analysing charities. This limited approach has meant prior studies may have failed to fully understand the issues they were exploring due to a lack of depth and or breadth in their research approach. By utilising a mixed methods research approach, this study sought to provide a more rounded understanding of accountability practice within Muslim charity organisations.
In terms of policy implications, the findings of the study suggest that the Charity Commission needs to be more pro-active in providing guidance to and monitoring of RCOs so they are better able to fulfil their upward accountability demands. The findings also suggest that policy makers should consider providing a tailored reporting framework for smaller and faith-based charities that are more constructive in communicating their accountability to stakeholders. Moreover, this study has identified a number of factors which facilitate or impede accountability in MCOs. By paying attention to these areas both in practice and further research, the accountability of MCOs can be further strengthened.

1.7 Structure of thesis

This chapter has five parts and nine chapters as illustrated in Figure 1.1. Part I, Chapter 1 introduces and summarizes the thesis. It explains the background to the research and the motivation for the study. It outlines the research objectives, data collection and brief findings of the study. It also outlines the expected contribution of the study as well as providing an overview of the structure of the thesis.

*Part II of the thesis presents the three chapters which comprise the literature review.* Chapter 2 contextualises accountability in organisations. In particular, it explores what accountability means and the different forms it takes in different sectors of the economy. Accountability is a wide ranging term and an understanding of its meaning, notions and forms is required before it can be appropriately contextualised. This chapter sets the scene for the remainder of the thesis by introducing and explaining the different concepts and mechanisms of accountability. The concepts of accountability revolve around the issue of accountability ‘for what’ and ‘to whom’. The mechanisms of accountability are focused primarily on the reporting and
communication of accountability as well as the governing aspect of accountability. The chapter discusses these concepts and mechanisms of accountability from the perspectives of the profit, public, not for profit [NFP] and charities sector and presents a typology of accountability using this synthesis.

Figure 1.1: Structure of thesis

Part I - Introduction

Part II – Literature Review

Chapter 2: Conceptualising accountability in organisations

Chapter 3: Conceptualising accountability in Muslim charity organisations

Chapter 4: Review of empirical literature on religious charity organisations

Part III – Research Methodology

Chapter 5: Theories and concepts of accountability and legitimacy

Chapter 6: Research Method

Part IV – Empirical Evidence

Chapter 7: Communicated accountability

Chapter 8: Lived accountability

Part V- Conclusion
Chapter 3 of the study conceptualises accountability within Muslim charity organisations. It follows a similar template to chapter 2 by drawing upon the same terminology surrounding the concepts and mechanisms of accountability. The chapter introduces the central concepts which underlie the Islamic worldview/belief system and discusses the concepts and mechanisms of accountability from the perspective of Islam. This discussion leads to a comparison to be made between the construction of accountability as perceived in the traditional western literature and as perceived in Islam. Prior to a discussion of the required accountability traits expected in Muslim charity organisations, the chapter briefly discusses the concept of charity in Islam. This is important as it highlights the various types of charity in Islam and explains why Muslim charity organisations should be handling these in a sensitive manner.

Chapter 4 of the thesis reviews the plethora of empirical literature on charity organisations and religious organisations. The religious charity sector occupies a unique position in organisational study, as it can be understood from the perspective of a charity organisation or as a religious organisation. Each of these perspectives of the organisation has traditionally been approached separately by the literature. This chapter presents the debates arising in the empirical literature and synthesises these arguments to present the research gap in terms of literature, methodology and theory.

*Part III of the thesis presents the research methodology of the thesis and comprises two chapters containing the theories and concepts underlying the study and the research method.*
Chapter 5 presents the theories and concepts which are used to explain the various empirical findings of the study. This chapter brings together discussion from part two of the thesis to present a coherent and systematic framework in addressing the research objectives of this study and allowing for a research design to be built using key theoretical and conceptual issues. The chapter introduces legitimacy theory and explains how it can be utilised to gain an understanding of accountability within MCOs. The chapter also provides a framework for exploring accountability within MCOs using Suchman’s (1995) typology of legitimacy.

Chapter 6 of the thesis outlines the research method of the study. This chapter begins by outlining the philosophical paradigm in which this thesis can be positioned followed by a discussion of the two stage approach utilised by the study. The chapter firstly outlines how communicated compliance accountability is empirically examined in the study, thus answering research objectives 1a and 1b. This chapter outlines the population, sample, research instrument design, data collection and data analysis techniques. The chapter then outlines how lived accountability will be explored by the study. This is followed by a discussion of the advantages and disadvantages of using interviews as a research method and a discussion on ethical clearance issues. The chapter also outlines the interviewees, interview schedule, pilot testing and data reliability and validity issues affecting the study.

*Part IV of the thesis contains two chapters which present the empirical findings of the study.*

Chapter 7 presents the findings of the first stage of the research exploring communicated compliance accountability. The purpose of this chapter is to present
the results in relation to research objectives 1a and 1b. The communicated compliance accountability of the TARs is discussed in accordance with the conceptual framework outlined in chapter 5. The probity of the reports was examined based on their reliability, relevance and timeliness. The level of compliance to the SORP 2005 guidelines on the narrative content of RCO TARs helped explain the resource, procedural, performance and leadership accountability of the TAR disclosure.

Chapter 8 presents the second stage of the research exploring lived practices of accountability in Muslim charity organisations. This chapter discusses the findings in relation to the semi-structured interviews conducted with 18 trustees, directors, senior management and other personnel linked to eight of the largest Muslim charities in the UK. Section 8.1 explores research question 2a and discusses how individuals within MCOs enact functional accountability to achieve moral legitimacy. Section 8.2 explores research question 2b and discusses the aspects of personal accountability and responsibility which help individuals within MCOs navigate cognitive legitimacy. Finally, section 8.3 presents the findings in relation to research question 2c which examines factors that facilitate or impede moral and cognitive legitimacy in MCOs in the UK.

Finally, Chapter 9 brings together the different stages of the study to provide a reflective overview of the main strands of enquiry and implications of different aspects of the findings and links them back to the theoretical framework adopted. Section 9.1 discusses the findings from the first stage of the study in light of the interview data and outlines the implications this has on the pragmatic legitimacy of
MCOs. Section 9.2 provides an overview of the moral and cognitive legitimacy of MCOs and section 9.3 reflects on the limitations of the study and areas for further research.
PART II: LITERATURE REVIEW

This part of the thesis contains three chapters intended to provide a contextual analysis of the issues pertinent to this research. Chapter two provides an understanding of what accountability means in the context of different types of organisations. Chapter three addresses accountability from an Islamic perspective. Chapter four reviews the plethora of empirical literature on religious charity organisations. This chapter also highlights the research gap to be investigated. These chapters are organised this way for ease of presentation and clarity of ideas. The issues raised in all chapters are equally important in trying to understand the accountability practices of Muslim and religious charity organisations [MCOs and RCOs].
CHAPTER 2: CONCEPTUALISING ACCOUNTABILITY IN ORGANISATIONS

2.0 Introduction

This chapter contextualises accountability in organisations. In particular, it explores what accountability means and the different forms it takes in different sectors of the economy. Accountability is a wide ranging term and an understanding of its meaning, concepts and mechanisms is required before it can be appropriately contextualised. The chapter is organised as follows: first it outlines the different definitions of accountability and then synthesises the terminology of accountability as found in the literature. The chapter explains the concepts of accountability in more detail by examining the stakeholders to whom accountability is due and the different types of accountability that can be demanded. Following this, the chapter examines different mechanisms of accountability with a particular focus on reporting and governance as aids in demonstrating accountability. The chapter then brings together these different concepts and mechanisms of accountability and synthesises their meaning from the perspectives of the profit, public, not for profit [NFP] and charity sector. The structure of this chapter is illustrated in Figure 2.1.
Figure 2.1  Structure of chapter two

2.1 Understanding accountability
2.1.1 Definitions of accountability
2.1.2 Synthesis of accountability perspective in the literature

2.2 Concepts of accountability
2.2.1 Accountability to whom
2.2.2 Accountability for what

2.3 Mechanisms of accountability
2.3.1 Reporting and communication of accountability
2.3.2 Governance and practice of accountability

2.4 Concepts and mechanisms of accountability in organisations
2.4.1 Profit sector
   2.4.1.1 Reporting
   2.4.1.2 Governance
2.4.2 Public sector
   2.4.2.1 Reporting
   2.4.2.2 Governance
2.4.3 Not for profit sector
   2.4.3.1 Reporting
   2.4.3.2 Governance
2.4.4 Charity sector
   2.4.4.1 Reporting
   2.4.4.2 Governance
2.4.5 Typology of accountability in organisations
2.1 Understanding accountability

2.1.1 Definitions of accountability

The online Oxford dictionary (2011) defines ‘accountability’ as “the fact or condition of being accountable”. ‘Accountable’ is defined as “required or expected to justify actions or decisions”, a definition which is closely linked to the giving of an account. Historically, being held accountable and providing an account was closely related to accounting, as the literal sense of giving an account ties in with the act of book-keeping. However, over the centuries, the term accountability has evolved and although there are clear links between accounting and accountability, research has found that accounting practice is not synonymous with accountability (Roberts and Scapens, 1985; Gray, Owen and Maunders, 1988; Laughlin, 1990). This is because accounting does not consider wider institutional issues which may affect accountability (Laughlin, 1990), as accountability is no longer the notion of just ‘giving an account’ or accounting in its more technical sense. Accountability has therefore been transformed from the traditional accounting practice of book-keeping into a wider socially orientated practice (Boven, 2007).

Accountability is an elusive term because it can mean many different things to different people (Bovens, 2007). The term lacks clear definition and as such there is often complexity surrounding its understanding. However, the literature presents commonly recurring themes which provide a basis for understanding the ‘chameleon’ nature of accountability (Sinclair, 1995). In its simplest sense, accountability refers to a relationship in which people explain and take responsibility for their actions (Roberts and Scapens, 1985). In this sense, Edwards and Hulme (1996, p.967) define accountability as “the means by which individuals and
organisations report to a recognised authority (or authorities) and are held responsible for their actions.” This view assumes that some individual, small group or organisation has certain “rights” to make demands over the conduct of another, as well as seek reasons for actions taken (Goddard, 2004, p545). The practice of accounting, is therefore said to institutionalise the notion of accountability and the obligation of some people to hold others to account for their actions.

Mulgan (2000) views this right to be held to account as the primary responsibility of accountability and terms this as ‘core accountability’. He argues the original concept of accountability was very much about the external, in that account was given to some other body or person for which social interaction and exchange was necessary. However, the evolution of the term has meant it now encompasses, amongst other things, ‘internal accountability’ which includes individual responsibility and concern for the public interest. These social aspects of accountability are what Roberts (1996) argues are a means by which we seek to remind each other of our reciprocal dependence. Such reciprocal dependence can be both instrumental and moral as society is bound with each other not simply in narrow, calculable ways, but also more broadly in intended and unintended ways (Roberts and Scapens, 1985). This suggests that accountability can be understood from a number of different perspectives involving reciprocal rights and obligations.

More recently, literature has begun examining the limits of accountability (Messner, 2009), and calling for a more intelligent accountability (Roberts, 2009). Messner (2009) examined whether accountability is always and unambiguously desirable from an ethical point of view. He argues, using the work of Judith Butler, that an
individual faces a number of limitations when giving an account, linked to the opaque, exposed and mediated nature of the individual. Due to this, Messner (2009) argues that it cannot be expected that demands for accountability will always be fully met. Similarly, Roberts (2009) argues that too much focus has been placed on linking the ambiguous nature of transparency with accountability and call for a more ‘intelligent accountability’ embedded in an ethic of humility and generosity.

The next section attempts to synthesise the meaning of accountability from different perspectives in the literature.

2.1.2 Synthesis of accountability perspectives in the literature

Upon reviewing the vast literature on accountability, it is evident that different studies take a different perspective on accountability depending on how the authors view accountability in terms of its scope and its objectivity. The scope of accountability refers to the way in which some studies focus on broader more sociological aspects of accountability whilst other studies concentrate on the narrower and more technical aspects of accountability. The latter aspects of accountability refer to the more concrete practices of account giving and are therefore by nature, measurable. The former aspects of accountability, on the other hand, are harder to actualise and define since they are often socially constructed and change with context, making them difficult to measure. As for the objectivity of accountability, it refers to the ease in which the accountability defined in prior studies can be tangibly measured. By grouping studies in this way, four main perspectives of accountability are synthesised from the literature and these are further explained below and illustrated in Figure 2.2.
Figure 2.2 presents a synthesis of these different accountabilities as found in the literature by classifying them based on the scope of accountability (i.e. broad or narrow) and the objectivity of such accountability. The accountabilities suggested in the quadrants are not mutually exclusive, and may all be present to some extent in different contexts.

**Source:** Author

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### 1. Formal internal accountability

The accountability terminology which explains accountability as having a narrow scope and a high level of objectivity, results in accountability which is internally focused and highly formal. This form of accountability is “narrowly functional, short-term in orientation and favours accountability to those stakeholders who control access to key resources” (O’Dwyer and Unerman, 2008, p803). This relates to the ‘core’ purpose of accountability as defined in the narrow functional literature of giving and being held to account (Mulgan, 2000). Stewart (1984) extensively
discusses such narrow accountability when referring to bonds of accountability and links of accountability. The bonds of accountability connect the one who is held to account to the one who holds to account. These could be likened to formal (bonds) and informal (links) accountability processes within organisations.

2. **Informal internal accountability**

The scope of informal internal accountability is narrow yet the objectivity of this accountability is low. This type of accountability can be likened to the links of accountability, as discussed by Stewart (1984), that support the formal bonds of accountability. Roberts (1991) and subsequently Jacobs and Walker (2004) refer to this as individualising accountability where individuals give an account of their daily institutional lives and reproducing their individual identity in the process. This results in the focus of accountability being primarily at the organisational level (i.e. internal) but the account given by the individuals is not subject to formal mechanisms, thus resulting in informal internal accountability.

3. **Formal external accountability**

The accountability terminology which has a broad scope with a high level of objectivity leads to accountability which is formal yet has an external focus. This has been termed relational (Ebrahim, 2003) or holistic accountability (O’Dwyer and Unerman, 2008) in the literature. Relational accountability tends to be socially constructed in nature and is often derived from inter and intra-organisational relationships (Ebrahim, 2003). This suggests that the nature of an accountability relationship can be understood in the context of the organisation interacting with members of its organisational environment and the society in which it is embedded.
(Roberts, 1991; Jacobs and Walker, 2004). Holistic accountability can also be understood in a similar way, since it is assessed by the way individuals and organisations are held externally to account for their actions and also by the way in which they take internal responsibility for continuously shaping and scrutinizing organisational mission, goals, and performance.

4. Individual accountability

Individual accountability results when the scope of accountability is broad (for example, personal responsibility for one’s actions) and the level of measurability is low. This is the vaguest form of accountability as it is difficult to measure and is linked to aspects of ‘personal responsibility’ (Sinclair, 1995) and individual morality and values (Mulgan, 2000). The term ‘felt’ accountability (Fry, 1995) or ‘self’ accountability (Schlenker and Weigold 1989) can also be used to describe this type of accountability and Lindkvist and Llewellyn (2003) have likened it to individual responsibility/accountability.

As illustrated in figure 2.2, there is no single accepted definition of accountability but all previous studies agree on three main issues. Firstly, there is someone to be accountable to (Gray, et al. (1986) calls this person an ‘accountor’) and there is someone to be held accountable who also accepts sanctions (Gray et al. (1986) calls this person an ‘accountee’). Hence, in order to understand this accountability relationship, it is important to determine who the accountor is, i.e accountability to whom? and the type of accountability demanded, i.e accountability for what? (Ebrahim, 2003). Secondly, the form the accountability takes is also important (Stewart, 1984; Ebrahim, 2005), if accountability is to be adequately discharged.
Finally, the nature of these relationships is socially constructed and therefore liable to change in different contexts (Roberts, 1991; Ebrahim, 2003; 2005). This suggests that the accountor - accountee relationship in a profit organisation would be different to the nature of the relationship in a non-profit organisation. The relationship within similar types of organisations may also vary depending on the dynamics affecting that organisation. Each of these points will be discussed in detail in the following three sections.

2.2 Concepts of accountability

Prior accounting literature suggests two considerations are important in understanding the concept of accountability; ‘accountability to whom’ and ‘accountability for what’ (Bovens, 2007). These concepts of accountability help appreciate the nature of the accountability relationship between the accountor and the accountee. This section discusses these concerns.

2.2.1 Accountability ‘to whom’

Organisations can be held accountable to different groups of people. These stakeholders can be individuals, groups or organisations that have an interest in the organisation and who can influence it or be influenced by it (Freeman and Reed, 1983). From the stakeholders’ perspective, their relationships with organisations are based on how well their expectations are met and how they are treated by the organisation (Herman and Renz, 2004). Therefore, an organisation must be prepared to identify and gain the support of its stakeholders if it is to remain accountable and transparent for its actions (Ebrahim, 2003).

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6 Key issues which define the accountability relationship.
A number of typologies exist that attempt to answer the question ‘who are stakeholders?’ The primary versus secondary typology differentiates between important and less important stakeholders (Clarkson, 1995). The direct versus indirect typology differentiates between those stakeholders which are directly affected and which directly benefit from a particular action, and those who are indirectly affected (Freeman, 1984). The generic versus specific typology differentiates between specific individuals and organisations, and other more general stakeholders (Carroll, 1989). Stakeholders can also be identified according to a hierarchical typology which differentiates between upward, downward and lateral stakeholders (Christensen and Ebrahim, 2006). Upward stakeholders are usually resource providers/financiers, lateral stakeholders are usually employees and competitors, whilst downward stakeholders are usually customers/clients/beneficiaries/debtors.

Similarly, Leat (1990, p.143) states the right to require accountability can come in three instances. Structural accountability where one is accountable to those higher up the power structure. Delegate accountability where one is given specific responsibility for a task and then is required to give an account, and communal accountability which is linked to the diffusion of expectations and allegiances. Delegate accountability corresponds with lateral accountability while communal accountability corresponds with downward accountability and hierarchical accountability corresponds with upward accountability. These stakeholder relationships represent a multitude of accountabilities that an organisation must balance and prioritise (Edwards and Hulme, 1996).
2.2.2 Accountability ‘for what’

The literature covers various types of accountability that must be discharged. Prior research has focused considerably on narrow/technical types of accountability resulting in numerous types and classifications of accountability being formulated. This is often referred to as functional accountability, i.e. it is short term in orientation, focusing on accountability for resources, resource use, and immediate impacts (Ebrahim, 2003; Edwards and Hulme, 1996; Najam, 1996). This section attempts to map these different terminologies onto a framework based on commonalities within the different definitions. Upon reviewing these terms, it is evident that common threads are found in the functional accountability literature, enabling the terms to be grouped into five categories as follows; accountability for compliance, resources, procedures, performance and leadership: all of which are interlinked in some way. Table 2.1 presents these different definitions.

The main aim linking the different types of accountability is the fulfilment of organisational vision or mission. All the different types of accountability must ultimately consider the mission and vision of the organisation if accountability is to be successfully discharged. This has also been called accountability for policy (Stewart, 1984), priorities (Leat, 1990), and intentions (Goodin, 2003; Dhanani, 2009).
Table 2.1: Typology of the various functional accountability concepts

<table>
<thead>
<tr>
<th>Type of Accountability</th>
<th>Overall Definition</th>
<th>Comprised of the following concepts of accountability from the literature</th>
<th>Definition of concepts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives - Achieving goals</strong></td>
<td>This accountability is linked to the fulfilment of organisational vision or mission via the fulfilment of other formal accountability mechanisms.</td>
<td>Policy</td>
<td>• Accountability for goals which are undefined and uncertain (Stewart, 1984).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Priorities</td>
<td>• Filling user needs appropriately (Leat, 1990).</td>
</tr>
</tbody>
</table>
|                          |                    | Intentions | • Accountability in showing that your aims and intentions were pure (Goodin, 2003).  
                           |                       |                      | • The overarching intentions of charities often framed as purpose, mission, or vision with a broad indication of the area of need that they support (Dhanani, 2009). |
| **Compliance - Fulfilling legal obligations** | This type of accountability is linked to fulfilment of legal and contractual obligations (political and professional). | Legal | • Ensuring powers given by law are not exceeded (Stewart, 1984).  
                             |                       |                            | • Legal accountability is based on specific responsibilities formally or legally conferred to authorities (Bovens, 2005). |
|                          |                    | Political | • Accountability of public servant who exercises authority on behalf of elected representatives, who are held directly accountable to the people (Sinclair, 1995).  
                                  |                       |                      | • Focused on managers in the public sector for their accountability to political forums, such as elected representatives or political parties (Bovens, 2005). |
|                          |                    | Professional | • Professional accountability invokes the sense of duty that one has as a member of a professional or expert group, which in turn occupies a privileged and knowledgeable position in society (Sinclair, 1995).  
                                      |                       |                      | • Accountability to professional standards (Flack and Ryan, 2003).  
<pre><code>                                  |                       |                      | • Accountability relationships with professional associations and disciplinary tribunals (Bovens, 2005). |
</code></pre>
<table>
<thead>
<tr>
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<th>Definition of concepts</th>
</tr>
</thead>
</table>
| Resources - Handling resources | This type of accountability is linked to the use of funds and organisational resources in an authorised manner. | **Probity**  
• Ensuring funds are used properly (Stewart, 1984). |
|                         |                    | **Fiscal**  
• Making sure the money has been spent as agreed, according to the appropriate rules (Leat, 1990). |
|                         |                    | **Economic**  
• Accountability for the efficient use of resources (Flack and Ryan, 2003). |
|                         |                    | **Administrative**  
• Exercising regular financial and administrative control (Bovens, 2005). |
|                         |                    | **Fiduciary**  
• Assures stakeholders that funds, assets and future of the organisation is safeguarded (Connolly and Dhanani, 2009). |
| Procedures - Undertaking correct activities | This type of accountability is concerned with ensuring the correct activities have been undertaken to meet organisational goals. | **Process**  
• Procedures are adequate in terms of time and effort spent on them (Stewart, 1984).  
• Ensuring proper procedures have been followed to provide value for money (Leat, 1990). |
|                         |                    | **Public**  
• Public accountability involves answering, through various mechanisms from newspaper reports to hearings, public concerns about administrative activity (Sinclair, 1995). |
|                         |                    | **Actions**  
• This accountability is concerned with showing that you did the right (or an alright) thing (Goodin, 2003). |
|                         |                    | **Effectiveness**  
• Accountability for service efforts and accomplishments (Flack and Ryan, 2003). |
|                         |                    | **Activities**  
• Accountability for overarching areas of work, such as education and campaigning, as well as individual programmes and projects (Dhanani, 2009). |
<table>
<thead>
<tr>
<th>Type of Accountability</th>
<th>Overall Definition</th>
<th>Comprised of the following concepts of accountability from the literature</th>
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</tr>
</thead>
</table>
| Performance            | This type of accountability ensures the performance of the organisation meets required standards. | Performance  | • Linked with the performance of the organisation and whether it meets the required standards (Stewart, 1984).  
• The products or services generated by the organisation to pursue their intentions (Dhanani, 2009).  
• Effectiveness and success in generating funds and using them appropriately to secure the future of the organisation and to optimise impact (Connolly and Dhanani, 2009). |
|                        |                                                                                      | Results      | • Accountability in showing that what you did produced good effects (Goodin, 2003).                                                                 |
| Leadership             | This type of accountability is linked to management and director responsibilities in ensuring the organisation has carried out and met set goals. | Programme    | • Evaluates the extent to which an organisation has carried out and met goals set (Stewart, 1984).  
• Providing assurance that the charity is effective in achieving results intended (Leat, 1990). |
|                        |                                                                                      | Managerial   | • Arises by virtue of a person’s location within a hierarchy in which a superior calls to account a subordinate for the performance of delegated duties (Sinclair, 1995). |
|                        |                                                                                      | Governance   | • Accountability which is based on the principal (with authority) and agent (with a contractual obligation) analysis (Flack and Ryan, 2003). |
|                        |                                                                                      | Organisational | • An account of assignments, which superiors of an organisation will ask for from management (Bovens, 2005). |

Source: Author
Accountability for compliance: This type of accountability is linked to fulfilling legal obligations. This has also been termed legal (Stewart, 1984; Bovens; 2005), political (Sinclair, 1995; Bovens, 2005) and professional (Sinclair, 1995; Flack and Ryan, 2003; Bovens, 2005) accountability in the literature. Within this type of accountability, the terms professional and political accountability overlap greatly and are linked to the exercise of authority along a chain of command.

Accountability for Resources: This type of accountability is linked to the use of funds and organisational resources in an authorised manner. This accountability term has been referred to as probity (Stewart, 1984), fiscal (Leat, 1990), economic (Flack and Ryan, 2003), administrative (Bovens, 2005) and fiduciary (Connolly and Dhanani, 2009) accountability.

Accountability for Procedures: This type of accountability is concerned with ensuring the correct activities have been undertaken to meet organisational goals. This accountability has also been termed process (Stewart, 1984; Leat, 1990), public (Sinclair, 1995), actions (Goodin, 2003), effectiveness (Flack and Ryan, 2003) and activities (Dhanani, 2009) accountability.

Accountability for Performance: This type of accountability ensures the performance of the organisation meets required standards. This has been termed accountability for performance (Stewart, 1984; Dhanani, 2009; Connolly and Dhanani, 2009) and results (Goodin, 2003).
Accountability of Leadership: This type of accountability is linked to management and director responsibilities in ensuring the organisation has carried out and met set goals. The literature defines this type of accountability as *programme* (Stewart 1984; Leat, 1990), *managerial* (Sinclair, 1995), *governance* (Flack and Ryan, 2003) and *organisational* (Bovens, 2005) accountability.

Bringing these hierarchical notions of accountability into perspective, Gray, Owen and Adams (1996, p.35) note that matters such as trust, emotion, conscience and social contracts should also enter into the accountability relationship. To reduce such complexity to monotonic measures would be demeaning to the complexities of the accountability relationships. Therefore, it is important not to forget the broader aspects of accountability when trying to examine accountability in the organisational context. It has been argued that aspects of internal accountability can actually augment functional accountability as described in quadrant 4 of Figure 2.2. For example, O’Dwyer and Unerman (2008) view hierarchical accountability as a subset of wider holistic accountability. In this sense, holistic accountability expands the concept of performance synthesised within hierarchical accountability to include mechanisms which signify the long term achievement of organisational mission. Such accountability includes aspects of individual responsibility/accountability as discussed in section 2.2.1.

Personal responsibility and accountability is linked to internal aspects of personal conscience and is driven by adherence to internal, moral and ethical values (Harmon & Mayer, 1986; McKernan, 2012). It is doing what’s right because it is right and is regarded as particularly powerful because it is enforced by psychological, rather than
external controls (Sinclair, 1995). In fact, Hall et al. (2003, p.23) argue that such personal accountability is more powerful than functional accountability because an individual is more responsive to ‘subjective perception’ and less so to ‘objective reality’, where ‘subjective perception’ is guided by personal religious or moral values. Personal responsibility and accountability is discussed in more detail in chapter 5 when presenting the conceptual framework for the study.

2.3 Mechanisms of accountability

The previous section discussed two key issues, viz. accountability ‘to whom’ and ‘for what’, which help define the accountability relationship. This section will take this further and discuss the mechanism that such accountability can take. There are a number of mechanisms through which accountability can be discharged. Christensen and Ebrahim (2006, p.196) state that “accountability mechanisms are distinct activities or processes designed to ensure particular kinds of results”. The different types of accountability, as discussed in the previous section, will require different kinds of mechanisms to be discharged (with some overlap across the types). Christensen and Ebrahim (2006) further identify three kinds of mechanisms which help in discharging accountability; monitoring mechanisms, reporting mechanisms and auditing mechanisms. Monitoring and auditing mechanisms are closely linked, and can be discussed under the umbrella terms of ‘governance mechanisms’. The following sections discuss these mechanisms in more detail.

2.3.1 Reporting and communication of accountability

An important feature of accountability is the distribution of information to all users on an equitable basis. Two perspectives on such information disclosure come from
the decision usefulness and stewardship paradigms. The stewardship paradigm views financial information as an accountability tool, which is necessary for the fulfilment of the stewardship function that managers owe owners. The decision usefulness paradigm takes a broader view and considers the financial reporting process and information disclosure as necessary to fulfil the needs of investors and creditors, with accountability being secondary. Coy, Fischer and Gordon (2001) explain how the traditional focus on information disclosure from the stewardship perspective gave way to a focus on decision usefulness. However, there are increasing concerns that financial reporting needs to revert back to its original stewardship function as a focus on decision usefulness is “to the detriment of satisfying the needs of stewardship and accountability” (Gray et al., 1986, p.84). This is because stewardship focuses on “the relationship between accountors and accountees” whereas decision usefulness focuses solely on users of the information, disregarding wider stakeholders (Ijiri, 1983, p.75).

The annual report which organisations use to convey financial and narrative performance information about a firm can serve as an important method of discharging such accountability, as it is often the main source of information about an organisation. Although there are other methods by which organisations can discharge information, for example websites, the annual review, other promotional material, etc. the annual report remains the main accountability tool for most organisations regardless of their size and available resources. Therefore, in terms of accountability, annual reports and financial statements are seen as essential for management to discharge their accountability to stakeholders (Tower, 1993; Connolly & Hyndman, 2004) as well as to fulfil legal obligations (Woodward, 2003).
2.3.2 Governance and practice of accountability

Monitoring mechanisms are linked to the governance of an organisation or institution. Tricker (1984) notes that the word governance has Greek roots, originally ‘gubernare’ in Latin which means to rule or to steer. He goes on to suggest that governance is a key requirement wherever “power is used to direct, control and regulate activities that affect people’s interests”, and therefore governance is something which “identifies rights and responsibilities, legitimises actions and determines accountability” (ibid, p.8)\(^7\). The idea of governance as a ‘steering mechanism’ provides an insight into the true meaning of governance as it suggests governance should not be connected primarily with rules or regulations; if the organisation is a ship, then the role of governance is to steer the ship to its goal or destination (Hyndman and McDonnell, 2009)\(^8\).

The idea of governance extends beyond issues of management in an organisation and “if management is about running business; governance is about seeing that it is run properly” Tricker (1984, p7). Hence, the role of governance within an organisation is not about being immersed in the day to day running of the organisation, but rather to ensure the strategic direction, policy and structures in place within the organisation are conducive to its overall objectives.

\(^7\) Kooiman (1999, p.68) notes other definitions of governance in the wider literature include: (1) “a continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken”, (2) “Self-organizing, inter-organisational networks characterized by interdependence, resource exchange, rules of the game and significant autonomy from the state”, (3) “conscious management of regime structures with a view of enhancing the legitimacy of the public realm”.

\(^8\) As the primary focus of this study is at the organisational level, the reference to governance in this study will refer to the system of organisational governance; i.e the way in which the organisation is directed, controlled and held accountable (Cornforth, 2003).
Iqbal and Lewis (2009, p12) view governance as being essentially about decision making. They argue that a lack of proper decision making structures, compounded by inefficient systems of monitoring can result in organisational collapse. They present three dimensions of decision making which are pertinent to governance of all types of organisations; ‘for whom’, ‘by whom’ and ‘with what resources’. These issues are inextricably linked with the notions of accountability. In this regard, they outline a governance agenda for decision making which includes:

- the distribution of decision-making responsibilities among different participants;
- rules and procedures for making decisions;
- the degree of involvement in decisions;
- the structure through which the goals and objectives are set;
- the means of attaining those objectives; and
- reviewing and monitoring performance.

In addition to decision-making, the role of governance within an organisation could also be linked to how accountability relationships are determined in an organisation and how accountability is discharged to different groups of stakeholders. Thus, governance could be seen as an integral part of accountability of an organisation. Without adequate governance processes, the accountability function of an organisation cannot be fulfilled. Therefore, the governance of organisations is a key aspect of their accountability which should also be explored as part of an examination of their accountability regimes.
2.4 Concepts and mechanisms of accountability in organisations

The previous sections explained the different concepts and mechanisms of accountability in a general context. This section will explore these issues in the profit, public, not-for-profit (NFP)\(^9\) and charities sectors. This will also enable a typology of accountability to be presented by highlighting the interplay of accountability in the different sectors and differentiating the charity sector.

2.4.1 Profit sector

Goodin (2003) discussed the accountability regime of the profit sector as being heavily focused on bottom-line results as its subject of accountability, and upon unfettered competition as its characteristic mechanism for achieving accountability. This agency\(^{10}\) perspective of accountability views accountability by directors and management of business entities to shareholders as the key concern of the profit sector. However, the literature has now started to also look at accountability to society in general. This new ‘corporate social responsibility’ has been the focus of much of the accountability research conducted within profit organisations. This has stemmed from the widespread belief that companies which are socially and environmentally aware are likely to reap financial rewards. Matters such as ethics and accountability are now becoming more apparent in the profit sector and the central issue is concerned less with how much profit was made and more into how the profit was made and if the methods were ethical (Gray \textit{et al.}, 1996). This suggests that the holistic accountability demands are now being given more importance.

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\(^9\) The charities sector is part of this wider NFP sector.

\(^{10}\) The agency theory of accounting explains the relationship between managers (agents) and owners (principals) and the dilemma in motivating one party, to act in the best interests of another rather than in their own interests (Goodin, 2003).
Waddock (2004) explored the different initiatives that companies across the globe have taken to foster accountability. She discusses how public activism, coupled with pressure from the social and ethical investing movements, caused corporate brands to change the way they worked. She argued for all corporate entities to have the same foundational principles towards accountability to ensure transparency and comparability between different organisations. This is, however, difficult to attain due to the global nature of business, especially since different corporations may have different profit motivations, hence making these differences difficult to reconcile.

2.4.1.1 Reporting in the profit sector

In the profit sector, registered companies need to comply with the financial reporting requirements of the Companies Act 2006 (state regulation) and with the relevant accounting standards (private sector regulation) of the UK Accounting Standards Board (ASB) and the International Financial Reporting Standards (IFRS) Board. In addition, listed companies need to comply with requirements to make disclosures pertaining to their respective market. Anything in addition to those requirements are considered acts of voluntary disclosure. The main arguments for disclosure within the profit sector are centred around reducing information asymmetry\(^{11}\) (Jetty and Beattie, 2009). Elliott and Jacobsen (1994) see enhanced disclosure quality as a positive thing as it leads to reduced cost of capital, litigation and data processing, as well as an improvement in competition. Brammer and Pavelin (2004) explained different motivations for disclosure in the ‘for profit sector’. Using economic theory,

\(^{11}\) Information asymmetry assumes management have more information about the organisation than external stakeholders and this gap in information should be narrowed by management by sharing the information they have to increase transparency and reduce possibilities of malpractice (Fama and Jensen, 1983).
they view disclosures as mitigation tools against adverse regulatory or legislative pressures in the future. Using socio-political arguments, they view disclosures as influential tools that affect the perceptions and actions of social and political stakeholders. Furthermore, enhanced voluntary disclosure could therefore be used to legitimise organisations action (legitimacy theory perspective) and to provide enhanced disclosure to key stakeholders (stakeholder theory perspective).

Healy and Palepu (2001) conducted a comprehensive review of the empirical disclosure literature in the profit sector. They found the disclosure literature to be based around five key areas; the role of disclosure in capital markets; the regulation of disclosure and financial reporting; the role of auditors and intermediaries in the disclosure process; managers’ reporting decisions; and capital market consequences for reporting and disclosure. This was subsequently followed by Core (2001) who suggested the empirical disclosure literature should focus more heavily on voluntary disclosure because it “offers the greatest opportunity for large increases in our understanding of the role of accounting information in firm valuation and corporate finance” (Ibid, p.442). Other voluntary disclosure studies within the profit sector are currently centred around two main themes; intellectual capital reporting and disclosure (ICRD) (see for example Guthrie & Petty, 2000; Bozzolan, Favotto and Ricceri, 2003; Brennan, 2001; Li, Pike and Haniffa (2008), and corporate social responsibility disclosure (CSRD) (see for example Guthrie and Parker, 1989; Gray et al., 1996; Deegan et al., 2002; Haniffa and Cooke, 2005).

2.4.1.2 Governance in the profit sector
Governance in the profit sector is usually centred around corporate governance as research has traditionally been carried out in firms where profit maximisation and protecting shareholder values are key concerns. Tricker (1984, p.2) notes that such research has covered “concepts, theories and practices of boards and their directors, and the relationship between boards and shareholders, top management, regulators and auditors, and other stakeholders”.

The corporate governance model was promulgated by Berle and Means (1932) when they linked the problems of the manager - owner relationship with accounting quality. Since then the corporate governance literature has grown immensely as firms have grown in size and complexity. Research into the internal audit function (Churchill and Cyert, 1966), the relevance and effectiveness of audit committees (Zaman, Hudaib and Haniffa, 2011; Ghafran and O'Sullivan, 2012), board composition and processes (Cadbury Report, 1992; Leuhlfing, Copley and Shockley, 1995), as well as the growth of audit specific firms (Jamal, Johnson and Berryman, 1995) have all added to the depth of this literature. These different dimensions have all helped formulate the current corporate governance model. In addition, regulatory reforms such as the Cadbury Report (1992), the SOX Act (2002), the Smith Report (2003), the Higgs Report (2003), the OECD (2004) ‘Principles of Corporate Governance’ and the Combined Code (2012) have all helped shape the corporate governance framework as it stands today.

The majority of such prior studies have assumed that there will be a conflict of interest between the managers and owners (shareholders) of the firm. This assumption is based on the agency theory of accounting which has been criticised by
many people as portraying a “morally bankrupt view of the world” (Gray et al, 1996, p75). In fact, Whittington (1986) and Sterling (1990), amongst others, have argued that this theory shows disregard to the notions of loyalty and morality that humans possess. This weakness of the corporate governance model is one reason why it has been argued to be inappropriate for the NFP sector (Goodin 2003).

2.4.2 Public sector

Tomkins (1987) views accountability in the public sector as the presentation of accounts or performance in accounting terms. However, Martinez-Gonzalez and Marti (2006) argue that this can be difficult in the public sector where the nature of public resources constrain the rendering of accounts due to the absence of a bottom line or the profit figure. This is why accountability in the public and NFP sectors are given greater importance than the private sector. Goodin (2003) classifies public accountability as hierarchical and action driven due to its bureaucratic nature. In respect to public officials, they need to ensure that they act within their authority and provide reasons for their actions. Hence, the focus in the public sector remains within the boundaries of technical accountability demands and focuses upon board of directors and the elected officials.

The research conducted into public sector accountability has focused considerably on hierarchical accountability (Mulgan, 2000; Goodin, 2003; Bovens, 2005; 2007; Romzek and Dubnick, 1998; Koppell, 2005 etc) as it has been argued that without defined boundaries, public sector accountability cannot be adequately assessed (Taylor and Rosair, 2000). An increasing body of literature has attempted to explain the concept of accountability in the public sector (for example; Patton, 1992; and
Taylor and Rosair, 2000) and attempted to capture its multiple strands through the formulation of accountability typologies (Stewart, 1984; Sinclair, 1995; Johnston and Romzek, 1999; and Bovens, 2005; 2007). In addition, calls for increased effectiveness and greater accountability in government (Cunningham and Harris, 2001) and the rise of New Public Management (Goddard, 2005) have also meant that research in the public sector has started to focus on the practical implications of accountability.

2.4.2.1 Reporting in the public sector

In 1976, the Layfield Committee suggested that local authorities should “devise a means of providing the electorate with financial information about services in reasonably simple and straightforward terms”. Since then, numerous changes have occurred in the public accounting and reporting domain, most notably the requirement to produce an annual report for local authorities which was imposed in 1982 (Butterworth, Gray and Haslam, 1987). There have been numerous studies examining the role of annual reports in rendering government accountability (Jones, 1992; Taylor and Rosair, 2000; Coy et al., 2001). Public sector organisations do not have a profit motive and therefore may rely more on the annual report than the financial statement to discharge their accountability (Dhanani and Connolly, 2009). Unlike financial statements, annual reports are able to convey performance related information and offer a discursive analysis of activities.

Steccollini (2004) suggests that public accountability changes over times as shifts in social, cultural and political context occur. She explains how concerns surrounding fiduciary accountability, with a focus on compliance, have now given way to
performance and programme accountability, with a focus on effectiveness and outputs (performance), and efficiency and outcomes (programme). These shifts in the way accountability is conceptualised in the public sector have also changed the way in which the annual report is viewed within the sector. Although there have been concerns that the annual report provides information that is irrelevant to users (Jones and Pendlebury, 1996) and that it is unlikely to be used on a large scale (Jones, 1992), it is still viewed as the primary medium of accountability within the public sector (Ryan et al., 2000; Taylor and Rosair, 2000; Coy et al., 2001).

2.4.2.2 Governance in the public sector

Public sector governance is usually linked to the complex relationships that exist within government and executive management of public sector entities, in relation to accountability for their use of public funds and resources. Cornforth (2003) discusses how governance issues in the public sector became increasingly an issue of public concern during the 1980s when successive Conservative governments implemented widespread reform in the public sector. Some of these reforms included the establishment of independent trusts within the NHS, the establishment of training and enterprise councils, and the removal of FE and polytechnic colleges from the control of local authorities. The changes introduced large and complex structures with a “fragmented system of local governance” (ibid, p3) which meant much of the complex forms of governance that exist in the corporate world (corporate governance) have also been applied to the public sector.

Such rapid changes and the variety of governance frameworks in the public sector raised concerns about their accountability, leading Plummer (1994) to suggest the
emergence of a ‘governance gap’ in the public sector. This ‘governance gap’ relates to inconsistencies in the ways in which quangos\textsuperscript{12} were governed, and a lack of clarity about how they should be governed. Such concerns led to the establishment of the Nolan Committee, in 1994 in the UK, whose aim was to make recommendations to try to streamline and provide transparent governance structures within the public sector (Cornforth, 2003).

Goodin (2003) notes how the governance mechanisms within the public sector are traditionally hierarchical with a chain of command. Due to this command and control governance, the public sector has tried to take on private sector governance practices in the hope they will increase efficiency and outcomes (Edwards, 2002, p52). This is particularly the case because corporate governance processes can be “readily adapted” since most of the larger public sector bodies are very similar to private organisations in terms of the performance enhancing measures they employ. This is however, in contrast to Clatsworthy, Mellett and Peel (2000) who argue that the governance processes within the public sector need to be more stringent as the sector deals with public money. As such, they have argued that the private sector models are problematic for the public sector because the required accounting and auditing functions are different in the two sectors.

2.4.3 Not for profit [NFP] sector

The absence of a bottom-line and multiple ‘uncertain’ accountabilities faced by the NFP sector make it different to the profit sector (Mulgan, 2000). It has therefore been argued that the board of directors and management of an NFP are accountable

\textsuperscript{12} Quasi-autonomous non-governmental organisation
to a wider group of stakeholders than profit organisations (Woodward & Marshall, 2004, p. 124). Despite these multiple accountabilities there is a plethora of research conducted in the NFP sector which shows how the sector manages its relationships with different stakeholders (Flack, 2007). Keating & Frumkin (2003) note this could be due to the different accountability demands placed upon NFPs as different stakeholder require different things. Najam (1996) identifies three categories of stakeholder in a NFP: patrons (upward accountability); clients (downward accountability) and NGOs themselves (lateral accountability). Christensen and Ebrahim (2006) also suggest similar accountability for NFPs: (1) upward to individual donors, funders, and their national voluntary agency; (2) laterally to one another and themselves, as well as to the staff, volunteers, community board members, and the community agencies with whom they work; and (3) downward to their clients and beneficiaries and the local community.

A key debate is which stakeholders should get priority. Within an NFP this often centres on whether primary accountability should be to patrons, or to its beneficiaries and wider stakeholders (Ebrahim, 2003; Najam, 1996). In reality, NFPs tend to focus on hard legal accountability towards donors, and softer “moral” accountability towards beneficiaries (Lee, 2004), since the latter cannot force accountability onto an NFP as they do not have legal or economic power over them (Hailu Senbeta, 2003). However, Ebrahim (2003, 2005) notes that an undue focus on hierarchical accountability can be damaging to an NFP organisation because this leads to a focus of accountability to purely upward stakeholders (i.e. donors, government and funders), which can result in a narrowing of accountability relationships. These concerns led Christensen and Ebrahim (2006) to suggest for NFPs to focus on
accountability towards lateral and downward stakeholders, as strengthening this direction of accountability helps foster better relationships with beneficiaries and also helps gain legitimacy (Slim, 2002).

2.4.3.1 Reporting in the NFP sector

One of the ways a NFP organisation is held to account is through the mechanism of information disclosure to its stakeholders. Applying economic theory to NFPs, Bogart (1995) suggested that accountability implies identifying constituencies or groups to whom the organisation owes compliance, specifying the interests of those groups, and communicating information about how well the organisation is serving those interests. According to Ebrahim (2003), two accountability requirements can be fulfilled in this way: firstly, those to funders through disclosure statements and performance evaluation reports, and secondly, those to a wider set of stakeholders through consultation and social audit that discharge a more “holistic” accountability.

The annual report is therefore a key method of discharging accountability and thereby in increasing public confidence in the NFP sector (Hooper et al., 2008). This has also been argued by Lee (2004, p.180) who suggests that public reporting can also help enhance sectoral accountability to the general public or what he calls the ‘citizenry’. It has been argued that traditional financial statements provide limited role in discharging accountability as they do not provide information on aspects such as success, performance and impact (Torres and Pina, 2003). Hence, within NFPs the focus is now turning to accounting narratives to provide a more complete discharge of accountability.
2.4.3.2 Governance in the NFP sector

It was not until the 1980s when NFP governance was identified as a critical area for research (Young, 1992). A literature review by Middleton in 1987 found a huge gap in empirical and academic studies related to NFP governance. The governance literature that did exist was mainly prescriptive in nature, looking at ways in which shortcomings of governing bodies could be addressed (Herman, 1989) rather than what governance structures actually existed within NFP organisations. Cornforth (2003) notes how this prescriptive literature led to an over-simplification of the problem that boards faced, resulting in ineffectual solutions being presented. The main problem being the assumption that it was not the way an organisation was governed that was important but the way that it was managed. In essence, what was required was not a prescriptive approach to what the ideal board should be doing but an empirical analysis of what boards were doing and then presenting practical solutions of how they could improve their governance roles (Herman, 1989). Drucker (1990) agreed with this and suggested a focus be placed on the role of the board as a function for governance.

Many researchers have argued that the survival of NFP firms depends on them becoming more business-like in their practice structure and philosophy (Unterman and Davis, 1984; Fine, 1990). However, the unique characteristics of the NFP organisation require a different governance framework than that of the corporate firm to aid effective accountability. Since the main purpose of a NFP organisation is different to that of profit-seeking firms, it makes sense that the structure, process and decision-making rules within the organisations would also be different (Alexander and Weiner, 1998). The performance measures of these two types of firms also
differ greatly, with for-profit firms measured against the return on profit they can provide for their shareholders, whilst the non-profit firms are measured on how well they have achieved their mission objectives (Bradshaw, Heyday and Armstrong, 2007). The literature, therefore, suggests that there are clear differences between the for-profit and the non-profit sector (Alexander and Weiner, 1998; Bradshaw et al., 2007; Crawford et al., 2009). These differences are not exclusively related to the mission of the organisations, the performance measurement of the organisations, the leadership structure within the organisation, and the board characteristics and size (McFarlan (1999). Hence, for organisations to be effective in their accountability, they should also have an appropriate governance framework which is sympathetic to its objectives and mission.

2.4.4 Charity sector

The charity sector is a part of the wider NFP sector. As such, the issues discussed in section 2.4.3 are also applicable here. This section takes a more focused look at charity organisations and discusses particular concepts and mechanisms of accountability which will help shape this study. Secular and religious charity organisations are similar in many ways, hence the discussion here does not distinguish between them. The accountees in a charity organisation would ultimately be the board of trustees and senior management. For the purpose of this research, the ‘to whom’ is yet to be fully answered but unequivocally the major ‘accountor’(Gray et al., 1986) is God, for all religious charities.

Plummer (1997) notes that the stakeholders of a charity are those people who have a continuing interest in its activities and the capacity to influence it. Every charity has
a number of stakeholders, e.g. members, staff, clients, customers and so on, and each will interpret the mission of the organisation in a somewhat different way. Furthermore, he states that:

“charities have a more diverse and complex group of stakeholders and it is often difficult even for people employed by a charity to have a shared view about the identity of the stakeholders. Yet unless this is agreed it is unlikely that a charity can begin to plan how it should be accountable” (ibid, p38).

This is even more important in the religious charity sector, as it is both motivationally and organisationally distinct from other sectors (Goodin, 2003).

The SORP committee of the Charity Commission have undertaken a research programme to develop possible rankings of classes of stakeholders (Jetty and Beattie, 2009) which will aid in charity accountability. This is because the Charity Commission (2004, p.9) interprets accountability as “providing relevant and reliable information to stakeholders in a way that is free from bias, comparable, understandable and focused on stakeholders' legitimate needs”. The results from this research study conducted on behalf of the Charity Commission by Connolly et al., (2009; 2013) suggest mixed views on primary charity stakeholders in relation to charity reporting. The Charity Commission view funders to be the main stakeholder, academics and funders view beneficiaries to be the main stakeholder, auditors view regulators as the primary stakeholder, whilst preparers of charity reports feel all stakeholders should be considered. A subsequent study by Connolly and Hyndman (2013) found donors to be the most important stakeholder as viewed by other stakeholders. However, Connolly, Dhanani and Hyndman (2013), found that
accountability to beneficiaries was important but difficult and focusing on donors’ information needs may be an alternative to supporting beneficiaries’ interests.

A number of studies within the charities sector have also identified important stakeholders. Some of these are presented in Table 2.2, and there is a considerable overlap between the categories suggested by the different studies.

Table 2.2: Charity organisation stakeholders identified in the literature

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Funders \n• Users \n• Employees \n• Volunteers \n• Wider community</td>
<td>• Donors \n• Beneficiaries \n• members \n• Existing and potential supporters \n• Wider community \n• Regulatory authorities</td>
<td>• Funders \n• Donors \n• Staff and trustees \n• Wider public</td>
<td>• Funders (inc donors and sponsors) \n• Sector regulators (government agencies and regulatory groups) \n• Clients and communities</td>
<td>• Donors \n• Clients \n• Staff \n• Board of trustees \n• Community that benefits indirectly</td>
<td>• Donors \n• Funders \n• Beneficiaries \n• Staff \n• Volunteers \n• Wider sector</td>
</tr>
</tbody>
</table>

Source: Author

Hence, from this literature, stakeholder relationships can be split into three main themes using the upward, downward and lateral typology. Firstly, there is a relationship between the charity and those who provide resources to it (upwards). These resource providers comprise of funders, such as governmental organisations and other NGO bodies. Funders also include donors to charities, and can comprise of individual donors or larger community based donor groups. These funders ensure the charity can carry out its mission and activities adequately. Upward stakeholders
can also include sector regulators who provide resources in the form of advice and support to ensure the charities legal obligations are being fulfilled. Regulators are a key mechanism which help a charities financial probity, thereby enhancing the trust and confidence in the organisation and in ensuring continued support (Ebrahim, 2003). Secondly, there is a relationship between the charity and those who benefit either directly or indirectly from its services (downwards). These stakeholders consist of beneficiaries, clients and members of the organisation. The literature often points to these stakeholders as being the most important when examining issues of service delivery (Christensen and Ebrahim, 2006). Finally, there is a relationship between the charity and those stakeholders that are affected by its operations. These can consist of other charities, employees and volunteers or the wider society.

These accountability relationships consist of both formal and informal types of accountability but in religious organisations, the formal and informal relationships can often be difficult to distinguish (Laughlin, 1990; Booth, 1993; Lightbody, 2003) and therefore empirical analysis of such relationships may be difficult to do. Laughlin’s (1990) study shows that such simple models cannot be used to explain the accounting practices of more complex organisations, such as the Church of England, and may also be the case in other religious organisations. Hence, there is a need for greater emphasis to be placed on reflecting the actual practices of organisations within accountability models. What Laughlin’s (1990) model does suggest is that any analysis of RCOs must incorporate an examination of both formal (contractual) and informal (communal) accountability issues13.

13 As discussed in section 2.1.2
2.4.4.1 Reporting in the charity sector

The Charity Commission takes the view that accountability is a charity's response to the legitimate information needs of its stakeholders (Charity Commission, 2004). This requirement is enshrined in the Statement of Recommended Practice (SORP) which was originally published in 1995 and subsequently updated in 2000 and 2005, with a minor update in 2008. Flack and Ryan (2003) note that the primary vehicle used to discharge and demonstrate accountability in many charity organisations is the annual report. The Charity Commission (2004, p.9) expects the annual reports to “provide a focal point for all accountability by containing the information required by law and the Charities SORP”. Stakeholders should be able to easily obtain reliable information on a charities financial position and performance, deployment of resources, organisational structure, policies, priorities and achievements.

Leat (1990) also refers to the balance of knowledge when referring to meaningful discharge of accountability. She asserts that people with more knowledge can hold control over people possibly higher up in the hierarchical chain who do not have this knowledge. When applied to a religious organisation, the person with the most religious knowledge may be seen to be the most powerful entity within a religious organisation. It is therefore vital in an RCO context that the annual report is used to overcome such difficulties, by providing a full account of the charities activities. However, a study conducted by Morgan (2009a) found that while the willingness to embrace reporting requirements was high in RCOs, compliance was still patchy.
2.4.4.2 Governance in the charity sector

Arguably, the most important governance function of a charity is its board of trustees (Cornforth, 2003). Hyndman and McDonnell (2009, p.9) view governance as being more than just the way in which organisations are ruled or directed but also encompassing the way in which stakeholders of an organisation interact with one another:

“charity governance could be viewed as relating to the distribution of rights and responsibilities among the various stakeholder groups involved, including the way in which they are accountable to one another and also relating to the performance of the organisation in terms of setting objectives or goals and the means of attaining them”.

Under trust law, the members of the governing body of a charity (the trustees) are appointed to ensure the money and resources donated to the organisation are used to serve the charity’s intended beneficiaries. Therefore, one of the major aspects of a trustee’s role is to ensure that staff and management of the organisation carry out the objectives of the charity. Also, trust law states that a trustee cannot benefit financially from the charity and thus an employee cannot be a trustee. This should result in a complete separation of staff/managers and board of trustees, perhaps even more so (as argued by Cornforth, 2003) than the requirements of the companies law. Charity law also places a heavy emphasis upon the personal responsibility of a trustee.

The Charity Commission, however, has allowed some exceptions, on a case-by-case basis, where the users of the charity are allowed to become trustees, but limit this to
one-third of the board (Charity Commission, 2000). Locke et al. (2003) outline the
groups that fall into this category include self help groups and mutual aid groups. In
doing so, they also refer to two specific charities (ibid, p.61), Arthritis Care and
Mencap, who have reformed themselves with governing bodies where the majority
of the trustees are users. This also has implications for the governance of RCOs as in
some instances, particularly places of worship, where the trustees of the organisation
may also be users/beneficiaries. With regards to RCOs, the ‘Faith in Good
Governance’ report (Charity Commission, 2009) provides more specific guidance
including how trustees should be appointed, how charities need to be registered, how
trustees should conduct their work, what role faith leaders have within governance,
and how to avoid disputes.

2.4.5 Typology of organisational accountability

Table 2.3 presents a typology of accountability synthesised from the discussion in
sections 2.4.1, 2.4.2, 2.4.3, 2.4.4.
### Table 2.3: A typology of organisational accountability

<table>
<thead>
<tr>
<th>Concepts of accountability</th>
<th>Profit Sector</th>
<th>Public sector</th>
<th>NFP sector</th>
<th>Charity sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>Board of directors and management.</td>
<td>Board of directors, management and elected officials.</td>
<td>Board of trustees and management.</td>
<td>Charity trustees and management.</td>
</tr>
<tr>
<td><strong>Who is accountable?</strong></td>
<td>Primarily to shareholder and secondary to other stakeholders</td>
<td>Discharged to constituents by elected officials</td>
<td>Multiple stakeholders, including donors, funders, beneficiaries and government for performance against mission. Can be classified as upward, downward and lateral</td>
<td>Multiple stakeholders: Upward: Regulators, funders, donors Downward: Beneficiaries and society Lateral: Staff and other charities. Government not regarded as main stakeholder.</td>
</tr>
<tr>
<td><strong>To whom is accountability due?</strong></td>
<td>Achievements and consequences of activities on company’s profitability and shareholder/market value.</td>
<td>Actions and performance of officials to deliver effective and efficient services.</td>
<td>Fulfilment of intentions and mission of the organisation.</td>
<td>Fulfilment of intentions and mission of the organisations for public benefit.</td>
</tr>
<tr>
<td><strong>Accountability for what?</strong></td>
<td>Largely hierarchical with focus now turning to broader holistic accountability in the forms of corporate social responsibility.</td>
<td>Still largely hierarchical due to the bureaucratic nature of the sector. Focus on fiduciary accountability and programme accountability.</td>
<td>Combination of hierarchical and holistic accountability.</td>
<td>Combination of formal (contractual) and informal (communal) accountability.</td>
</tr>
<tr>
<td><strong>Type of accountability</strong></td>
<td>Companies Act 2006 makes disclosure mandatory. ASB and IFRS Board issue relevant financial reporting standards. Voluntary disclosure is seen as a positive thing as it helps reduce information asymmetry. CSR and IC reporting gaining popularity.</td>
<td>Annual report is seen as a key accountability medium. Reporting and enhanced disclosure seen as very important due to nature of public sector. Compliance approach.</td>
<td>Reporting is seen as a key way to discharge accountability to stakeholders. Particularly important as NFP have to assure donors their money is being appropriately spent.</td>
<td>Governed by SORP 2005 and Charity Commission guidelines. Reporting is a key way by which charities can provide accountability but compliance is patchy.</td>
</tr>
<tr>
<td>Accountability</td>
<td>Profit Sector</td>
<td>Public sector</td>
<td>NFP sector</td>
<td>Charity sector</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>---------------</td>
<td>------------</td>
<td>---------------</td>
</tr>
</tbody>
</table>
| Governance     | • Main role of the board is to protect the interest of shareholders.  
• Corporate governance framework governed by regulation and best practice.  
• Traditionally a mechanism for reducing agency cost to the firm.  
• Focus on board composition, internal audit, monitoring committees and external auditor.  
• Main role of governance is to maintain efficiency and effectiveness.  
• Due to bureaucratic nature of some public sector bodies, profit sector based corporate governance is widely applied.  
• Profit sector governance mechanisms ineffective in the NFP sector as the governance frameworks should be sympathetic to the objectives and mission of the sector.  
• Four main roles of the board: stewardship, strategic leadership, external relations, maintenance.  
• Trustees cannot be employees of charity however users may be trustees.  
• Charity Commission provides guidelines for good governance. | | | | |

Source: Author
2.5 Summary

This chapter has attempted to contextualise the meaning of accountability in organisations. It began by discussing the meaning of accountability in the literature and then discussed existing theories of accountability in relation to key issues which define the accountability relationship. Section 2.2 argued that accountability needs to be viewed from both broad and narrow perspectives and also needs to take into account the various stakeholders of an organisation. The chapter also discussed the different mechanisms of accountability, with a focus on reporting and governance. Finally, the chapter brought together the different concepts and mechanisms of accountability from the perspectives of the profit, public, NFP and charity sector. A typology of accountability was presented based on the synthesis of the literature.

This study explores both functional and individual perspectives of accountability. As functional accountability is a sub-set of holistic accountability, this chapter argues that organisations that comply with narrow hierarchical accountability mechanisms will be able to fulfil holistic requirements of accountability much more easily. For MCOs, this holistic accountability must also encompass the Islamic theoretical perspective of accountability. The following chapter will present an in-depth discussion of the Islamic perspective on accountability. This will be followed by a critical literature review of prior empirical studies conducted on the religious charity sector.
CHAPTER 3: CONCEPTUALISING ACCOUNTABILITY IN MUSLIM CHARITY ORGANISATIONS

3.0 Introduction

This chapter conceptualises accountability within Muslim charity organisations [MCOs]. It follows a similar template to the previous chapter for purposes of consistency and comparison. The chapter begins with an introduction to the central concepts which underlie the Islamic worldview/belief system. This includes a discussion on the way Islamic ethics is derived and the key axioms of the Islamic way of life. The next section discusses the concepts of accountability from the Islamic perspective, and then in terms of accountability ‘to whom’ and accountability ‘for what’. The chapter then introduces how the mechanisms of accountability introduced in chapter two (i.e. reporting and governance), are viewed from the perspective of Islam. The chapter also provides a critique of accountability in the neo-classical /capitalist model and compares this with Islamic socio-economic principles. This section highlights how the underlying ideology of the different ethical frameworks help shape accountability practices and presents the ‘accountability differences’ that arises between them. The attention of the chapter then turns to the issue of MCOS. This section presents the different types of charity within Islam and discusses the ideal Islamic accountability traits in an MCO. The structure of the chapter is illustrated in Figure 3.1.
Figure 3.1 Structure of chapter three

3.1 Islamic worldview
3.1.1 Sources of Shariah
    3.1.1.1 Primary sources
    3.1.1.2 Secondary sources
3.1.2 Shariah in action

3.2 Concepts of accountability from the Islamic perspective
3.2.1 Accountability to whom
3.2.2 Accountability for what

3.3 Mechanisms of accountability from the Islamic perspective
3.3.1 Reporting and communication of accountability
3.3.2 Governance and practice of accountability

3.4 Critique of neo-classical / capitalist perspective on accountability

3.5 Charity
3.5.1 Importance of charity in Islam
3.5.2 Principles of charity in Islam
3.5.3 Types of charity in Islam
    3.5.3.1 Obligatory charity
    3.5.3.2 Voluntary charity

3.6 Accountability of Muslim charity organisations
3.6.1 Importance of charity accountability in Islam
3.6.2 Concepts of accountability
    3.6.2.1 Accountability to whom
    3.6.2.2 Accountability for what
3.6.3 Mechanisms of accountability
    3.6.3.1 Reporting and communication of accountability
    3.6.3.2 Governance and practice of accountability
3.1 Islamic worldview/belief system

Islam refers to the ‘tranquillity’ or ‘peace’ which is attained when an individual submits oneself to the will of God (Allah) (Iqbal and Lewis, 2009). The central tenets of the Islamic worldview are based on the five pillars of Islam (Rukn Islam) and the six articles of faith (Rukn Iman). The five pillars of Islam are obligatory acts of worship and include:

- **Shahadah**: Faith or belief in the oneness of Allah and the recitation of the profession of faith,
- **Salaat**: performing ritual prayers five times each day,
- **Zakah**: paying alms to benefit the poor and the needy,
- **Sawm**: fasting during the month of Ramadan for the purpose of self-purification,
- **Hajj**: pilgrimage to Mecca.

In addition to these aspects of worship, which all Muslims must adhere to, Islam also stresses the importance of *iman* (faith), in particular the six articles of faith that shape the belief of a Muslim:

- The belief in one Allah (*tawhid*),
- Belief in the angels of Allah (*malaika*),
- Belief in all the books of Allah (including the Quran, Injil and Torah) (*kutub*),
- Belief in all the messengers of Allah, (including Muhammad (pbuh), Jesus, Moses and Abraham) (*rasul*),
- Belief in the Day of Judgment and the resurrection (*qiyama*),
- Belief in destiny and the supremacy of Allah's will (*qadar*).
The pillars of Islam and articles of faith provide the basic belief system of Islam that help Muslims to attain the pleasure of Allah (falah). The practical guidance which helps Muslims to attain falah is derived from Islamic Law (Shariah) and the consequential ethical framework, which will be discussed in turn in the following sections.

### 3.1.1 Sources of Shariah

The literal meaning of the Arabic word Shariah means ‘the way to the source of life’ (Lewis, 2006, p.2). The same word also refers to the source of law which guides the code of behaviour of Muslims. The Islamic legal framework is derived from a number of different sources. The primary source being the Quran, which Muslims believe to be the word of Allah. The Holy Quran gives a number of rulings, some specific and some general. Those rulings not found in the Quran can be found in the rules, principles and injunctions applied by the Prophet Muhammad (pbuh) (*the hadith*). These two primary sources of law have been strengthened by a number of secondary sources, which comprise the interpretations and injunctions of *Ulema* (Islamic jurisprudence scholars) on rulings not found or not explained in the *Quran* or *Hadith*, namely, *Ijma* (consensus reached by the learned members of the Islamic community) and *Qiyas* (deductive analogy) (Abdul Rahman, 1984).

#### 3.1.1.1 Primary sources

The most important source in the Shariah is the *Quran* from which flows the inspiration and guidance for Islamic law. The Holy Quran is comprised of 114 *surahs* (chapters), each surah is comprised of a number of *ayahs* (verses), totalling 6,200 *ayahs*. The chapters and verses are not chronologically ordered which
implicitly asserts that the universal guidance of the Quran is “free from the bounds of
time and space” Iqbal and Lewis (2009, p.29). According to Kamali (1989), 350 of
these ayahs are of a legal nature covering three critical areas; *aqidah* (faith), *ibadat*
(worship) and *mu’amalat* (social transaction). These ayahs (known as *Ayat al-
akham*) can be further grouped into four categories (Abdul Rahman, 1984, p.38-39):

- **Ahkam al-Majmal** (the concise injunctions) – precise commandments are
  contained in the Quran, but the detailed rules regarding the commandments
  are not stated in the Quran. For example, commandments related to prayer
  are found in the Quran but detailed rules on how to perform it are found in
  the traditions of the Holy Prophet (pbuh).

- **Ahkam al-Mufsal** (the detailed injunction) – the injunctions contained in the
  Quran give complete detailed of the commandments. e.g. injunctions on
  punishment for specific crimes.

- **Ahkam al-Majmal al-mufsal** (the concise cum-detailed injunctions) – these
  are commandments which have some detail provided in the Quran, but
  further rules can be found in the hadith. e.g. injunctions on relations with
  non-Muslims.

- **Fundamental principles of guidance derived from injunctions** – those
  principles which do not have clear-cut definitions but are derived through
  *ijtihad* (personal reasoning). e.g. principles on freedom, justice, consultation,
  public interest and equality.

The *hadith* is the second most important source of Islamic Law. This relates to the
*Sunnah* or life and teachings of the Prophet Muhammad (pbuh). The *hadith* is often
regarded as the ‘hidden’ revelation as it encompasses rules and guidance not
explicitly stated in the Quran but which have been strengthened through the actions of the Prophet. The Quran itself notes in many places that the life and teachings of the Prophet are exemplars for humanity to follow, and his rulings are binding on all Muslims:

"And We have revealed to thee (Muhammad) the message that thou may make clear to men what has been sent for them and that they may reflect" (16:44). Therefore the hadith acts in conjunction with the Quran as being the primary source of guidance for Muslims.

Books of hadith, have been compiled by Muslim scholars such as Sahih Muslim, Sahih Bukhari, Abu Dawood and Tirmidhi, of which Sahih Bukhari is the most lengthy and considered the most authentic (Iqbal and Lewis, 2009). These books contain detailed comments on different rulings made by the Prophet. Each of these rulings have been subject to authentication testing through a methodology known as isnad, ‘the science of hadith’. This methodology places emphasis on the chain of translation and the character of the narrator of the hadith, to test the authentication of claims made. The Prophet himself did not encourage the writing down of his actions, so these books were compiled a few hundred years after his death. Thus, the process of isnad ensures only authentic rulings and injunctions are included in the hadith books. Although this methodology has been questioned by some Muslim scholars (see Charfi, 2010), these hadith books have still achieved ‘canonical status’ in Sunni Law (Iqbal and Lewis, 2009, p.31).

3.1.1.2 Secondary sources

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*Ijma* means unanimous agreement which needs to be reached by Muslim scholars when discussing contentious issues. This has played an important role in developing Muslim jurisprudence, particularly in contemporary issues which did not exist in the early Muslim period, i.e. in areas of science and law. *Qiyas* refers to analogical deduction. Abdul Rahman (1984, p.70) explains this as being a legal principle which is introduced to achieve a logical conclusion on a certain issue regarding the welfare of the Muslim community. This reasoning has to be based on the principle derived from the Quran, *hadith* and *ijma*. For example, *qiyas* was used by Muslim scholars to explain how the ban on alcohol can also be extended to the use of drugs.

These rules have grown over the centuries to encompass a complete code of conduct to be used in all spheres of life, including in religious, personal and business affairs. The practical application of these rules, have been embodied within the ethical framework of Islam as discussed in the next section.

### 3.1.2 Shariah in action: The ethics of Islam

Islam places great emphasis on ethics and the right thing to do. Choudhury (1990) states that the only way to understand Islamic socio-religious principles is to understand the application of the Islamic concept of life. He argues that the basis of all knowledge is the truth of the existence of Allah and that there is no separation between worldly knowledge and Godly truth. A Muslim believes that there is life beyond the physical material life of this world. Thus, one has to strive to attain favour from Allah so as to be rewarded with a just and easy life in the hereafter (*al-falah*) (Kamali, 1989). The ethical system of Islam is derived directly from the *Shariah* and forms the basis of all activity within an Islamic society and can therefore
be considered *Shariah* in action. This ethical framework underlies the actions of individuals, organisations and the technical activities they undertake.

Beekun (1996) and Naqvi (2003, p.150) argue that a complete and consistent Islamic ethical system is based on five elements: unity (*tawhid*), equilibrium (*al-adl*), free will (*ikhtyar*), responsibility (*fard*) and benevolence (*ihsan*).

- **Unity** refers to the belief in the oneness of Allah and the total submission of oneself to Allah’s will. As Muslims believe everything in the world belongs to Allah, they cannot be biased in their thinking or behaviour. Therefore, in all aspects of life, Muslims need to devote themselves to Allah (Chapra, 2008).

- **Equilibrium** refers to justice and maintaining a balance in all actions. The Quran places emphasis on following the ‘middle path’ (*al-wasatiyah*) and avoiding extremism: “*Thus, have We made of you an Ummat justly balanced, that ye might be witnesses over the nations, and the Messenger a witness over yourselves*” (2: 143).

  Hence, the purpose of maintaining equilibrium would be the commitment of individuals to live in harmony with each other and with God’s creation.

- **Free will** refers to the choice that humans have been given in their actions. It also encompasses the need for humans to act for their own betterment and not expecting Allah to make choices for them. This also takes into consideration the notion of the individual man and the collective man and emphasises a balance between the two.
- Responsibility is linked to free will as it makes man responsible for his actions in relation to the choices he makes. This aspect is multi-layered and includes both personal responsibility and organisational responsibility.

- Benevolence refers to acts of kindness which are done without any obligation. Such deeds are highly encouraged in Islam.

Chapra (1992) outlines two further principles on which he believes Islamic ethics is based: vicegerancy (khalifah) and justice (adalah). Humans are considered as vicegerents of Allah on the Earth (khalifah), whereby they are entrusted with family, resources, knowledge, property, etc. as a trust from Allah (amanah) (Murtaza, 2002). Naqvi’s free will and responsibility equate well with Chapra’s explanation of vicegerancy, while equilibrium can also be related to the concept of justice. The essence of the Islamic ethical system therefore places an obligation on Muslims to continually enjoin what the Qur’an recognises to be right and forbid what it considers to be wrong, as well as striving for the good of humanity (Haniffa and Hudaib, 2002).

To summarise the discussion so far, the five pillars of Islam and the six articles of faith underlie the basic belief system of Islam. The Shariah, derived from the Quran, Hadith, Qiyas and Ijma, provides guidance on how a Muslim should live his life in accordance with the spirit of Islam. The practical application of the Shariah, which is a form of worship (ibadah), ultimately leads to the betterment of society and success in the hereafter (falalah), which results in attaining the blessings of Allah (barakah). This is illustrated in Figure 3.2:
Figure 3.2: The Islamic worldview/belief system

Consequences
- **Falah** – Betterment of society and success in hereafter
- **Barakah** – Blessing of Allah

**Axioms of Islamic Ethics**
Unity, equilibrium, justice, free will, responsibility, benevolence, vicegerancy and trust.

**Sources of Shariah**
- Primary sources: *Quran, Hadith*
- Secondary sources: *Ijma, Qiyas*

**Central Tenets of Belief**
- **Articles of Faith**
  - Unity, angels, books, messengers, day of judgement, pre-destiny
- **Pillars of Islam**
  - Affirmation of faith, prayer, fasting, almsgiving, pilgrimage

Source: author
3.2 Concepts of accountability from the Islamic perspective

The root Arabic word for account is ‘hesab’. Askary and Clarke (1997) note that this word has been referred to more than eight times in the Quran, signifying the importance of being held to account and giving an account of one’s actions. The word accountability, on the other hand, has different variations in the Arabic language. The words mas’uliyyah and ‘takleef, have both been used to describe some form of accountability. Takleef is linked to personal accountability of one’s own actions and inactions (Nahar and Yaacob, 2012). It is often used to discuss the age of legal maturity, when an individual becomes responsible for his/her own actions according to the Shariah. Mas’uliyyah is a more encompassing term, as it is used to describe both responsibility and accountability (Haniffa, 2002).

It has been argued that the Islamic concept of accountability is ingrained in the minds of the Muslim community (Khir, 1992), as this concept holds together all the core beliefs of Muslims. From the belief in the hereafter, belief in heaven and hell, belief in the day of judgement, belief in being held to account for ones actions to the punishment associated with committing sins. The day of judgement is viewed as the day of final accountability (Ansari, 2001, p.328), as it is on this day that mankind will be judged on his/her deeds and will either be rewarded in heaven or punished with hell. This world is perpetration for the hereafter and on the day of judgement, humans will account for actions in this world. The Quran states:

“Every man's fate We have fastened on his own neck: On the Day of Judgment We shall bring out for him a scroll, which he will see spread open. (It will be said to him:) ‘Read thine (own) record: Sufficient is thy soul this day to make out an account against thee.’” (17: 13-14)

And;
“to Allah belongeth all that is in the heavens and on earth. Whether ye show what is in your minds or conceal it, Allah calleth you to account for it” (2:284).

Accordingly, the notion that all human actions are recorded by Allah, are central presumptions of Islam (Kamla et al., 2006). The Quran explains that two angels record every deed of a person; one angel records all the good deeds (called Raqib), whilst the other records all the bad deeds (called Atid). It is the Imaan (unwavering belief) of a Muslim that on the day of judgement these deeds and their subsequent units of reward or sin$^{15}$ will be counted. The person with more rewards than sins will be sent to heaven while the person with more sins than reward will be sent to hell. It is therefore ingrained within all Muslims to keep a continual self-account of deeds and to repent as often as possible for sins committed either knowingly or unknowingly before the day of 'final accountability' (Ansari, 2001, p.328).

To summarise, the accountability of Muslims is driven by their Islamic beliefs. These beliefs stem from their unwavering belief in one God (tawhid) and their role as stewards (khalifah) over Gods resources on earth (amanah). Accountability is thus ingrained in the believing Muslim and leads to a strong sense of responsibility to do right, as they feel their actions are continually being recorded and will be accounted for on the day of judgement (yaum al qiyamah). This understanding is a formidable motivation for undertaking duties and responsibilities of accountability. From the Islamic worldview, accountability can thus be understood as the responsibility placed on an individual to ensure he refrains from those acts which are haram (not

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$^{15}$ Shahul (2000) notes that each action is accorded a unit of reward or sin. The exact quantum of rewards or sin for a particular action are unknown. However, it still forms part of the core belief structure of Muslims.
permissible) and to always ensure that his actions are towards the greater good of society in order to attain *barakah* in this world and *falah* in the hereafter.

### 3.2.1 Accountability ‘to whom’

From the Islamic perspective, Allah is the creator of the universe and as such man is ultimately accountable to Allah. The pinnacle of all these aspects is the belief in the unity of Allah (*tawhid*). This belief entails man to make his own wishes subservient to the wishes of Allah. The Quran states:

> “Soon will Allah observe your work and his messengers and the believers: soon will you be brought to the knower of what is hidden and what is open: then He will show you the truth of what you did” (9:105)

Thus, in Islam, all individuals are ultimately accountable to Allah for their actions. Allah is the ultimate owner of everything and the role of humans is to act as his stewards on earth (*khalifah*). The main objective of accountability in Islam is to fulfil one’s duty to Allah (*huququ-Allah*) which comes in the form of worship (*ibadat*). An individual’s secondary accountability is to society and other humans (*huququl-ibad*), and comes in the form of daily transactions (*muamalat*) (Chapra, 1992; Haniffa and Hudaib, 2002; Lewis, 2006). This second duty covers all aspects of a person’s life, from contractual relationships to personal relationships. This secondary accountability also allows an individual to fulfil his accountability to Allah, by effectively executing his duties as a vicegerent. Haniffa *et al.* (2004) add a third dimension to this accountability which corresponds to an individual fulfilling his own needs and satisfying his personal conscience (*huququl-nafs*). This hierarchy of fulfilment ensures justice and equity in this world (*al-adl*) and will lead to success in the hereafter (*al-falah*).
3.2.2 Accountability ‘for what’

As Islam regulates all spheres of life, the concept of accountability is not limited to personal and spiritual aspects, but also extends to all dealings a Muslim undertakes in this world, i.e. all social, business and contractual dealings. The Islamic concepts of khalifah and amanah do not mean that Islam does not recognise private ownership. Everyone has a right to own property in Islam and in-fact it is very much encouraged. However, the ownership is not absolute: Allah is regarded as the ultimate owner of all wealth. He has given the right to individuals to own wealth and property as long as this is not exercised at the expense of the interest of the community. Following the concept of amanah, a person holds property in trust for Allah, and should therefore use this property according to Allah’s will (Sulaiman and Willett, 2001). Along with the management of this wealth, humans must also act and make decisions that are to the benefit of the environment and the wider society, both Muslim and non Muslim.

As well as accountability for actions and wealth, a Muslim is also accountable for contractual dealings he undertakes (uqud). In fact, one surah (chapter) of the Quran, known as Al-Maidah or ‘the contracts’, details with various kinds of contracts and how these contracts should be fulfilled:

“And fulfil your contracts, verily the fulfilment of contracts will be questioned on the day of reckoning” (17:34).

These contracts are related to marriage, commerce, war, social order, conduct etc. as well as those specifically related to Allah (Haniffa and Hudaib, 2004). The contract between man and Allah is to constantly worship Him and fulfil His command as stated in the Qur’an:
“Truly, my prayer and my service of sacrifice, my life and my death, are all for Allah, the Cherisher of the Worlds (6:162)

The Islamic concept of *uqūd* therefore, encompasses much more than just conventional contractual relationships by transcending beyond the human self to Allah (Haniffa et al., 2005).

### 3.3 Mechanisms of accountability from the Islamic perspective

#### 3.3.1 Reporting and communication of accountability

Islam provides general guidelines for the recording and reporting of transactions (Lewis, 2001). This is related to the Islamic belief that doubt and uncertainty need to be removed from inter-personal arrangements (Askary and Clarke, 1997). The Quran states:

“O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing; let a scribe write down faithfully as between the parties…” (2: 282).

Baydoun and Willett (1997) have also likened reporting and making proper disclosure to accountability. They outline social accountability and full disclosure as the basis of discharging true accountability in Islam. They view social accountability as an organisation’s obligation towards the *ummah* and argue that the information pertaining to this accountability needs to be made freely available through the process of full disclosure. The disclosure should also include both economic and religious decision making information (Haniffa and Hudaib, 2002), by showing how obligations to Allah, to society, to oneself and to the environment have been fulfilled.
This point is also made by Adnan and Gaffikin (1997), who believe the primary objective of Islamic accounting is the disclosure of information which would help indirectly satisfy accountability to Allah. Similarly, other normative research has suggested a link between social accounting disclosure and the discharge of accountability (Gambling and Karim, 1986; Mirza and Baydoun, 1999; Haniffa, 2002; Kamla et al., 2006). These studies concentrate on the arguments for embracing a wider social accountability focus in disclosure as part of the Islamic ethical framework. With regards to social disclosure, this should be greater than the contemporary social responsibility disclosure, as it must also include how the firm is fulfilling its social responsibility as envisioned in the Shariah.

Shahul (2000) further argues that annual reports are important mediums through which Islamic accountability can be observed by an accountee. Lewis (2001) and Maali et al. (2006) both suggest that Islam requires annual reports to be true, fair and accurate due to the immense emphasis given in the Quran (19 verses) on providing true, complete and reliable information (Lewis, 2006).

3.3.2 Governance and practice of accountability

The closest equivalent Arabic word to governance is al-hakimiya (Iqbal and Lewis, 2009). This has a wider remit than the traditional understanding of the word in the west. It refers to the higher social and moral order to which all decision-making structures or authority should fit within. Historically, there have been two main governance frameworks within Islamic societies in maintaining accountability - these
are linked to governance and oversight (*Hisba*) and consultative decision making (*Shura*).

*Hisba* was an institution widely found in Islamic societies, which declined during western occupation of Islamic lands (Taymiya, 1982). This institution was responsible for maintaining the codes of conduct within society. It had an appointed officer (*muhtasib*) whose job was to ensure the codes of conduct were being followed in community affairs, in market trading and business dealings and in municipal administration (Abdul Rahman, 1998). Duties traditionally carried out by the *muhtasib* include: checking correct weights and measures, implementing fair trading rules, checking business frauds, auditing illegal contracts, keeping the market free, and preventing hoarding of necessities (Lewis, 2006). Despite arguments that the complexities of modern organisations make the application of *hisba* to modern day organisations problematic (Lewis, 2006), the institution can still be found within some Islamic organisations, e.g. in the form of *Shariah* Supervisory Boards in Islamic banks.

The *Shura* is a decision making process through which all members have to reach a consensus of views, similar to the western democratic principles. This means all participants are included in the final decision made and the burden of responsibility is equally shared by all (Abdul Rahman, 1998). Islamic precepts of justice and truthfulness also favour this approach as it allows all people affected by a decision to be involved in its decision making. Any person who appreciates the nature of accountability to Allah will not make decisions on behalf of others without consulting with them. This therefore, limits the possibility that a decision will be
taken which ignores the views of other stakeholders or a decision will be taken by an individual who has an ulterior motive in imposing his opinions. Lewis (2006, p.7) states: “Decision-making is an important trust from Allah, and Islam demands from those holding this trust to engender truthfulness, justice, consultation and a spirit of consensus-seeking among participants during group decision-making”.

3.4 Critique of neo-classical/capitalist perspective on accountability

The preceding discussion highlights how Islamic accountability is focused towards Allah and then to society as a whole, suggesting accountability relationships in Islam extend beyond legal and moral duties to also encompass the spiritual. On the other hand, the discussion in chapter two has shown that western accountability approaches do not extend beyond human society and do not envisage any accountability to a theological being such as God. Take the concept of freedom as an example, Naqvi (1981) argues that the concept of free will is abused in western culture. He argues there is a prevalence of nonchalance towards the consequences of one’s actions in the west, either to another person or to property. Naqvi argues this is due to the lack of personal responsibility an individual feels for his actions, as the western concept of free will suggests one has no responsibility to anyone except himself. However, for a Muslim, the belief that he will be held to account on the day of judgement and that his well-being in the hereafter depends upon his actions in this world, have a much greater bearing on his responsibilities and his actions.

Similar arguments can also be found in Christian ethics. Jacobs (2005, p.206) states “the link between accounting and Christian morality is found in the doctrine of
The doctrine of stewardship explains how earthly resources are a trust from God and humanity is thereby accountable “for the right use of all with which God has entrusted him” including time and money (Jacobs, 2005, p.205). This doctrine is based on two principles found in the book of Genesis. Firstly, God is the owner of the world and all resources therein, and secondly, that humans have a responsibility to care for these resources as stewards and thereby to account for their use. Coy et al., (2001) note that the earliest concepts of stewardship in the western world have sacred origins and that real stewardship has inescapable moral and social obligations beyond the economic explanation. Therefore, accountability in its actual sense could only be understood if the original and true meaning of stewardship could be understood. This is a point which has also been made by Chen (1975), who looked at the development of stewardship from medieval times and linked it to Christian ethics and philosophy. Her argument is that true stewardship has been eroded by capitalism and the rise of the corporate firm.

The stewardship principle therefore seems very similar to the Islamic ethical framework. However, there are also some marked differences. Chen (1975) splits stewardship into two functions, primary and secondary. The former is related to responsibility towards society and the latter being responsibility towards shareholders. She suggests that it was capitalism that caused these priorities to be flipped with primary responsibility becoming attached to the shareholders. Although, this notion of stewardship is more morally aware than traditional accountability definitions, it still fails to include God as a primary stakeholder in the accountability relationship.
However, following the advent of capitalism, the stewardship perspective began to decline and firms began to take on a new perspective when faced with issues of accountability. The rise of capitalism also led to the decline of religiousness in the west (Tawney, 1927). Haniffa and Hudaib (2002, p.6) note that this leads to “a shift in humanism which bred secularism, which led to materialism and ultimately to hedonism”. They argue these values to be the core ideologies of western rationalism.

From the rational perspective, the (rational) individual is a collection of preferences (i.e. different tastes, attitudes, actions and laws) which adapts itself according to the costs and benefits of having such preferences (Haniffa, 2002). This perspective views an individual as a process, lacking self-awareness and a conscious, who makes decision based solely on attached financial outcomes. Thus, ‘rationality’ refers directly to a ‘cost and benefit’ analysis which an individual makes when faced with accountability decisions. In contrast, Islam views the individual as an agent of Allah on earth. The individual is seen as making choices according to compatibility with Shariah and in attaining the pleasure of Allah. In Islam, the individual is seen as having free-will and conscious. Accordingly, western rationalism led to economics and business becoming a secular discipline maintaining a gulf between itself and religion, while Islamic rationalism promotes a norm-based way of life seeking spiritual fulfilment in all spheres of life.

The idea that individuals pursue wealth with no regard for religious or moral concerns is also problematic. This maxim has led to growth of the agency perspective of accounting, whereby the firm is seen as being in a constant struggle to maintain a balance between agents and principals. This amoral view of the firm has
led to a climate of distrust and suspicion in the way organisations are run, causing a
growth in corporate governance mechanisms which has still not been successful in
reducing business fraud or bankruptcies (Haniffa and Hudaib, 2002). Hence, the
rationalist view of accountability is entirely at odds with the Islamic perspective of
accountability.

Upon synthesising the discussion in this chapter and chapter two, the implications for
accountability from the two different perspectives becomes clear. This is illustrated
in Table 3.1.

It can be seen from this table that there are many differences between the neo-
classical accountability model and the accountability model of Islam. This
comparison is important as it allows us to see how much further Islamic
organisations need to go beyond the western model to provide ‘true’ accountability.

Prior to a discussion on the ideal accountability traits of MCOS, it is necessary to
introduce the concept of charity in Islam. This will help highlight the type of
accountability which is required by Islam from institutions which manage charitable
donations.
### Table 3.1: Difference between neo-classical and Islamic accountability

<table>
<thead>
<tr>
<th>Worldview</th>
<th>Neo-classical accountability</th>
<th>Islamic accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying framework</strong></td>
<td>Based on man-made law and societal moral judgement</td>
<td>Based on divine law and prescribed moral, spiritual and religious obligations</td>
</tr>
<tr>
<td><strong>Scope of religious duties</strong></td>
<td>Separation of temporal and spiritual</td>
<td>All aspects of life, including business, social and contractual dealings covered by Islam</td>
</tr>
<tr>
<td><strong>Purpose of accountability</strong></td>
<td>Primarily to discharge responsibility to resource providers Secondary to wider stakeholders</td>
<td>Primarily to Allah as part of an act of worship Secondary to discharge responsibility to wider stakeholders</td>
</tr>
<tr>
<td><strong>Underlying maxim on wealth creation</strong></td>
<td>Capitalism</td>
<td>Socio-economic justice</td>
</tr>
<tr>
<td><strong>Scope of accountability</strong></td>
<td>Accountable only for those items relevant to stakeholders</td>
<td>Accountable for all actions to Allah</td>
</tr>
<tr>
<td><strong>Resource expenditure</strong></td>
<td>Resources from owners funders must be executed to maximise utility</td>
<td>Resources are a trust from Allah and executed to benefit owners and society</td>
</tr>
<tr>
<td><strong>Recording and disclosure</strong></td>
<td>Abide by accounting regulations and voluntary information that fulfils users’ need and that enhances image of organisation</td>
<td>Full recording and disclosure beyond mandatory to include voluntary information to help users assess organisations’ fulfilment of religious and economic obligations</td>
</tr>
<tr>
<td><strong>Consequences of (non) accountability</strong></td>
<td>Sanctions from owners/funders and wider public</td>
<td>The wrath of Allah on the day of judgement and sanctions from shareholders and wider public</td>
</tr>
<tr>
<td><strong>Immediacy of reward and punishment</strong></td>
<td>Immediate (i.e. in the form of promotion or loss of job etc)</td>
<td>Both immediate and delayed until the day of judgement</td>
</tr>
</tbody>
</table>

Source: author
3.5 Charity

The online Oxford Dictionary's (2011) definition for charity is “the voluntary giving of help, typically in the form of money, to those in need”. Charity can therefore be regarded as a transfer of material resources from those who are well-off to the poor and needy (Aburaqub and Phillips, 2009). Charity is derived from the Latin word ‘caritas’, which refers to God’s love for humankind. This word is often used synonymously with the word ‘philanthropy’, which literally means the ‘love of man’ in Latin (Singer, 2008) and is defined by the Oxford Dictionary [online] (2011) as “the desire to promote the welfare of others”. This slight difference in definitions relates to the origins of the words, with charity being derived from spiritual and religious motivations, while philanthropy comes from rational-secular action which arose in the 19th-20th century (Payton, 1988). Both words can be considered from the economic perspective, where the emphasis turns to the proper use of wealth, with different belief systems responding in different ways to the accumulation and spending of wealth (Singer, 2008).

Taggart (2010) argues that societies cannot grow and prosper without helping the poor survive and as such, the traditional concept of charity has evolved and now encompasses aspects of social welfare and social justice. Traditional charity embedded in the religious tradition focused on meeting the immediate needs of the poor, often friends and family. However during the beginning of the 20th century this form of charity became more formalised. This formalisation and institutionalisation of charity witnessed the rise of large charitable organisations which meant that there was no longer a direct contact between the donors and the receivers of charity (Taggart, 2010).
Jeavons, (2010) notes the connections between religion and charity to be numerous and are linked to spiritual, psychological and economic issues. He argues there to be four main elements of the relationship between religion and charity. Firstly, he argues that a primary motivator for charitable giving and volunteering is often religion. Although this could be due to a number of different reasons, the main reason is often the fact that all religions teach and encourage charitable giving as an essential part of practicing faith. Secondly, he argues that academics have found religion to play a specific role in shaping approaches to charitable giving and voluntary action. In particular, it was religious bodies which helped develop models for the first large national voluntary agencies in the US. Thirdly, he notes that the most common conduits of charitable giving are often religious organisations, i.e. congregations. These organisations often provide the most common sources of charitable funding through welfare activities, such as providing day-care for young people, after school recreation, and even emergency food and clothing. Finally, he believes that organised religion has been primarily responsible in helping to create a politically independent not-for-profit sector in the West.

3.5.1 Charity and its importance in Islam

According to Benthall (1999) there are more than 82 references in the Quran to issues of giving to charity, e.g;

"And be steadfast in your prayer and pay charity; whatever good you send forth for your future, you shall find it with God, for God is well aware of what you do."

(2:110)

And
“Nor those who spend Of their substance, to be seen of men, but have no faith In God and the last day: If any take the Evil One for their intimate, What a dreadful intimate he is!” (4:38)

Islam, therefore, places an obligation on an individual to give to charity. Allah decrees that He will provide ample reward for the person who gives charity, with the Quran describing the charity as a “loan” which will be increased twofold in the hereafter:

Let those who give alms, both men and women, and lend unto Allah a goodly loan, it will be doubled for them, and theirs will be a rich reward. (57:18)

3.5.2 Principles of Islamic charity

The key Islamic principles on charity are as follows (Naqvi, 2003):

1. The act of charity is an act of worship that strengthens an individual’s commitment to helping the poor.

2. Charity is seen as central to ensuring socio-economic justice and balancing social inequality.

3. The poor have a right to share in the wealth of the rich. From this perspective, the act of giving is viewed as distributive justice. So the poor should not be made to feel ashamed of receiving funds.

4. This transfer of resources should not just be limited to voluntary acts, but the state should coerce individuals into fulfilling this responsibility.

Charitable giving is embedded in the Islamic faith and as with other core principles of Islamic belief, it stems from the concepts of khalifa and amanah. As Allah is the owner of all resources on earth, wealth that is created from these resources is ultimately His. It is not for mankind to use as he or she pleases. Therefore, God
decrees that man give some of the wealth they have made by using His resources back to the needy members of society. The Quran states:

“Oh believers, let not your possessions neither your children divert you from God's remembrance, whoever does that, they are the losers. And spend from the sustenance We have given you, before death overtakes any of you, and he says, 'O my Lord! if You grant me respite for a short while, then I would freely give and would be among the righteous'”. (63:9-10)

In Islam, charity is seen as central to ensuring socio-economic justice and balancing social inequality. Naqvi (2003, p.118-119) summarises the Islamic position on charity by saying that Islam views poverty as a curse which has been caused by the rich not ensuring adequate flow of resources to the poor. As such, he argues that poverty should not only be viewed as an economic issue but one which has moral, social and political dimensions. Inequalities that are created by the accumulation of income and wealth can lead to the destruction of brotherhood within Muslim communities, which in turn effect the moral and social dimensions of Islam. There is, therefore, a need for an equitable distribution of income through redistributive justice (Abod et al., 1992).

The purpose of distributive justice is to redistribute income and wealth so that every individual is guaranteed a standard of living that is humane and respectable. Thus, in Islam, the existence of Muslims who are poor and hungry denotes that the wealthy in society are not exercising their obligations to give them their proper economic rights and God will hold them to account for this on the day of judgement. It must be remembered that Islam does not force upon society equality in wealth, rather equity in wealth is encouraged. Furthermore, Islam does not endorse monasticism (Cizakca,
2002) and encourages its followers to acquire a decent standard of living and a life of ease and comfort. However, it is also an obligation on those who are wealthy to provide this for those who are not. This means the act of charitable giving itself should be humbling and should not affect the humility of the beneficiary, as it is his right which is being given back to him.

### 3.5.3 Type of Islamic charity

The act of charity falls into two categories in Islam: voluntary and obligatory. Obligatory charity is called Zakah and voluntary charity can be either Sadaqah or Waqf. This is illustrated in Figure 3.3.

#### Figure 3.3: Different types of charity in Islam

Charity in Islam

- **Voluntary**
  - **Sadaqah**
    - Entirely voluntary charity
  - **Waqf**
    - Similar in nature to a charitable trust or an endowment in the West

- **Obligatory**
  - **Zakah ul Fitr (tithe)**
    - Given during the Muslim holy month of Ramadhan
  - **Zakah on Wealth (alms)**
    - Given per annum on one's wealth

*Source: Author*
3.5.3.1 Obligatory charity

a) Zakah

The word *zakah* itself means ‘purification’ and the purpose of giving *zakah* is to purify legally earned wealth. Wealth that is not dealt with in accordance with *zakah* is considered impure. *Zakah* not only purifies the wealth that remains but also purifies oneself and also purifies the receiver from greed and jealousy of the well-off. Benthall (1999) calls this a moral function as well as a function of fulfilling needs. *Zakah* is generally given annually and is 2½% of one’s wealth accumulated over the year. It should only be levied on assets over and above the *nisab* (threshold) value set at 88 grams of gold. It is only payable on those items from which wealth can be derived such as personal savings, gold, land etc.

According to the Quran, *zakah* can only be distributed to eight permitted class of beneficiaries;

“*Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the cause of Allah; and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom.* “ (9:60)

Thus, the Quran outlines *zakah* should only be given to:

1. The poor
2. The needy (or the very poor)
3. The people who administer the *zakah* funds
4. Those who have recently converted to Islam
5. Those who are prisoners of war
6. Debtors
7. Those teaching or fighting in the way of God
8. Travellers

There is some difference in opinion amongst scholars as to the exact people and groups who fall into the above categories. For example, the Egyptian scholar, Uthman Hussain Abd-Allah states that recipients of zakah must be Muslims but this is refuted by Al-Khayyat, a leading Jordanian Scholar (Benthall 1999).

There is also difference of opinion on who ‘those employed to administer funds’ should be. Mufti Taqi Usmani (2009) of the Dar-ul-Uloom in Karachi has stated that it is not permissible for private organisations to spend zakah money to cover their administration costs. He states that:

“It is true that the Holy Qur'an has allowed to give some part of zakah money to "A'milin" i.e. the persons appointed by the government to collect zakah. But it is applicable only in the context of an Islamic State which duly manages collection and distribution of zakah. This principle cannot be extended to the employees of private organisations”.

The reasoning behind this comes down to the issue of governance and accountability within an Islamic State. In the case of a true Islamic State, the persons employed for the collection of zakah are supposed to be under constant observation and monitoring of the government itself and this ensures that those employees are not committing any misconduct.

Benthall (1999) argues that over the past few years there seems to be a relaxing and liberalisation of these categories. This can also be seen in the primary purpose of giving alms, which according to some scholars should ‘begin at home’ or in the
immediate area surrounding where the charity organisations operate. However, some scholars now view funds giving in terms of where the need is greatest.

During the Prophet Muhammad’s (pbuh) time, zakah collection was the responsibility of the ruling caliph. According to Singer (2008), the decline in organised zakah collection over the centuries did not necessarily mean that such acts of charity stopped. Instead the oversight of distribution has been transferred to individuals and community leaders. Nowadays such organised official collection of zakah is scant. The control of zakah by the state has materialised in some Muslim countries such as Pakistan and Sudan. Other Muslim countries leave the payment of zakah entirely up to the individual as in Morocco or Oman. In between are countries like Jordan where zakah is overseen by the Ministry of Religious affairs but at the same time there is leverage for local zakah committees to collect and donate funds (Benthall, 1999).

b) Zakah-ul-fitr

Zakah ul –Fitr refers to an obligatory tithe which is paid during the Holy month of Ramadhan. Fitr refers to the meal eaten at sunset each day when the Muslim fast is broken. The purpose of the charity is to enable the poor to take part in the Eid ul Fitr celebrations and therefore, this charity needs to be paid before the morning of Eid ul Fitr. This charity is calculated per person rather than on wealth and it is often the head of a household who is responsible for paying it on behalf of his family. It is to be paid in the form of 3kg of what is considered as staple food of the community. However, nowadays it is often paid in the monetary equivalent – this is a nominal
value compared to the Zakah on wealth. Zakah al-Fitr must go to the same category of recipients as discussed with Zakah on wealth.

3.5.3.2 Voluntary charity

a) Sadaqah

Unlike zakah, sadaqah refers to an entirely voluntary act of giving. Islam encourages regular charitable donations. The Quran states:

"The likeness of those who spend their wealth in the way of God, is as the likeness of a grain that sprouts seven spikes. In every spike there are 100 grains, and God multiplies for whom He will. God's will is all-embracing, all-knowing." (2:261)

b) Waqf

One common form of sadaqah is waqf. Waqf is the locking up of the title of an owned asset and allotting its benefits for a specific purpose. A waqf asset cannot be disposed of and its ownership cannot be transferred. Only the benefit of the waqf can be used for a specific purpose. The usual charitable purposes of waqf are for educational institutions, orphanages, roads, mosques etc. The charity of waqf is therefore a perpetual charity and is sometimes also referred to as sadaqah-jariah (ongoing charity which remains even after ones death) (Sadeq, 2002).

Although the principle behind the waqf charity existed prior to the Islamic age in some form (McChesney, 2010), it was the Islamic tradition which enabled it to become rooted in society with many Western countries being influenced by it. The early Islamic period saw huge resources invested in waqfs and one of these waqfs was the first Islamic hospital which was built in Damascus that provided treatment free of charge (Aburaqub and Phillips, 2009). Mosques were also often waqf
properties but their remit was usually much larger than just acting as places of worship. For example, mosques provided accommodation to students, some had kitchens for providing food to hundreds of people each day. Today *waqf* is still widely used in many Islamic countries. In Bangladesh for example, there are 150,593 *waqfs* currently in operation, with the majority being in real estate (Sadek, 2002). Most Muslim majority countries now include a Ministry of *Awqaf*\(^{16}\) to oversee the management of *waqf* donations.

Cizakca (2002) outlines the successful nature of *waqfs*, noting how some survived considerably longer than half a millennium with some even surviving a millennium. While trying to reconcile the Islamic concept of *waqf* with the western non-profit sector, he argues that they can help reduce government expenditure and focus government funds on aspects away from welfare and education. In the early years of Islam, essential services such as health and education were often provided by the Islamic state at no cost to the government through voluntary donations. The role of the state was primary defence. This concept has been acknowledged by the Western world where governments are increasingly turning to philanthropic organisations to help support the state. This is evidenced in the growth of the NGO sector and the wide variety of responsibilities it has (Unerman and O’Dwyer, 2006b).

### 3.6 Accountability of Muslim charity organisations

#### 3.6.1 Importance of charity accountability in Islam

The different forms of charity outlined earlier have to be handled differently in accordance with prescribed religious rulings. *Sadaqah* can be considered a 'normal'\(^{16}\)

\(^{16}\) Plural of *waqf*
charitable donation and handled as other charity organisations manage their donations, within the remit of the charities objectives. *Zakah* on the other hand, is considered a form of restricted donation as it must only be spent in the way outlined in the *Quran*. Similarly, *waqf* funds are donated for specific purposes and the handlers of the *waqf* must ensure they stay true to the original purpose of the bequest.

Given the earlier arguments surrounding the concepts and mechanisms of accountability in Islam, it is imperative that the management, distribution and subsequent reporting of Islamic charitable donations, in particular *waqf* and *zakah* are handled with sensitivity and with the utmost transparency. Unlike secular charity organisations, which act out of legal and moral obligations, MCOS have a religious duty placed upon them as vicegerents of Allah to distribute alms to the poor.

Islam views an organisation as an extension of the individuals that constitute them (owners, as well as managers and workers). Therefore, organisations have to follow the rulings of *Shariah* in all transactions they undertake. The following sections focus the discussion on MCOS and discuss in more detail the concepts and mechanisms of accountability required of them.

### 3.6.2 Concepts of accountability

#### 3.6.2.1 Accountability ‘to whom’

Primary accountability in any MCO would ultimately be to Allah. However, this accountability is transcendent; so by adequately fulfilling secondary accountability to society, the organisation is able to fulfil its primary accountability to Allah. This secondary accountability would consist of similar accountability relationships as with other religious charities and should be focused on funders (*upward* stakeholders),
employees and volunteers (lateral), and beneficiaries and society (downward). The primary accountability would be more intrinsic and may be evaluated only at the individual level.

3.6.2.2 Accountability 'for what'
This section discusses the accountability 'for what' in relation to both physical or jasadiyah measures which should be in place within MCOs, and the personal responsibility accountability or ruhiyah related aspects which should be inherent in organisational measures.

a) Physical aspects (jasadiyah)
There is no obligation upon MCOs to have their accounts religiously audited and the extent to which these organisations deviate from the prescribed rulings on zakah is open to question. MCOs provide a medium for Muslims to channel their charity and as such they need to ensure transparency in showing how they choose their beneficiaries and provide assurance that they disburse donations according to the Quran and Sunnah. Accountability for the proper distribution and management of zakah and waqf is therefore vital.

The MCO would need to ensure they keep zakah funds separate from other sadaqah funds. They would also need to ensure that all of the zakah funds were distributed to the proper class of beneficiaries. In addition, they would need to ensure waqf trusts were managed according to the bequest of the donor. Most of the MCOs have waqf fund accounts through which donors can give waqf charity and they work similar to western trust fund accounts. Consequently, it is imperative that MCOs have built in
mechanisms which allow them to filter and distribute funds accordingly. It also means there is a responsibility on MCOs to keep detailed records of their contracts and dealings for stakeholders to evaluate. In essence, MCOs need to ensure they keep the Islamic work ethics such as amal at the heart of their operations (Possumah et al., 2013).

b) Personal aspects (ruhiyah)

Islam regulates all spheres of life and as such, the conduct of organisations should also be governed by Islamic principles. In other words, Islamic values will be a key driver for accountability in MCOs. Following the discussion earlier in the chapter, an Islamic organisation should have adl (justice) and amanah (trust) at the heart of its operations. All conduct within the organisation should be an act of ibadat (worship) and working towards istislah (public interest) should be seen as a way of achieving falah (reward in the hereafter). There should also be a culture of iqtisad (moderation) and ihsan (kindness par excellence) within the organisation. Consistent with this idea of being ethically and morally good in Islam, Table 3.2 outlines key personal characteristics which should be inherent in Muslims to enable them to discharge effective accountability.
Table 3.2: Characteristics of Muslims that aid accountability

<table>
<thead>
<tr>
<th>Personal characteristics</th>
<th>Islamic equivalent</th>
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<tbody>
<tr>
<td>Honesty</td>
<td>Siddique</td>
</tr>
<tr>
<td>Trustworthiness</td>
<td>Amanah</td>
</tr>
<tr>
<td>Intellect</td>
<td>Fathunah</td>
</tr>
<tr>
<td>Consistency</td>
<td>Istiqamah</td>
</tr>
<tr>
<td>Ability to deliver</td>
<td>Tabligh</td>
</tr>
<tr>
<td>Professionalism</td>
<td>Ri’ayah</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Masuliyah</td>
</tr>
<tr>
<td>Public interest</td>
<td>Istislah</td>
</tr>
<tr>
<td>Excellence</td>
<td>Ihsan</td>
</tr>
<tr>
<td>Moderation</td>
<td>Iqtisad</td>
</tr>
</tbody>
</table>

Source: Author

These characteristics, also virtues of having a good moral character, include being honest (*siddique*) and trustworthy (*amanah*) individuals, who should be level-headed (*fathunah*) and consistent (*istiqamah*) in their ability to deliver (*tabligh*) organisational goals. Individuals must always act in a professional (*ri’ayah*) and moderate (*iqtisad*) manner, taking responsibility (*masuliyah*) for their actions and keeping kindness-par-excellence (*Ihsan*) at the heart of their individual conduct.

Muslim management must ensure they encompass the interests of *Shariah* and the Muslim *ummah* but also the interests of the wider society (*istislah*) when dealing with organisational affairs. This is particularly pertinent when Muslims organisations are operating in non-Muslim countries where they must also abide by the law of the land, ensure they are socially responsible, and also maintain the interest of the general public (both Muslim and non-Muslim).
3.6.3 Mechanisms of accountability

3.6.3.1 Reporting and communication of accountability

The concept of full disclosure suggests the disclosure of every organisational transaction. While this might be an ideal view, practically it may be impossible or even undesirable. Napier (2007) notes that Islamic organisations should disclose necessary information to advise the *ummah* about its operations, even if such information works against the organisation itself. From an Islamic perspective, the *ummah* has the right to know the truth about the operations of the organisation and its contribution to the well being of the community (Baydoun and Willet, 1997). Hence, information disclosure to meet the requirements of Islamic accountability needs to be material (ensuring the organisation explains how they have maintained Islamic principles in all charitable activities), objective (need to ensure all duties have been fulfilled properly), and relevant (anything of importance to Islamic users for the purpose of servitude to Allah).

Therefore, the reporting and disclosure policy of MCOs should be more comprehensive than other religious charity organisations, with added emphasis on information that aids users of accounting information in their religious decision making and preparers in demonstrating accountability (Haniffa and Hudaib, 2002). For an MCO, the distribution of waqf and zakah funds should be as transparent as possible, in order that they can provide a full account of their activities to all stakeholders. Furthermore, if the charity was not able to fulfil a requirement of the *Shariah*, then they have a duty to disclose this as well.
3.6.3.2 Governance and practice of accountability

MCOs must have a distinctive culture which sets it apart from other religious organisations. The culture should breed collective morality and spirituality, and sustain the growth and advancement of the Islamic way of life (Sulaiman, 2001). The board of trustees and senior management should play a key role in this. They need to ensure they create a climate of integrity, transparency, social responsibility and compliance within which the charity organisation is run (Hassan and Christopher, 2005). Accountability of the MCO can be maintained through a modern hisba committee, and supervision of the trustees can be achieved through the shura process. The institution of hisba offers a framework to monitor MCOs, but the remit of this institution should be much greater than conventional committees. It needs to ensure that the affairs of the organisation are in accordance with Islamic precepts and also ensure the correct ethical behaviour of the organisation in the wider social context (Baydoun et al., 1999).

If the principles of shura are applied to MCO, then consultative procedures should be applied for all decision making and include all affected stakeholders. All decision making within the firm should take a consultative process which will help aid the accountability of directors and executives. In addition, the persons involved in the shuratic decision making process should be representatives of the stakeholders of the organisation (Abdul-Rahman, 1998).

The discussion of sections 3.6.2 and 3.6.3 has been summarised in Table 3.3.
Table 3.3: Accountability of Muslim charity organisations

<table>
<thead>
<tr>
<th>Concepts of Accountability</th>
<th>Accountability to whom</th>
<th>Primary accountability: To Allah</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Secondary accountability:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Upward – funders, donors,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>government and regulators</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Lateral – employees and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>volunteers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Downward – beneficiaries,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>wider society</td>
</tr>
</tbody>
</table>

| Accountability for what    | MCO members will have Islamic values driving their 'felt' accountability. These will be reflected in their personal characteristics and desire to do good driven by their Islamic beliefs. |
| Jasadiyah (Physical)       | Ensuring they have adequate processes in place to manage and distribute sadaqah funds. |
|                            | Ensuring zakah is collected and distributed according to Shariah. |
|                            | Ensuring waqf funds are managed according to Shariah. |

| Mechanisms of Accountability | Reporting | Disclosure should be material, relevant and objective. |
|                             |           | Ensure disclosure fulfils religious and non-religious obligations. (i.e. disclosure of both legal obligations and information related to zakah and waqf distribution) |

|                             | Governance | View good governance procedures as a religious obligation. |
|                             |           | Establishment of transparent structures and processes including, internal control, decision making, budgeting, performance evaluation etc. |
|                             |           | Hisba committee equivalent to monitor and evaluate the organisation |
|                             |           | Consultative decision making (shura) |
|                             |           | Organisational culture should breed Islamic collective morality and spirituality. |

Source: author
3.7 Summary

A particular issue of concern in Islamic accounting research has been whether the western capitalist accounting and accountability framework is appropriate for Islamic societies and Islamic organisations (Baydoun and Willett, 1997; 2000). This chapter has therefore sought to understand issues of Islamic accountability and Islamic charity in relation to MCOs operating within a non-Muslim country such as the UK.

The chapter began by outlining the Islamic worldview and introducing the concepts and mechanisms of accountability, as discussed in chapter 2, from an Islamic perspective. The chapter also outlined the principles of charity in Islam and discussed why the accountability of charity was important in the Islamic faith. This chapter also provided a critique on the neo-classical understanding of accountability and comparison with Islamic socio-economic principles. In summary, the chapter suggests the practical manifestations of accountability are similar from both the neo-classical and Islamic perspectives of accountability. These practical manifestations include information disclosure and governance mechanisms. From the Islamic perspective, the true discharge of accountability must include the accepted forms of non-Islamic accountability in addition to Islamic accountability concepts. The chapter finally outlined the concepts and mechanisms of accountability which should be inherent within MCOs. The next chapter presents a literature review on studies that have examined issues of accountability within religious and/ or charity organisations.
CHAPTER 4: REVIEW OF EMPIRICAL LITERATURE ON RELIGIOUS CHARITY ORGANISATIONS

4.0 Introduction

This chapter reviews the plethora of empirical literature on charity organisations and religious organisations. The religious charity sector occupies a unique position in organisational study, as it can be understood from the perspective of a charity organisation or as a religious organisation. Each of these perspectives of the organisation has traditionally been approached separately by the literature. The purpose of this chapter is to present the debates in the empirical literature, and to synthesise these arguments and present the research gap which provides motivation for this study. The structure of the chapter is illustrated in Figure 4.1.

Figure 4.1: Structure of chapter four

4.1 Charity Organisations
   4.1.1 Charity organisations and disclosure
      4.1.1.1 Financial disclosure
      4.1.1.2 Narrative disclosure
   4.1.2 Case studies of charity accountability
   4.1.3 Charity organisations and governance

4.2 Religious Organisations
   4.2.1 Sacred-secular divide
   4.2.2 Religious organisations and accountability
      4.2.2.1 Christian organisations
      4.2.2.2 Muslim organisations
   4.2.3 Religious organisations and governance

4.3 The Research Gap
   4.3.1 The literature gap
   4.3.2 The methodology gap
   4.3.3 The theoretical gap
4.1 Charity organisations

The issue of accountability within the charity sector has been approached from a number of different directions. Prior research has explored accountability by examining accountability as a set of processes within a particular charity organisation or based on examining the disclosure or governance practices of the whole sector. The following sections will review the various literature, as illustrated in Figure 4.2 below.

Figure 4.2: Map of charity accountability literature

Source: Author
4.1.1 Case studies of charity accountability

4.1.1.1 Accountability

Looking specifically at how charities could improve performance accountability, Harrow et al., (1999) explored management information needs in smaller charities (< £1million). They sought to investigate a link between the quality of information provided to trustees and the charities performance. This study was one of a few ethnographic studies conducted in accounting during the time-period and as such, the research method has not been clearly defined. The study found smaller charities to be placing more emphasis on altruistic and less quantifiable criteria when judging organisational performance. However, subsequent changes in regulation since this study, have tightened controls and provided more prescription for smaller charities, thus the findings may not be applicable today.

Christensen and Ebrahim (2006) were inspired by literature which suggested that upward accountability (to funders) may be too intense for many non-profit organisations and thus threatening downward (to beneficiaries) and lateral accountability (within the organisation) or even mission. Therefore, the purpose of their research was to examine how these demands actually played out, by looking at the relationship between accountability mechanisms and mission-based activities. They took an interpretive case study approach on a charity serving refugees and immigrants. Their findings suggest that when upward accountability mechanisms are not views as being directly linked to mission, staff find these demands more cumbersome. In addition, they note that accountability could be enhanced if ‘felt responsibility’ was increased throughout the organisation by empowering staff members and giving them more autonomy in decision making. They concluded that upward and downward
accountability can be better improved by strengthening lateral accountability. The implications of this is that funders and regulators should focus more on internal capacity building (especially in communication and co-ordination) rather than demanding more reporting. Overall, they found that staff viewed lateral and downward accountability as part of their mission suggesting that accountability mechanisms in charities should be built around mission and purpose, rather than focused on external scrutiny.

Taking a different approach, Samkin and Schneider (2010) examined narrative reporting and accountability in a New Zealand public benefit entity from the perspective of legitimacy. They examined a period where the organisation was subject to extensive negative media publicity and found that the annual report of the organisation played an important legitimising role. This was because management were able to use the report to employ assertive and defensive impression management techniques in order for the to gain, maintain and repair its organisational legitimacy in the light of the negative publicity.

4.1.1.2 Governance

Focusing on an unnamed British charity, Vinten (1997) proposed a checklist of items that a charity should be accountable for, namely: purpose, principles, procedure, relationships, results, efficiency, incomes and expenditure. He used these items to explore the accountability practice of a single charity and concluded that the charity had poor governance procedures with a lack of transparency within the organisation. However, these findings may not be reliable due to a lack of theoretical framework and lack of explanations surrounding the choice of ‘accountability’ items by the author. This seems to be a purely explanatory article from the authors own background as an auditor.
4.1.2 Charity organisations and disclosure

The literature on charity disclosure is growing and a number of notable studies have analysed financial and narrative disclosure of charity annual reports. Financial reports give an account of how organisational funds have been received and used, and the nonfinancial, narrative information enables charities to explain their performance in relation to their activities. The following section reviews these studies and argues for greater focus to be given to mandatory narrative disclosure as this form of disclosure provides greater information on the mission and performance of the charity organisations.

4.1.2.1 Financial disclosure

Prior research on financial disclosure has concentrated on the form and content of the financial statements (Hyndman, 1990; 1991; Hines and Jones, 1992; Williams and Palmer, 1998; Palmer, Isaacs and D’Silva, 2001; Connolly and Hyndman, 2001). The findings from these studies suggest that financial reporting by charities has improved over the years due to increased regulation in the sector (Hyndman and McMahon, 2011). However, diversity in accounting practices resulted in difficulties for users to understand the financial statements (Ashford, 1989; Gambling Jones, Kunz and Pendlebury, 1990; Hines and Jones, 1992; Williams and Palmer, 1998; Connolly and Hyndman, 2000, 2001).

One of the first studies examining financial disclosure in the charities sector was conducted by Bird and Morgan-Jones (1981). This study found severe problems in the reporting and disclosure practices of the charities sector and they made a series of recommendations which led to the development of the first regulatory framework for
charities. Subsequent studies sought to build on this research and investigate if reporting practices had changed in any way, from a number of different perspectives.

a) Disclosure and user needs

Hyndman (1990) employed the user needs perspective to analyse information provided by charities and also assessed the information needs of contributors and the perceptions of charities/auditors to these needs (Hyndman, 1991). In his first study (1990), he found accountability was not being discharged in an effective manner and he argued for a shift to be made from reporting financial to non-financial data to make reporting more relevant. In his later study (1991) [building on his previous work], he found there to be an unwillingness or inability to provide information that contributors wanted, leading to a relevance gap in what information was being provided by preparers and what was needed by users. These studies provided a framework that could be used by charities for reporting their non-financial information. Although his framework may be outdated since the SORP 2005 provides the necessary reporting guidelines, it is still useful for charities that wish to go above and beyond their legal requirements on disclosure.

Recently, a study by Connolly and Hyndman (2013) examined if the gap between disclosure and user needs had diminished as found by Hyndman (1990; 1991). They firstly examined the disclosure practices of the top 100 UK fundraising charities and then compared the results of what was actually being disclosed to what stakeholder preferred. They found that although accountability disclosure had substantially increased from 1990, a gap still existed between what stakeholder expected to see in the financial statements and what charities were predominantly disclosing.
b) Impact of SORP compliance

Hines and Jones (1992) and Williams and Palmer (1998) sought to assess the impact of the original SORP (1988) and the revised SORP (1992) on charity reporting practices. Hines and Jones (1992) conducted a longitudinal study to assess the before and after impacts of the original SORP (1988) on reporting practice. They found overall compliance levels had barely increased over the years and suggested that charities may not actually understand the terminology to adopt the recommendations. During the period of study, the recommendations of SORP were not yet mandatory. Hence, this study recommended mandatory accounting standards or legislature to be introduced to streamline accounting practice which resulted in future SORPs being made mandatory.

Subsequently, Williams and Palmer (1998) examined the reports of 83 charities for the reporting period 1994/1995, including 43 charities analysed by Bird and Morgan-Jones (1981) to see if accounting practice had changed in any way. They found that reporting was still considerably lacking with no consideration given to users of accounts. They suggested this was due to, weak or non-existence feedback from users, the calibre of staff not up to producing modern accounts or because many charities were simply ignoring the SORP.

c) Role of auditors

Williams and Palmer (1998) assert that although reporting had improved since the 1980’s, variations in reporting still existed and suggested that auditors must take their role seriously when looking at reporting quality by charities. Connolly and Hyndman (2000) and Palmer, et al. (2001) came to the same conclusions. The former study looked into the impact of both the original SORP (1988) and the revised SORP (1995) and
found charities not fully complying with all the recommendations despite evidence of an increase in compliance over time. Palmer et al. (2001) also found huge variations in reporting practice and found that auditors, including those with charity expertise, were failing to either advice or ensure that charities complied with the SORP.

d) **Comparative compliance**

In the only comparative British/Irish study on charities, Connolly and Hyndman (2001) found that Irish financial statements were considerably less compliant with recommended accounting practice for charities than their British counterparts. This study examined the impact of the revised SORP on the financial reporting practices of these two groups of charities and found that differences in reporting practice were more pronounced for the SORP regulation that had been drastically changed. They further concluded that low response rates from the Irish charities suggested an unwillingness to be held accountable.

e) **Church reporting**

Morgan (2009a) conducted the only study of disclosure and reporting within the UK religious charity sector, focusing on general financial disclosure. The study analysed the purpose of charity reporting in Christian churches and concluded that enhanced reporting disclosure was key “for churches to take their place in the third sector, and hence to advance their mission more effectively” (ibid, p.346).

4.1.2.2 **Narrative disclosure**

Gambling et al. (1993, p.204) note that although narrative reporting is softer than financial reporting in a technical sense, it is much harder in the moral sense. It has been
argued that traditional financial statements provide limited role in discharging accountability as they do not provide information on aspects such as success, performance and impact (Torres and Pina, 2003). This has led to scholarly attention shifting in recent years with an emphasis being placed on examining narrative performance information discharged by charities (Connolly and Hyndman, 2003; 2004; Connolly and Dhanani, 2006; 2009; Jetty and Beattie, 2009; Dhanani, 2009; Dhanani and Connolly, 2012). The research into narrative disclosure can be further split between those that examine disclosure not concerning regulation and those that examine mandatory SORP disclosure.

a) Non SORP disclosure

Connolly and Hyndman (2003; 2004) analysed the level of performance and background disclosure present in charity annual reports. They found background information to be more heavily disclosed than information pertaining to performance achievements. They concluded that although charities were aware of the need to disclose such information to users, they chose to ignore or were not making any effort to disclose accountability related information. In fact, they concluded that despite inadequacies in charity reporting, not much had changed since the study by Hyndman (1990).

Connolly and Dhanani (2006) examined the narrative content of the top 100 fundraising charities annual reports for the year ending 2000/2001. The focus was on accountability disclosures in relation to fiduciary, managerial and operational accountability. Fiduciary accountability looks at issues of probity, compliance and good governance. Managerial accountability examines managerial performance and incorporates the
financial position of the charity. Operational accountability addresses an organisation’s achievements and performance in relation to its charitable objectives. They found that charities were readily providing information in relation to fiduciary accountability. Furthermore, they noted that disclosure practices seemed to be influenced by charity size, with larger charities providing more disclosure. These findings were subsequently corroborated by Connolly and Dhanani (2009) who found many of the charities failing to meet even basic accountability requirements in their annual reports. This could be because many charities felt that the annual report is a very exclusive document, and hence, only certain stakeholders tend to read it (Jetty and Beattie, 2009). Also, larger charities tend to use their website or annual review to disclose more promotional and performance based information (Connolly and Hyndman, 2003). However this is not appropriate in the true sense of accountability as these vehicles cannot be externally scrutinised and there is the possibility of bad news being hidden (Jetty and Beattie, 2009) in such un-regulated mediums.

The findings by Connolly and Dhanani (2009) also mirror those found more recently by Jetty and Beattie (2009), who suggest that an expectations gap exists between regulators and preparers regarding what they perceive as being useful and transparent information. They generally found variations in reporting and disclosure practices yet when these were grouped based on the respective organisational type (fund-raising or grant-making), similar patterns of disclosure practices emerged. This led them to conclude that differences in reporting practices could be linked to the diverse nature of the sector and the diverse stakeholders within each sector. This suggests that concentrating on one group within the charities sector should provide clearer indications of disclosure practices rather than taking the charity sector as a whole.
Similarly, Dhanani (2009) examined accountability practices of the largest charities in England and Wales, focusing on information disclosure through the Guidestar website. This study found accountability information for one third of the charities to be outdated and that descriptive information was more readily provided than performance information. The results concur with the findings of Connolly and Dhanani (2009) and Jetty and Beattie (2009). In a subsequent study, Dhanani and Connolly (2012) found charity accountability practice was motivated by a desire to legitimise activities and present organisational activities in a positive light, which affected the type and level of disclosure. Following these studies, Connolly and Dhanani (2013) sought to examine the accountability of large UK charities via an assessment of their internet disclosure practices. Their findings indicate that in most cases, charity web sites played a wide role to direct accountability at both upward and downward stakeholders. However, in contrast to Connolly and Dhanani (2006), they found the discharge of fiduciary accountability via the internet to not be forthcoming.

The studies discussed above have all examined general narrative disclosure but they failed to adopt any framework to guide their analysis. Whilst some studies have concentrated primarily on exploring issues of performance disclosure (Connolly and Hyndman, 2003; 2004 and Dhanani and Connolly, 2012), other studies have looked at the overall charity disclosure practices and policies (Jetty and Beattie, 2009; Connolly and Dhanani, 2013) and examined how charity disclosure helps improve charity accountability (Connolly and Dhanani, 2009). Consequently, findings from one study are not easily comparable to the other, even though all found differences in reporting practices. Furthermore, Jetty and Beattie (2009) and Connolly and Dhanani (2009)
were reports issued by the ACCA and therefore their remit was much broader and arguably more linked to the issues of concern to charity practitioners rather than guided by inadequacies in the literature.

Hence, a common framework needs to be employed when examining issues of charity reporting and disclosure, which can then act as a base for further research to build on. Such a common framework can be found in the SORP regulations which all charities have to adhere to. A recent study commissioned by the SORP committee of the Charity Commission (Connolly et al., 2009; 2013) found evidence of greater appreciation of the SORP by stakeholders who view it as a driver for improving charity reporting and accountability. For this reason, they argue that charities adhering to guidance encompassed within the SORP are better able to manage their performance reporting and at the same time meet regulatory requirements. This suggests that adherence to the SORP is not only vital in terms of fulfilling legal obligations but can also aid a charity in discharging its accountability requirements to other stakeholders. Yet only a limited number of empirical studies have been conducted looking at adherence to SORP.

b) SORP compliance

The Charity Commission (2004) conducted a study assessing the extent to which 200 of the largest charities in the UK had gone beyond minimum requirements to provide information in their annual reports that accounted fully and transparently for their performance during the year. They found the general standard of performance against the transparency and accountability framework to be unsatisfactory, with most charities not even meeting the basic requirements of best practice. In 2007, the Charity Commission published another report looking at compliance to the 2005 SORP. They
inspected 647 charity annual reports of different sizes and found a significant number of the reports failed to comply with the SORP. Both these studies examined compliance to SORP from the perspective of the Charity Commission. Although detailed in nature, they did not employ any theoretical framework in their analysis and lacked more objective measures of analysis. Furthermore, they failed to incorporate wider issues related to the transparency of the reports and the findings were only limited to issues of SORP compliance. In addition, these studies did not examine particular sub-sectors within the charity sector which could have provided robustness to the findings (Jetty and Beattie, 2009).

Crawford et al. (2009) conducted an ICAS funded study, focusing upon the recommendations of the SORP 2005 related to disclosure of governance and accountability information in the annual reports of 78 Scottish charities. They found the charities to be complying with the basic requirements of the SORP. These findings could be explained by the fact that Scottish charities, regulated by the OSCR, have a stricter approach to SORP compliance than their counterparts in England and Wales.

4.1.3 Charity governance

As the parameters of NFP governance have traditionally been rooted in the corporate version of governance (Crawford et al, 2009), research conducted into the governance practices of charities has also been quite functionalist in nature by focusing on aspects such as board structure, board characteristics, board size, etc (see Dyl et al, 2000; Cornforth, 2001; Vinten, 2001; Jetty and Beattie, 2012). Research has found a strong correlation between board effectiveness and organisational effectiveness (Aggarwal et
Gambling and Jones (1996) conducted a review of the governance structures of 18 charity boards. They found a lack of a common set of standards of governance in charities and found ambiguities in the governance processes that did exist. More recently, a review of the literature by Ostrower and Stone (2006) found the focus of NFP governance research to be primarily focused on the board of the organisation, thus heeding earlier calls by Herman (1989) and Drucker (1990) to provide more empirical studies on the contribution of boards. This review outlines the current state of NFP governance literature to sit within two streams: (i) the sources, nature and consequences of board effectiveness and; (2) the determinants and consequences of NFP board composition.

4.1.3.1 Board effectiveness
Cornforth (2001) examined the influence that board inputs, structures and processes have on board effectiveness in a NFP. Although he noted that the traditional focus of governance on charity boards has mainly been on stewardship, he also found charities to often focus on improving self-regulation and including voluntary codes of practice for board members. His research suggests that board inputs (e.g. board members have the time, skills and experience to do the job) and three variables are important in explaining board effectiveness, namely; (i) clear board roles and responsibilities; (ii) the board and management share a common vision of how to achieve their goals; and (iii) the board and management periodically review how they work together.
Brown (2005) conducted a survey of 200 NFP organisations in the USA. He investigated six dimensions of effective board performance, as suggested by Chait, Holland, and Taylor (1991). His findings revealed that strategic contributions from the board are more robust in organisations with higher financial performance. In addition, organisations that are judged to be high performers also reported having high-performing boards across all dimensions. However, the sample was not randomly derived. Consequently, the findings could be biased towards organisations in large metropolitan areas or other anomalies present in the group researched. Other measures of board performance or effectiveness might have also provided different results.

4.1.3.2 Board composition
Cornforth and Simpson (2002) examined how NFP boards evolved and whether various external initiatives have had an impact on what boards do. They looked at changes over three years in terms of board size, structure, frequency of meetings, recruitment practices, training and support, and the use of external advisers and consultants. They found a number of positive associations with size of the organisations, the likelihood of boards having subcommittees, the support available to board members in terms of written job descriptions, and induction and training. They concluded that developing generic theories or practical prescriptions for non-profit boards may be dangerous due to the hugely different characteristics that non-profit organisations possess in terms of mission, activities, objectives, members, time, resources, etc.

Ostrower and Stone (2006) found NFP boards to be complex entities that are deeply influenced by the environments in which they operate, noting that the gap between what boards are supposed to do and what they actually do is considerable. They found larger
NFPs having larger boards and the majority of boards being typically dominated by white males from an upper/middle class background, thereby concluding that the size, prestige and area of activity affect characteristics of the board. Hence, further research was needed which focused on ethnicity and gender. The study was conducted only on the boards of larger US health and human science organisations in the USA and may not be fully applicable to British NFP organisations due to their differing characteristics (Cornforth, 2001).

Similarly, Aggarwal et al. (2012) examined relations between board size, managerial incentives and enterprise performance in nonprofit organisations. They found board size to be positively related to the number of programs, program spending and fundraising performance and negatively associated with managerial incentives.

In contrast to these studies, Bradshaw (2009, p.78) argues for a contingency approach to board governance. She highlights the role of strategic choice in the charity sector and the need to include contingencies that reflect ideology and power relations within the organisation. She argued that “there may be negative consequences if the organisation elects a governance configuration too far from the dictates of the environment or outside an arena of strategic choice”. This, therefore, suggests that the approach to selecting board structure and composition should be dependent on the circumstances of the particular organisation (Brudney and Murray, 1998; Cornforth, 2003). This is vital for religious charity organisations where the ideology and characteristics of the particular organisation will make it unique and different from any other religious charity organisation, even within the same religion (Torry, 2005).
Other than the literature mentioned above, other key studies analysing governance in the NFP sector have analysed governance in terms of effective and less effective boards and organisational effectiveness (Herman and Renz, 1998), the effect of public funding on NFP governance (Guo, 2007), the relationship between pay and performance (Jobome, 2006a), and the interaction of internal and external governance on charity spending (Jobome, 2006b), amongst others.

4.2 Religious organisations

Quattrone (2004) and Jacobs (2005) have both highlighted the value of studying religious organisations not only for extending the research in this area but also to extend our own understanding on the nature of accounting. Prior research, although well-informed and critical, has been limited to investigating the role and functioning of accounting within a religious setting rather than evaluating how religious thought can inform accounting practice (McKernan and Kosmala, 2007). Carmona and Ezzamel (2006) fear that such functionalist research may just provide another contingency view of accounting, thereby sacrificing the uniqueness of religious settings. Carmona and Ezzamel (2006) and Parker (2002) have also noted that the number of studies in this area remained relatively low compared to the social significance of religious institutions. This does not seem due to lack of interest but rather due to the tendency of researchers to see religious organisations as an extension of the not-for-profit sector. This in itself is not problematic but it has meant that previous research focuses on non-profit organisations as a secular entity rather than meriting specific focus on their religious setting.
Consequently, the latest literature has now placed more concern with the moral, cultural and social factors in play within religious organisations (e.g. Irvine, 2002; Duncan and Stock, 2003; Ezzamel, 2005; Parker, 2002; Quattrone, 2004). This emphasis was reflected in the devotion of two issues of the *Accounting, Auditing and Accountability Journal [AAAJ]* (2004, Vol 17, No 3; 2005, Vol 18, No 2) and one issue of *Accounting Horizons* (2006, Vol 11, No 2) to exploring the complex interplay between religion and accounting practice. Mcphail, Gorringe and Gray (2004) note in the introduction to the issue that the majority of research conducted from an interdisciplinary perspective has so far been from a secular, almost atheist perspective, which has thus re-enforced a secular view of accounting. Their objective was therefore to reintroduce the theological stance back into accounting to discover if any “new insights could be gained” (ibid, p.320).

Although the research in this area is still in its infancy, it has presented some interesting and thought provoking debates. This includes an exploration of accountability in religious charity organisations [RCOs] and the sacred-secular divide which has been put forward by some researchers as the most viable theoretical framework for analysing accounting within religious organisation. Figure 4.3 highlights the map of this literature and the following sections discuss these studies in more detail.

### 4.2.1 The sacred-secular divide

The sacred-secular divide has become a key theoretical assumption relied upon by researchers when tensions are observed between accounting and accountability practices in any religious organisation. This thesis has its origins in research conducted by Laughlin (1988; 1990) and Booth (1993; 1995). Both researchers found tensions
between the technical aspects of accounting practice and religion as observed in their case studies. They therefore developed a framework which split the sacred activities of the religious organisation from the secular activities of the organisation (accounting and book-keeping etc). In particular, they classified activities of the organisation according to their relationship with belief and the extent to which that activity was a routine process which also occurred in non-religious organisations.

**Figure 4.3: Map of literature on religious organisations**

![Map of literature on religious organisations](image)

**Source: Author**
Laughlin (1988; 1990) discusses the sacred life of the church as separate to the secular aspects of accounting. An in-depth analysis of the historic background of the church and the growing secularisation in society shows the church has tried to keep the sacred elements of its organisation separate from the accounting aspects. This suggests that the foundations of the church have been built on a sacred secular divide. Laughlin (1988) quotes Eliade and Durkheim, both influential Christian thinkers, in suggesting that all churches are dominated by this divide and goes on to say “...In this context, finance, accounting and accountability matters are seen as secular and secondary” (Laughlin 1990, p107). He also suggests that accounting is seen as a separate, subservient, and unimportant function within the church. Although he accepts that context and underlying structure do play a part in determining the nature of accountability relationships, his research has failed to fully integrate the Christian religious context into the analysis. Hardy and Ballis (2005, p.242), however, note that this suggests that the sacred-secular divide best makes sense when religious organisations are on the back foot and forced to engage with secular activities to uphold the sacred. Therefore, the eligibility of the divide in the analysis of all religious organisations is immediately questionable.

Booth (1993) built upon the tentative framework developed by Laughlin when he conducted a study on the Australia Uniting Church and presented a research agenda based upon the sacred-secular divide. This study solidified the sacred-secular divide as a viable theoretical framework for understanding research in religious organisations.

More recently, the theoretical basis of this divide has begun to be questioned (McPhail et al., 2005; Jacobs and Walker, 2004; Jacobs 2005; Bigoni et al., 2013), not least
because the assumption of the divide itself treats all religious organisations as homogeneous and is too pre-occupied with the technical/economic aspects of accountability (Carmona and Ezzamel, 2006; Quattrone, 2004) rather than the religious context which feeds them. Subsequent studies have therefore looked at religious organisations from an alternative stance. Irvine (1996) found the secular and sacred activities indistinguishable in her study of a local Anglican Church. She found that ‘resourcing crisis’ were seen by the church to be a sacred issue, in contrast to Laughlin (1988) who found them to be secular concerns.

Lightbody (2003) also found difficulties with the sacred-secular model. She found accountants viewed their role both in the secular and sacred contexts. Jacobs and Walker (2000; 2004) have also thrown doubt on the sacred-secular divide with their research on the Iona community, whose accounting practice was an integral part of their Christian faith. They observed how practices of financial record keeping were deeply embedded in the religious observances of the community members, thereby concluding that the Iona community challenged the structuralist approach of the sacred-secular dichotomy. Similarly, Bigoni et al. (2013) examined the historic accounting practices in the diocese of Ferrara in Italy and found secular accounting and accountability practices were not regarded as necessarily antithetical to religious values and in some instances were essential to the churches sacred mission.

Hardy and Ballis (2005) also examined this dichotomy and argued a number of points refuting it. Firstly, the notion that all religious organisations would resist secular accounting practice is invalid because the model does not incorporate religion into the framework. Rather, it removes religion so the religious organisation is seen as no
different to a non-religious organisation. Secondly, Hardy and Ballis (2005) view accounting and accountability practices as intrusions into the sacred role of the organisation, and this is in direct contradiction to what recent studies have found (Irvine, 2002; Jacobs and Walker, 2004; Quattrone, 2004).

Jacobs (2005) also argues that the sacred-secular issue seems to be one of perception. He views sacred and secular as being the opposite ends of a continuum rather than being two separate issues. In his critique of the sacred secular dichotomy, Jacobs also suggests that Laughlin may have not fully understood Eliade’s work possibly because he adopted ‘an overly structuralist reading of the work’ (Jacobs, 2005, p.192). His main argument is that accounting can be an important part of an individual’s spiritual life. He also hints that Laughlin’s original work (1988) may have been misinterpreted. If this is the case, then it suggests that subsequent researchers, notably Booth (1993), have failed to adequately question the theoretical framework on which the study is based. The work of Jacobs seems to be the most convincing as it does seem to be the case that the sacred secular issues are ones of perception but also context.

The remainder of this chapter will consider the literature surrounding the accountability practices of religious organisations. Within this section, literature concerning western/Christian organisations will be considered as well as empirical literature on Muslim organisations, the majority of which looks at information disclosure.

4.2.2 Religious organisations and accountability

Research into the accountability practices of religious charities is severely lacking in the English language literature. Quattrone (2004, p68) found a dearth of studies on
accounting and accountability within religious organisations. There is a small body of literature concerning religious organisations which will be discussed here, however a focus on the accountability practice of religious charities \textit{per se} is almost non-existent with one notable exception (Christensen and Ebrahim, 2006). Other studies looking at religious charities in particular have examined, if the behaviour of managers can be considered religious (Yaaghie, 2009), the value of contributions to urban religious congregations in order to assess their societal value (Cnaan, 2009), how corporate accounting practices have been institutionalised in Australian religious charitable organisations (Irvine, 2000), and the role of financial control in religious charities (Wooten \textit{et al.}, 2003). Parker (2001) notes that although the studies in accountability within religious organisations are limited, they have revealed much broader and richer contextualisation of accountability than studies concentrated in the commercial sector. Hardy and Ballis (2005) further argue that accounting and accountability within religious organisations can be enhanced by endeavouring to better understand a community’s belief system.

The majority of the research conducted has been in the Christian tradition but there have been some studies from other theological perspectives. Bowrin (2004) looked at internal control in a religious organisation; specifically focusing on Hindu and Christian organisations in Trinidad and Tobago. Ezzamel (2005) conducted a historical study into Egyptian funerary temples and found that accounting practice was usually holistic, combining the spiritual and economic aspects of culture. Abdul-Rahman and Goddard (1998) in their study of two Muslim religious organisations used an interpretive grounded theory approach to investigate accountability practices. Jayasinghe and Soobaroyen (2009) also use grounded theory based on two in-depth cases from Sri
Lanka (a Buddhist temple) and Mauritius (a Hindu temple). Their aim was to assess perceived rational accountability practices through the respective religious “spirit” and “beliefs” of these religious organisations. Their findings imply that the religious “spirit” is an integral and important part of accountability in non-Western societies, with accountability largely visible as an informal and social practice.

There have also been studies which examine accounting from different philosophical and hermeneutic angles. Such studies are very critical in nature, often focusing heavily on the oppressive nature of current accounting practice and arguing for societal change in such methods. For example, McKernan and McLullich (2004) use the religious work of Paul Ricoeur\(^ {17} \) to critically reflect on the rendering of accounts as a moral practice in light of the Enron crisis. Similarly, Lehman (2004) uses Charles Taylor’s\(^ {18} \) work as a basis for analysing certain ethical and moral challenges that face accounting, accountability and religion.

4.2.2.1 Accountability and the Christian organisation

Notable prior literature looking at accounting systems in the Christian church/community have included detailed case studies of accounting practice. The earliest of which was a study of accounting, accountability, and audit in the early Shaker community (Faircloth, 1988). Since then studies have also examined the accountability practices in the Church of England (Laughlin, 1988; 1990; Booth, 2005) and historic accounts of financial accountability in Christian churches (Quattrone, 2009; Paisey and Paisey, 2011). A number of studies have also been conducted analysing the accounting

\(^{17}\) A French philosopher best known for combining phenomenological description with hermeneutic interpretation.

\(^{18}\) Post-modern Canadian philosopher, whose Roman Catholic background informs the moral dimension of his writings.
and control systems in churches in Australia (Booth, 1995; Parker 2001; 2002; Lightbody, 2000: 2003) and in the USA (Duncan, Flesher and Stocks, 1999). More recently, Joannides (2012) examined accountability practice in the Salvation army and Hardy and Ballis (2013) sought to examine the informal reporting practices in a religious corporation within the context of accountability. All these studies sought to investigate accounting and accountability practice in a situated context, i.e. the religious organisation.

Laughlin (1988; 1990) suggests that the internal dynamics of the Church of England mean the response to demands for greater accountability will vary with location, citing increasing bureaucracy and an aged hierarchical structure for the lack of accountability at the parish and central board level. He further acknowledges the lack of accountability present in the church and suggests that greater accountability can only be gained through internal pressures within the church.

Other studies looking at the church include Kreander et al., (2004) who investigated the accounting practices in the Church of England and the Methodist Church. The authors argue that the mode of accountability developed in the context of ethical investment can be understood as a form of moral discursive practice (ibid, p. 416). More recently, Berry (2005) investigated control and accountability over a period of 7 years in the Church of England using documents, debates in the governing body, conversations and interviews and participants’ observation. He then developed three modes of accountability that could be applicable in a church context, based upon covenant, constitution and contract. The first mode of accountability (covenant) is at the theological level, namely that the primary accountability of a Christian is to God. The
way this accountability is understood differs between different theological strands. For example, the evangelicals view it through a chain of God, the ministers, then the laity, and to the Bible. Constitutional accountability refers to the legitimate requirements of organisations and contract accountability refers to the specification of responsibilities. He discusses both these types of accountability in terms of legal and ministerial terms. Again, Berry (2005) implicitly accepts the division of accountability practice in sacred and secular terms.

The majority of these studies fail to take into account Christian religious perspective within the analysis and treat it as a separate concern not linked to accounting/accountability practice. To overcome this rather rigid and narrow research agenda, Quattrone (2004) sought to focus on the emergence of accounting practice within a religious context. His historical account of the accounting and accountability practices in the Society of Jesus found that the development of these practices was directly linked to the Roman-Catholic doctrine of the Reformation. In his analysis, made beyond the economic explanation, he found that the accounting and accountability practices were complex and inextricably linked to the ‘theological, religious, political, institutional and social instances’ (ibid, p.647). Likewise, Jacobs and Walker (2004) explored the accounting practices in the Iona community as part of the religious context in which the community exists. In fact, the ‘giving of account’ in terms of money and time was found to have positive social aspects. They found that accounting was a core aspect of both spirituality and communality in the community.
4.2.2.2 Accountability and the Muslim organisation

Studies into the accountability practices of Muslim Organisation are also few in the English language literature. Although research in Islamic Finance and Islamic Banks has bloomed in recent years, Islamic accounting research has lagged behind. Research also seems to be more concerned with setting the groundwork and providing prescription for what should be happening (Gambling and Karim, 1986; Askary and Clarke, 1997; Lewis, 2001; Haniffa and Hudaib, 2002), rather than exploring what is actually happening, as discussed in chapter three. The majority of the studies also focus more on the corporate and financial sectors with limited attention to other types of religious organisations.

A recent study conducted by Yaaghie (2009) in the US looked at the behaviour of US Muslim NFP organisations and analyzed if this behaviour was religious or not. Although not linked to accounting or accountability, the findings of the study suggested that the faiths’ of the board members’ was a significant motivator for members to perfect their work. This study however was conducted using survey research and only looked at those non-profit organisations the researcher deemed accessible. Thus, there is an inherent bias in the results and it can be argued that survey research does not provide the richness or depth of case study research (Robson, 2002).

Abdul-Rahman and Goddard (1998) looked at the accounting and accountability practices of two Muslim religious organisations in Malaysia. This study was an in-depth ethnographic study which provided rich contextual data on Muslim religious organisation. They found that accounting practices had little meaning to organisational
participants when the source of power was ‘an identifiable elite’. When such a power source did not exist, it was found that accounting practices were deemed to be important as organisational processes but not in terms of accountability as accountants viewed their role in organisational practice rather than assisting accountability. They also found that the sacred-secular divide was not as prevalent in the Malaysian Muslim Religious Authority context compared to ‘Western Christian Churches’.

Similarly, Nahar and Yaacob (2012) examined the management, accounting and reporting practices of a Malaysian cash awqaf institution over a six year period, using predominantly a case study and document analysis approach. They found accountability did exist to some extent in different dimensions (based on Stewart’s (1984) accountability framework) across the awqaf operations.

Empirical studies into accountability of Muslim organisations have focused mainly on reporting and disclosure of corporate Muslim institutions, mainly Islamic Banks, rather than focusing on accountability per se. For example, Maali et al. (2006) found that social issues were not a major concern to Islamic banks. They also found that banks that are required to pay the Islamic religious tax Zakah in their charter, provide more social disclosures than banks that do not have such a clause in their charter. More recently, Kamla and Rammal (2013) sought to understand social reporting by Islamic banks with special emphasis on themes related to social justice. They found that although Islamic banks’ disclosures emphasised their adherence to Sharia teachings, their disclosures, however, lacked specific or detailed information regarding poverty eradication or enhancing social justice. They further suggest that by drawing the

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19 ‘Identifiable elite’ refers to an identifiable power source within the organisation. In the study it refers to members of the Royal family involved in the organisations operations who were able to exert disproportionate power over others who were dependent on them.
attention of Islamic banks and other stakeholders to this gap between their rhetorical religious and ethical claims, a positive change can be made to the actual social role of Islamic banks’.

In a similar vein, Sulaiman (1997; 2001) set out to test the theory of Islamic financial reporting put forward by Baydoun and Willett (1997; 2000). The findings of these studies suggest that Muslims in Malaysia did not view the proposed Islamic reporting framework any more useful than non-Muslims. This discrepancy suggests that although religious teachings may impinge on how people should ideally behave, it does not in fact affect the way people actually behave (Sulaiman and Willett, 2001). This observation, however, runs contradictory to the tenet that there is no sacred/temporal divide in Islam, prompting Sulaiman and Willett (2001, p.18) to argue that Muslims have adopted the capitalist and secular values of the west in their everyday life. They further attempt to explain this discrepancy using Hofstede’s (1984) framework of analysing issues in respect of the ‘desirable’ (what ought to be happening), the ‘desired’ (what people want to happen) and the ‘actual’ (what is actually happening), suggesting that the theory formulated by Baydoun and Willett was only applicable at the level of the desired. However, this observation also runs counter to the ethics of Islam and is probably due to the undue focus of the study on accountability at the ‘micro’ or individual level. From an Islamic perspective there should be no gap between the ‘desirable’ and the ‘desired’. Any gap that arises between these and the ‘actual’ could therefore be due to wider non-Islamic influences upon the organisation.

Baydoun and Willett (1997) argue, as do other writers, that the philosophy of materialism and economic rationalism which underlies western practice, is in direct
contrast to the value system of Islam. Thus, the adoption of such practices is also
counter to the ethical framework of Islam and has contributed to a lack of understanding
of the actual accountability practices of Muslim organisation. The micro perspective
undertaken by both normative and empirical researchers has found the issue of
accountability to be ritualistic and rules orientated in such organisations.

4.2.3 Religious organisations and governance

Little research has been conducted in the area of religious NFP governance with the
majority of studies being conducted in the accountability, control and planning of
religious organisations (see for example Laughlin, 1988; 1990; Booth, 1993; Parker,
2001; 2002; Lighbody, 2000). Some of these studies did examine the governing body
and executive as part of their studies. However, their primary focus was upon the
operations and interactions of executive and middle managers (Parker 2003).

Parker (2003) sought to focus his study on the strategic decision-making processes at
board level of a religious organisation. Utilising a grounded theory approach and acting
as a participant observer he sought to understand the financial management strategy of
the organisation at Board level. He found the main focal concern of the board was to
generate and maintain financing for the mission of the organisation. Furthermore, he
found accounting to be a central concern linked to the annual budget planning exercise,
which had an impact on future strategic direction and on the financial disclosures to be
made to stakeholders. Parker (2003) discusses these results in light of the literature
concerning NFP organisations, however he fails to mention the theological underpinnings that guide the religious organisation. Examining the findings from a
theological stance, it can be argued that the organisation is not focusing on finance as a
means of achieving mission, but rather is focusing on its mission and only taking into account those accounting activities which help enhance the mission.

Torry (2005) recognises that the governance of complex religious organisations can never be easy. This is particularly because the frameworks are more informal than formal. He admits that all religious organisations will have some sort of conflict present internally. It is the role of governance to strike a balance between these conflicts. It is important that a governance structure is able to do this, otherwise the conflict may harm the mission of the organisation.

He further outlines the problems of governance within a religious organisation by providing an analysis of the governing body of the Church of England. He argues that instead of governing, the Church of England has been invaded by a managerial ideology. In contrast to Laughlin (1990), who viewed the Church of England as a headquarter (central function) with many smaller branches, Torry (2005) views the Church of England as a federation of parishes. He argues the complexities of the organisation mean it can no longer be viewed as a central function and consequently he argues that the governing mechanisms within the Church are also inadequate. He suggests there should be different governing mechanism in place at different levels of operation.

4.3 The research gap

An illustration of the research gaps identified from the literature review can be seen in Figure 4.4 below. There are a number of research gaps which this study attempts to narrow.
Figure 4.4: Identification of research gaps

Lived practice of accountability
- Muslim organisations
  - Situated practice
  - Governance frameworks

Communication of accountability
- Transparency of annual reports
- Narrative SORP disclosure
- Comparative studies

Methodology Gap
- Studies of Religious Organisations
  - Organisation specific
  - Mixed methods research

- Accountability in religious charity organisations
  - Sector wide

- Studies of Charity Organisations

Theory Gap
- Critical / interpretive theories
- Legitimacy theory and accountability constructs defined from literature

Source: author
4.3.1 Literature gap

The review of the literature in this chapter indicates the existence of two distinct bodies of literature for charity organisations and religious organisations, with literature concerning the accountability of religious charities to be almost non-existent. Thus, this study will provide a bridge that will help bring together these two separate bodies of literature. The majority of studies conducted in the area of charity accountability examine the disclosure practices of charities, i.e. the communication of accountability. A number of research gaps can be identified at this level of accountability. Firstly, the literature largely fails to provide any studies examining the annual report as a transparent medium to discharge accountability (with the exception of Steccollini, 2004). Due to resource constraints, annual reports often serve as the primary vehicle to demonstrate accountability in many charities (Connolly and Hyndman, 2004), with the mandatory annual report being the only medium of information disclosure. Yet prior disclosure studies have focused only on examining either the presence and/or absence of certain ‘accountability related’ items or conducting detailed textual analysis. This is inadequate as it fails to consider the transparency of the annual report itself. An issue of concern is therefore linked to the lack of attention given to transparency of annual reports.

Secondly, research examining disclosure of charity organisations lacks comparability due to the different frameworks which have been used by prior studies. This chapter argues that by using the SORP framework on narrative disclosure, the comparability of academic research can be enhanced. This will also make it easier for policy makers to understand if charities are adhering to this uniform standard for accountability that has been set. Thirdly, the literature review finds differences in reporting practices which are
linked to the diverse nature of the sector and the diverse stakeholders within each sector. It is therefore suggested that a concentration on one group and one stakeholder set should result in lower levels of variation in disclosure (Jetty and Beattie, 2009). Finally, there is a dearth of comparative studies in the literature. Given the lack of research on MCOs, the comparison with CCOs allows a general understanding of the communicative accountability of RCOs in the sector. Furthermore, as both religions have roots in the Abrahamic tradition, any differences in accountability will stem from organisational differences rather than due to differences in religious ethos, hence, enhancing our understanding of their disclosure practices and adherence to accountability requirements.

Therefore, the first research objective of the study examines the extent to which MCOs discharge accountability via their annual reports, by firstly comparing the disclosure practices of MCOs and CCOs and secondly by assessing if the disclosure of MCO reports has improved over a two year period. This research objective focuses on the probity of the TARs as well as their compliance to narrative aspects of the SORP 2005.

This chapter also highlighted how the accountability literature on religious organisations is based entirely on organisation specific studies, leading to a number of research gaps related to the practice of accountability within RCOs. Firstly, the majority of the studies focus specifically on one organisation or community and were mostly within the Christian religion, with a few exceptions (Jayasinghe and Soobaroyen, 2009; Bowrin, 2004; Tinker, 2004). Research on Muslim organisations was found to be almost

20 Although there are other methods of communication that can be employed by MCOs, such as websites and brochures etc, these types of communication media are only likely to be used by larger MCOs that have the resources. Therefore, it was decided that the main media that would be used by all those in the sample would be the mandatory trustees’ annual report. Furthermore, this is the only vehicle through which the SORP requirements can be met
non-existent in the English language literature. This was unexpected given the number of Muslim specific organisations in the UK. Secondly, given the paucity of literature that exists on Muslim religious organisations, there is a need for more research to be conducted which reflects the accounting practices of the organisation as part of rather than separate to, its underlying theology. This is because the role and potential impact of accounting systems can only be understood with reference to the particular setting within which it is embedded (Hopwood, 1983). Hence, this suggests there is a need to undertake an in depth examination of the accountability practices of MCOs in the UK, with reference to the Islamic perspective of accountability. Thirdly, there seems to be a well established charity governance literature which investigates board composition and board effectiveness. However, with the exception of Parker (2003), there is an absence of detailed qualitative studies to evaluate the governance practices of religious organisations. As discussed in chapter 2, an effective governance framework is the basis for effective accountability within organisations. Therefore, it makes sense for an evaluation of the governance frameworks to be conducted as a minimal requirement to understand the accountability of RCOs.

Thus, the second research objective of the study explores how MCOs practice accountability at the organisational level, by using interviews as the method of data collection. The focus of this research objective is on both functional and individual forms of accountability, as discussed in chapter 2, and considers the lived practice accountability within these organisations.
4.3.2 Methodology gap

In addition to the literature gap described above, issues pertaining to methodology have also been raised in this literature review. Firstly, research into charity disclosure is very sector specific, focusing on the accountability practices of the whole sector. Context specific studies are absent (Hyndman and Mckillop, 1999; Connolly and Hyndman, 2002) with only a handful of studies looking at charity accountability from a case study perspective. On the other hand, studies on religious organisations are mainly organisation specific (case-studies) and fail to consider sector level accountability in their examination of accountability practice. This research therefore aims to overcome this gap by bringing both sector level and organisational level accountabilities together. It does this by examining the sector level communicative accountability of MCOs via an examination of their disclosure practices and through qualitative interviews with members of selected MCOs, to understand the practice of accountability at the organisational level. Following Tregidga et al. (2012, p.226), this level of understanding will be “an important element in achieving a more holistic insight into organisational reporting and communication in relation to its quality and meaning and the discharge of accountability”.

Secondly, it has been found that research on the disclosure of charity accountability is predominantly quantitative and positivist. On the other hand, research on the accountability practice of religious organisations is predominantly relativist and uses qualitative methods. The present study therefore tries to balance both these opposing streams of literature by engaging with a mixed methods methodology to understand accountability of MCOs. This pragmatic approach to research is discussed in more detail in Chapter 6 and is deemed appropriate for an exploratory study of this nature.
4.3.3 Theory gap

In terms of theory, prior studies on charity disclosure have mainly used functional theories to discuss issues of communicative accountability. They have focused in particular on decision usefulness, user needs, stakeholder theories and other systems orientated theories. Such functionalist theories are preferred for positivist studies as they allow an objective understanding to emerge from the empirical data. Studies examining religious charity organisations, on the other hand, take a more subjective stance and thus social theories which help explain the underlying reasons for particular actions tend to be used. In particular, social theorists such as Weber, Durkheim, Eliade, Niebuhr and Giddens have been used to inform the accountability practices of religious organisations. This is not surprising given the social nature of religious organisations and their existence as a reflection of society itself.

However, in the case where both aspects need to be examined, the literature falls short in providing any suitable framework or theories. This study therefore introduces a new way of exploring accountability practice at the sector and organisational level using Suchman’s (1995) typology of legitimacy. Samkin and Schneider (2010) attempted to use a similar framework to help explain the narrative reporting practice of a single case in New Zealand. They found the annual report played an important legitimising role in a public benefit entity and that different impression management techniques helped gain, maintain and repair the organisational legitimacy of the organisation. This study was the first of its kind examining legitimacy and reporting in a public benefit entity, although legitimacy theory has been used to explain narrative disclosures made by profit seeking entities. Consequently, it was anticipated that similar endeavours would have also been made in the non-profit literature. Legitimacy is vital for charities as they
rely on the altruistic support of donors for their survival and to carry out their activities. Legitimacy issues can have disastrous repercussions on the organisation in the form of drop in donor support and external funding, suspicion from beneficiaries and society and even political consequences (Samkin and Schneider, 2010). Yet an understanding of legitimacy and accountability in the non-profit sector is relatively unexplored.

This study therefore provides a much needed perspective in enhancing our understanding of the communicative accountability and lived practice of accountability within Muslim charities from the perspective of organisational legitimacy.

4.4 Summary

This chapter examined the empirical literature related to RCOs by bringing together two separate bodies of literature, ‘charity organisations’ and ‘religious organisations’, to contextualise the current study which examines ‘religious charity organisations’. The objective of this literature review was to help identify research gaps in the literature and help formulate the research objectives of the study. The research objectives of the study are two-fold, research objective one explores the communicated accountability of Muslim charity organisations via their compliance to the narrative aspects of the charities SORP, while research objective two explores the lived practice of accountability in MCOs. This chapter concludes part 2 of the thesis which presented the literature review of the thesis. Part 3 of the thesis outlines how the research objectives of the study will be achieved, starting with chapter 5 which discusses the concepts and theories of accountability and legitimacy, followed by chapter 6 which outlines the research method adopted in the study.
PART III: RESEARCH METHODOLOGY

This section of the thesis presents the research methodology of the study. It brings together strands of literature discussed in part two of the thesis and introduces an overarching conceptual framework. Chapter five presents the theories and concepts to be used in this study. Chapter six presents the research method deemed most appropriate to achieve the research objectives.
CHAPTER 5: THEORIES AND CONCEPTS OF ACCOUNTABILITY AND LEGITIMACY

5.0 Introduction

This chapter brings together discussion from part two of the thesis to present a coherent and systematic framework to address the research objectives of this study. This allowed for a research design to be built using key theoretical and conceptual issues. Since the study seeks to examine both communicated compliance accountability and lived accountability within Muslim Charity Organisations [MCOs], it employs a number of theoretical analytical tools to help shape and analyse the empirical evidence. The chapter first discusses legitimacy theory and then outlines Suchman’s (1995) theory of legitimacy which was used as an overarching framework within this study. The chapter then reintroduces the accountability concepts discussed in chapter 2 that will be used in this thesis to explore both communicated compliance accountability and lived accountability. Section 5.3 links the issue of legitimacy with accountability within MCOs. Finally, the chapter provides a framework for exploring accountability within MCOs using Suchman’s (1995) typology of legitimacy. The structure of the chapter is illustrated in Figure 5.1.
Figure 5.1  Structure of chapter five

**5.1 Legitimacy theory**
- 5.1.1 Navigating legitimacy
- 5.1.2 Types of legitimacy

**5.2 Accountability framework**
- 5.2.1 Functional accountability
- 5.2.2 Personal responsibility and accountability

**5.3 Linking legitimacy and accountability in MCOs**
- 5.3.1 Islamic perspective on legitimacy
- 5.3.2 Communicated compliance accountability and pragmatic legitimacy
- 5.3.3 Lived accountability and moral legitimacy
- 5.3.4 Lived accountability and cognitive legitimacy

**5.4 Exploring accountability in MCOs: A framework**
- 5.4.1 Research objective 1a and b
- 5.4.2 Research objective 2
5.1 Legitimacy theory

Legitimacy refers to the acceptance of organisational values and activities by stakeholders which allow the organisation to exist and succeed (Lindbolm, 1994). A central tenet of the legitimacy perspective is the concept of the social contract that must be maintained between an organisation and its stakeholders if the former is to continue to operate unfettered. The social contract is not static and is ever-evolving as societal expectations change. If societal expectations are raised, stringent clauses are added to the contract and organisations must demonstrate that they are meeting these new expectations (Hrasky, 2012) to maintain their organisational legitimacy.

5.1.1 Navigating legitimacy

Legitimation is how an entity justifies its right to exist through a series of processes which help it to gain, maintain or repair organisational legitimacy in the eyes of its stakeholders (Ashford and Gibbs, 1990; Lindblom, 1994; Suchman, 1995; Samkin and Schneider, 2010). A framework of strategies can be used by management to navigate this legitimation process. Goddard and Assad (2006, p.384) define the act of navigating legitimacy to mean “managing the course of organisational legitimacy and finding the right course to steer”. This definition adequately captures the concept of “navigating” as employed in this research. There are two aspects to this definition which consider the gaining of legitimacy (finding the right course) and the maintaining of this legitimacy once gained (managing the course). Suchman (1995) considers gaining legitimacy to be important when an organisation embarks on a new activity or introduces a new structure or process. Organisations often invest significant time and effort, either reactively or proactively, into establishing legitimacy parameters (Ashford and Gibbs, 1990; Suchman, 1995). According to
Ashford and Gibbs (1990, p.182) a proactive process of gaining legitimacy is usually required by those organisations who “lack the support of traditions and norms and so suffer the liability of newness” as their activity, structure or processes may be disputed by stakeholders. The strategies for maintaining legitimacy are considered to be easier as the same level of effort is not required as gaining legitimacy. The strategies include perceiving future changes and challenges and protecting past accomplishments by “buttering the legitimacy already acquired” (Suchman, 1995, p.595).

5.1.2 Types of legitimacy

From a strategic perspective, legitimacy is linked to the perception that organisations are operating within the bounds and norms of society (Lindbolm, 1994). The strategic camp is based around the work of Pfeffer (Dowling and Pfeffer, 1975; Pfeffer, 1981) and views legitimacy as an operational resource which is utilised from the organisational environment in pursuit of organisational goals. This suggests that managers have a great deal of control over the legitimation process, leading Suchman (1995, p.576) to state that this type of legitimacy is “purposive, calculated and frequently oppositional”. Legitimacy in this regard is therefore the product of careful strategic manipulation by management. It is used as a defence mechanism usually to overcome negative publicity and the term impression management is often used to describe the actions of strategic legitimisation (Hrasky, 2012).

Legitimacy has also been widely discussed and defined by institutional theorists as the means by which organisations obtain and maintain resources (Oliver, 1991). This view of legitimacy theory suggests that managers, influenced by wider
environmental issues, will conform to societal expectations (Di Maggio and Powell, 1983; Meyer and Rowan, 1977) that will lead to the organisation becoming more legitimate. In this regard, Scott (1992, p.305) defines legitimacy as “the property of a situation or behavior that is defined by a set of social norms as correct and appropriate”. In institutional environments, organisations compete for social fitness rather than economic efficiency (Powell, 1991). Thus, institutional theory posits that an organisation's characteristic will reflect the effects of social expectations. This perspective therefore suggests that organisations respond to pressures from their institutional environment and adopt those structures and procedures which are socially acceptable, as opposed to primarily effective (Powell and DiMaggio, 1991). One of the core concepts of institutional theory is that of isomorphism which refers to the tendency for organisations in similar fields to adopt similar forms in order to compete. Such isomorphism can be influenced by normative forces (societal norms), mimetic forces (practice of organisations in the sector) or coercive forces (from legal and regulatory bodies). Meyer and Rowan (1977, p.352) state that legitimacy and isomorphism are closely related: “Organisations which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources to survive”. This is because their activities gain the approval of society due to their exhibited isomorphic behaviour. Goddard and Assad (2006) also add support to this by arguing that isomorphism can help organisations gain and maintain legitimacy because it allows them to conform to societal expectations in their activities and behaviour.

Suchman (1995) argues that in reality organisations display both strategic and institutional approaches to legitimacy. They may extract legitimacy from the
environment (strategic approach) and at the same time may use cultural definitions to determine how the organisation is to be managed and evaluated (institutional approach). As such, Suchman (1995) identifies three types of legitimacy: pragmatic, moral and cognitive, which encompass both strategic and institutional approaches to legitimacy.

**Pragmatic legitimacy:** This is regarded as the ‘thinnest’ form of legitimacy as it is linked to the expected value of an organisation’s activity to immediate stakeholders (Dart, 2004). Pragmatic legitimacy is related to the self-interest nature of key stakeholders and organisations can ‘purchase’ this legitimacy by conducting specific activities seen as being of value by certain stakeholders.

**Moral legitimacy:** This type of legitimacy is regarded as normative and examines activities being undertaken as they should be, in reference to broader norms of the socio political environment (Dart, 2004). The moral legitimacy view would frame organisations not according to the revenue or income but according to the ideal way in which it was run. Suchman (1995) notes that moral legitimacy can take any one of the following shapes:

- **Consequential:** focusing on outputs and consequences.
- **Procedural:** focusing on techniques and procedures.
- **Structural:** focusing on categories and structures.
- **Personal:** focusing on leaders and representatives.

Structural legitimacy is quite similar to procedural legitimacy. However, while the latter form of legitimacy focuses on discrete isolated tasks (e.g. does the organisation inspect products for defects?), the former form of legitimacy focuses on the
collective feature that arises from those isolated tasks (i.e. does the organisation have a quality control department?) (Suchman, 1995).

**Cognitive legitimacy:** This type of legitimacy refers to basic, preconscious taken for granted assumptions about nature and structure of social activities. This type of legitimacy would be affected if a situation simply did not feel right to observers: “For things to be otherwise is literally unthinkable” (Zucker, 1983, p.25). Cognitive legitimacy is gained when the organisation undertakes those activities which are seen as proper and ‘making sense’ to wider society. This type of legitimacy emerges from the acceptance of organisational activities as fitting into an acceptable story about their roles in society. Hence, this level of legitimacy operates at the sub-conscious level, making it difficult for managers to influence and manipulate societal views strategically (Palazzo & Scherer, 2006). These three types of legitimacy can be placed on a continuum as shown in Figure 5.2:

**Figure 5.2:** Suchman’s (1995) legitimacy types

<table>
<thead>
<tr>
<th>Pragmatic</th>
<th>Moral</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>More difficult to obtain and manipulate</td>
<td>Subjective</td>
</tr>
<tr>
<td></td>
<td>Subtle and profound</td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from Suchman (1995)

This continuum highlights the objective nature of pragmatic legitimacy and the subjective nature of cognitive legitimacy.
Scott (2001) has also identified three similar modes of understanding legitimacy that can be closely linked to Suchman’s three pillars [as termed by Scott] of pragmatic, moral and cognitive legitimacy. The first mode emphasises conformity to rules and has a regulatory emphasis (pragmatic legitimacy). Organisations have to comply with the explicitly stated requirements of the regulatory system to be legitimate. The second mode stresses a deeper, moral base for assessing legitimacy (moral legitimacy). Organisations have to conform to or be consistent with established structures in society to be legitimate. In other words, what is legitimate is what has a "taken for granted" status in society (Scott, 2001). Finally, there is a cognitive-cultural mode (cognitive legitimacy) which stresses the legitimacy which comes from adopting a common frame of reference. Organisational legitimacy, in this view, accrues from congruence between the values pursued by the organisation and wider societal values (Parsons, 1960). The three forms of legitimacy can be represented on a pyramid as shown in Figure 5.3, with pragmatic legitimacy being the foundation upon which the other accountabilities are based.

**Figure 5.3: The legitimacy pyramid**

![The legitimacy pyramid](image)

*Source: author*
5.2 Accountability framework

This section recaps the accountability framework to be used as the basis for the conceptual framework of the study\textsuperscript{21}. Prior literature has focused considerably on classifying different functional characteristics for which organisations must be held accountable for. They are all related to the need to help fulfil the organisation’s vision and mission (*accountability for objectives*). The functional concepts of accountability must be examined alongside concepts of internal or personal responsibility and accountability. This is important because personal responsibility and accountability, especially when guided by personal religious or moral values, can be more powerful than functional accountability (Hall *et al.*, 2003).

5.2.1 Functional accountability

Functional accountability mechanisms are related to how an organisation fulfils legal and contractual obligations (*compliance accountability*), how it uses funds and resources in an authorised manner (*resource accountability*), how it ensures the correct activities have been undertaken to meet organisational goals (*procedural accountability*) and how it ensures that the organisation meets required standards of performance (*performance accountability*). These functional accountability mechanisms are closely linked to how well the organisational leadership carries out the role in ensuring that the organisation’s vision and mission are achieved (*leadership accountability*).

The way an organisation handles accountability will depend on the organisational culture prevalent in the organisation. It is this aspect which will make the

\textsuperscript{21} Initially presented in chapter 2, section 2.2.2
accountability regimes of organisations differ from one another. Organisational culture is defined as a set of shared values and norms that control organisational members’ interactions with each other and with people outside the organisation (Pettinger, 2010). According to Handy (1985), the organisational structure and culture of a firm are closely linked, as one helps reinforce the other. In strong organisational cultures, the organisational structure reflects, sustains and communicates the values and beliefs of the organisation to its members (Schermerhorn, 2005). As the organisational structure is inextricably linked to the procedures found within an organisation, the procedures (i.e. reporting, external communication, internal codes of conduct, dress code, etc) will reflect the culture and core values of the organisation.

Furthermore, the leadership of an organisation is key to cementing the organisational culture of the firm. An effective leader will continually use symbols to establish and maintain a desired organisational culture and will ensure that the desired values of the firms are continually communicated through the structures and the processes of the organisation (Schermerhorn, 2005). They do this by both acting and talking the language of the organisation and ensuring they always espouse the core values of the organisation, using both spoken and written word and taking every opportunity to do so. This assertion was empirically examined by Maali and Napier (2010) and they found that even when religious ideals are placed at the core of an organisation’s values, without a leader working and promoting this religious ethical framework, the organisational culture can still be far from the desired or ideal form expected. Schein (2004) discusses three cognitive levels of organisational culture. The first level of his theoretical framework discusses organisational culture as a set of


artefacts, i.e. those items which can be seen, felt and heard by an observer in the organisation. Schein’s second level of organisational culture looks at the values held by organisational members. This level assesses the extent of both personal and societal values held by a member. The final level of Schein’s culture theory assesses the tacit assumptions held by organisational members who affect the way the organisation is managed. These comprise of ‘unspoken rules’ which organisational members subconsciously adhere to and can be linked to the concept of personal responsibility/accountability. Schein argues that to fully understand what underlies and drives an organisation, it is this level of organisational culture which must be understood and acclimatized by the researcher. Hence, this study also examines the personal responsibility/ accountability of organisational members to understand their accountability behaviours.

According to Beekun (2006), these three levels of organisational culture are easily identifiable from an Islamic perspective. He argues that the physical (jasadiyah\textsuperscript{22}) artefacts of organisational culture should reflect frugality. This is especially true when dealing with charity organisations, where donations should be spent on the purpose for which they were collected and not on, for example luxury furnishings. Furthermore, the dress code, concerns of modesty and privacy, equitable employee relations, etc should all clearly reflect Islamic principles. The values of organisational members (as outlined in chapter 3) within an Islamic organisation should reflect Islamic values on trusteeship (amaanah & khalifah) and be based on professional (ri’ayah) ethics. At the third level, the tacit assumptions held by individuals should be representative of Islamic values in relation to work and

\textsuperscript{22} see chapter 3, section 3.6.1.2 for discussion on the Islamic concepts discussed in this chapter.
worship. Work should be seen as *ibadah* (an act of worship), due to the emphasis placed in the Quran on the link between *amal* (work) and *iman* (faith). This is further expanded upon below when discussing the personal responsibility / accountability of MCO members.

5.2.2. **Personal responsibility and accountability**

Personal responsibility and accountability (Lindkvist and Llewellyn, 2003; McKernan, 2012) was introduced in sections 2.1.2 and 2.2.2 (chapter 2) and is discussed below to develop the conceptual framework of the study. To re-cap, this is the vaguest form of accountability as it is difficult to measure and is linked to aspects of ‘personal responsibility’ (Sinclair, 1995), and individual morality and values (Mulgan, 2000). The terms ‘felt’ accountability (Fry, 1995) and ‘self’ accountability (Schlenker and Weigold, 1989) have also been used to describe this type of accountability. This term accurately reflects the personal ‘felt’ nature of the accountability and the responsibility aspect placed on an individual by Islam.

Personal responsibility and accountability is closely linked to internal aspects of personal conscience and is driven by adherence to internal, moral and ethical values (Harmon & Mayer, 1986). Schlenker and Weigold (1989) also note how self accountability is closely linked to the internalised values of organisational members and therefore is operational at an individual rather than an organisational level. Fry (1995, p.188) argues that “*this sense of accountability extends beyond what would normally be seen as a job or role boundary... the accountability becomes nurturing and enabling and responsibility is truly felt*”.

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Osman (2012, p.268) explains how the moral values of an individual can direct them into achieving purely functional accountability, purely personal ‘felt’ accountability, both (holistic accountability) or neither. This suggests that personal accountability can influence the extent of functional accountability an individual enacts. Consequently, functional accountability can also influence the extent of personal accountability an individual feels towards specific tasks. Thus, functional and personal responsibility and accountability are inextricably linked.

Ethical values can be understood as a set of moral principles which help distinguish what is right from wrong. According to Lindkvist and Llewellyn (2003), individual responsibility/accountability is guided by one’s own value system and therefore connects the individual with the bigger scheme of things or ‘higher principles’ (Laughlin, 1996). This suggests that the operation of personal accountability can be heavily influenced by an individual’s religious beliefs. Following the discussion in chapter 3, it is envisaged that individuals working for MCOs will be influenced by Islamic ethics and values, as outlined in section 3.2.2 and discussed below.

According to Beekun (1996), the closely related term to ethics in the Quran is Khuluq. Throughout the Quran, terms which refer to following the right path, abstaining from what is wrong (haram) and enjoining what is right (halal) can be found. Words used to describe rightful actions include haqq (truth and right), adl (justice), birr (righteousness), and khayr (wellbeing). First and foremost, an individual must act in an ethical manner because all his actions are being witnessed by God and by the two angels that record all deeds and wrongdoings/sins. Hence, one’s behaviour and actions in this world have a direct effect on his/her reward or
punishment in the hereafter (taklif). Secondly, Islam does not separate between the responsibility of an organisation and individuals (Beekun, 2006). For that reason, Muslim organisations should reflect the same ethical standards as those required of Muslim individuals. Muslim organisations should do this as a way of attaining barakah (blessings) and to avoid God’s wrath on the day of judgement. Islamic values which can influence personal responsibility/accountability (ruhiyah) include belief in the unity of God (tawhid), fulfilling the stewardship role (khalifah) over resources which are held in trust (amanah) and the ability to deliver organisational goals and personal targets (tabligh). The following sections will now explain how these different concepts of accountability will be explored in the two stages of the research and how they are linked to issues of legitimacy.

5.3 Linking legitimacy and accountability in MCOs

Different types of legitimacy will have different implications for MCOs. Pragmatic legitimacy is linked to issues of compliance accountability at the sector level whilst moral and cognitive legitimacy are linked to organisational practice and lived accountability, as illustrated in Figure 5.5 at the end of this section. Furthermore, as moral legitimacy for MCOs must inevitably include religious legitimacy, the following section discusses the Islamic perspective on legitimacy.

5.3.1 Islamic perspective on legitimacy

As discussed in chapter 3, from the Islamic perspective, the ultimate accountability of an organisation is to God. Its secondary accountability is to society and by behaving in a manner which is in accordance with the precepts of Shariah, an organisation can also fulfil its primary accountability. Hence, from an Islamic
perspective, legitimacy is not a requirement of ultimate accountability as the essence of accountability run much deeper than mere legitimisation. However, Islam also places great emphasis on social relations and conducting oneself properly within society (Lewis, 2001). Tinker (2004, p.452) further notes how Islam teaches human beings to conduct life in an institutional and social context. He argues that Islam is “not merely a personal religion”, as the Quran provides a daily guide for conduct for individuals and provides a system of organisation for society and its institutions. Furthermore, Islam does not consider a separation of religion within everyday life. Consequently, the role of an organisation as a social actor is greater from the Islamic perspective as Islam considers all organisational activities and actions to be a direct reflection of the individuals that are running them.

Referring back to arguments made by Suchman (1995), moral legitimacy does not focus on results. Therefore, an activity does not lose moral legitimacy just because it is not value driven. Hence, Islamic organisations are morally legitimate to society not only because of the beneficial activities they engage in but because of the reference to religious ideology in their organisational mode. Accordingly, moral legitimacy is gained and maintained by MCOs adhering to an Islamic way of life and adhering to the social norms of the environment in which they exist. Consequently, it is only when a Muslim organisation overtly deviates from these principles that its legitimacy can be questioned. This therefore suggests that MCOs’ adherence to Islamic principles is even more important in terms of maintaining legitimacy than merely engaging in the ‘right’ activities. All the activities of an Islamic organisation need to be Islamically ‘legitimate’ i.e. need to adhere to the Islamic ethical framework as well as to broader societal norms. Hence, from an Islamic perspective,
all three levels of pragmatic, moral and cognitive legitimacy in MCOs are equally important in gaining legitimacy for their existence.

5.3.2 Communicated compliance accountability and pragmatic legitimacy

Pragmatic legitimacy can help explain sector level accountability practices of MCOs. This is because the communication of accountability by the sector affects the perceived legitimacy of individual MCOs by society. Furthermore, pragmatic legitimacy allows organisations to be socially accepted if they are able to provide anything of value to stakeholders. For example, MCOs can be considered legitimate if:

a) The government and regulators view them as providing solutions to social problems of poverty, as alternative providers of social welfare, etc.

b) Donors and funders view them as providing benefit to the less fortunate and of being an efficient medium through which to channel their donations.

c) Wider society views them as providing benefit to the local community, etc.

This perspective of legitimacy also provides an explanation of why MCOs provide ‘hard’ accountability to upward stakeholders (i.e. funders), due to the sector’s dependence on funder resources (Ebrahim, 2003). Pragmatic legitimacy can therefore help explain how disclosure mechanisms can be used to influence stakeholders and manage their perceptions of the charity organisation. In addition, donors who are a major stakeholder group for charity organisations can be reassured that their funds have been appropriately spent. If the charity organisation fails to adequately disclose and report on their activities, then this pragmatic legitimacy may be withdrawn since it is the act of disclosure and what it contains, rather than what the organisation has actually done, that is deemed important. This can result in regulators (such as the
Charity Commission) launching an investigation into the accounting practice of particular charity organisation, or it may mean that funders/donors cease supporting the charity organisation.

It is therefore important to understand what charity trustees must do to gain and maintain pragmatic legitimacy. This is closely linked to the Charity Commission’s requirements encapsulated within the SORP 2005. Hence, the regulator provides pragmatic legitimacy to the organisation that provides an account of its activities according to SORP guidelines. Similarly, pragmatic legitimacy helps organisation to actualise the expected value according to its own terminology encapsulated within the regulation.

5.3.3 Lived accountability and moral legitimacy

Moral legitimacy is best explored at the organisational level as it requires assessment of the organisational practice. This involves understanding what charity leadership must do to gain and maintain moral legitimacy from their stakeholders and what their main responsibilities are to help gain moral legitimacy. As MCOs are often wholly dependent on donated funds and resources, the way they attain and manage these resources is critical to the way the organisation attains, loses or maintains its moral legitimacy (Goddard and Assad, 2006). As illustrated in the conceptual framework (Figure 5.5), all types of stakeholders will have some degree of influence upon the organisation. The issue of legitimacy is closely linked to the aims and mission of the organisation, hence legitimacy can only be ‘navigated’ if the MCO is utilising its resources and managing accountability in a way which highlights to key stakeholders how organisational mission is being achieved.
Moral legitimacy is accorded with reference to external norms and in the case of MCOs, this is often based on societal expectations particularly with reference to the religious background of the organisation. For that reason, these norms would encapsulate what would be expected from organisations as outlined in the typology of accountability presented in chapter two and the discussion in chapter 3. According to Suchman (1995), moral legitimacy reflects a pro-social logic that differs fundamentally from the narrow self-interest of pragmatic legitimacy. An organisation is therefore considered legitimate when its values and activities receive the support of its diverse stakeholders. Hence, moral legitimacy is best used to explain issues of legitimacy within pro-social organisations such as MCOs. Moral legitimacy can be understood in more depth as follows and illustrated in Figure 5.4:

- **Consequential** legitimacy focuses on what organisations have actually accomplished. For a MCO, this could be linked to the number of beneficiaries helped by the organisation, or what the organisation has achieved in the local community, or it could even be linked to the number of worshippers attending congregation. This can be linked to the performance accountability of the MCO.

- **Procedural** legitimacy focuses on MCOs embracing socially accepted techniques and procedures. This type of legitimacy is significant as MCOs often do not have clear outcome measures and therefore the adoption of socially accepted processes helps improve legitimacy. This could be linked to the procedural accountability of the MCO.

- **Structural** legitimacy focuses on MCOs "acting on collectively valued purposes in a proper and adequate manner" (Suchman, 1995, p.581), and is more closely linked to identity rather than competence. As a result, structural
legitimacy can be gained from merely being seen to be having appropriate structures rather than on how well the organisation actually performs. Therefore, issues of resource accountability are more important for this type of legitimacy.

- Personal legitimacy focuses on the trustees of MCOs and senior management within the organisation. In MCOs, trust in the leadership of the board of trustees and executive is directly linked to trust in the overall organisation. Hence, leadership must be seen to be legitimate or the legitimacy of the entire organisation can be questioned. This can be linked to leadership accountability within MCOs.

Figure 5.4: Linking accountability and types of moral legitimacy

<table>
<thead>
<tr>
<th>accountability</th>
<th>Helps gain and maintain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance accountability</td>
<td>Consequential legitimacy</td>
</tr>
<tr>
<td>Procedural accountability</td>
<td>Procedural legitimacy</td>
</tr>
<tr>
<td>Resource accountability</td>
<td>Structural legitimacy</td>
</tr>
<tr>
<td>Leadership accountability</td>
<td>Personal legitimacy</td>
</tr>
</tbody>
</table>

Source: author

5.3.4 Lived accountability and cognitive legitimacy

Cognitive legitimacy operates at the sub-conscious level and is difficult to influence and manipulate strategically. However, it can be accorded to the intrinsic values held by organisational members. Therefore, this type of legitimacy is closely linked to the personal responsibility and accountability of organisational actors. Within MCOs, this is inherently connected to the personally held beliefs and values rooted in Islamic religious ideology, which are linked to the self (ruhiyah), society (siddique,
riayah) and God (amanah, khalifah). These beliefs and values are often active at the ‘sub-conscious’ level of a Muslim individual as, following chapter 3, they are ‘in built’ and can therefore be difficult to directly observe.

5.4 The framework for exploring accountability in MCOs

Figure 5.5 illustrates an overview of the theoretical underpinning for this research based on legitimacy theory and its link to the various accountability concepts discussed in this chapter. The developed framework provides the analytical tools that may be useful for explaining the communication and practice of accountability in MCOs. This framework is discussed per research objective and individual frameworks for each research objective are presented in Figures 5.6 and 5.7.

5.4.1 Research objective 1a and b

The purpose of this research objective is to explore communicated compliance accountability. Following the research gap identified in chapter 4 of the thesis, this research objective examines sector wide accountability practices of RCOs and MCOs via an exploration of their reporting practices. Accountability is thus linked to the extent to which charity organisations comply with regulatory requirements of the Charity Commission as evidenced by their level of compliance to mandatory Statement of Recommended Practice23 [SORP] disclosure in their trustee annual reports [TARs]. Hence, the providers of this accountability are ultimately the trustees of the charity organisations who are directly responsible and accountable for preparing the report (accountability by whom).

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23 For a wider discussion on SORP requirements please refer to chapter 6.
Figure 5.5: A conceptual framework to help understand the accountability of MCOs

Research objective 1a & b: Sector Level
Communicated Compliance Accountability

Research objective 2: Organisational Level
Lived Accountability

Accountor

Leadership

Functional (Compliance) Resources Procedures Performance Leadership

Pragmatic legitimacy

Primary accountability: Allah

Accountee

Upward Stakeholders

All

Moral legitimacy

Cognitive legitimacy

Personal responsibility accountability
Ruhiyah Amanah Siddiq Ri'ayah

Gain and concur legitimacy (Suchman, 1995)

Compliance & Lived Islamic accountability

Source: author
Since the focus of the first research objective is primarily on compliance, upward stakeholders become more important (Ebrahim, 2003). Primary accountability in any MCOs would be ultimately to Allah. However, this accountability is transcendent; by adequately fulfilling secondary accountability to society, the organisation is able to fulfil its primary accountability to Allah. This secondary accountability shares the same accountability relationships and obligations that are incumbent upon other religious charity organisations. Following this argument, stakeholders such as the regulators (i.e. the Charity Commission) and financiers (including donors) will be the ones more interested in ensuring that this type of accountability is adequately discharged, particularly as it relates to adherence to legal requirements. Therefore, the first research objective focuses on the upward stakeholders, mainly the Charity Commission since it is responsible for ensuring that charities adhere to regulation on reporting (Accountability to whom).

An important feature of accountability is the distribution of information to all users on an equitable and transparent basis. The primary vehicle used to discharge and demonstrate accountability in many charity organisations is the trustees’ annual report (TAR). The Charity Commission (2004, p.9) is of the view that the TAR should “provide a focal point for all accountability by containing the information required by law and the Charities SORP”. Stakeholders should easily be able to obtain reliable information on the charities financial position and performance, deployment of resources, organisational structure, policies, priorities and achievements (Charity Commission, 2004), all of which can be achieved by adherence to the SORP. Therefore, annual reports and financial statements are seen
as essential for management to discharge their accountability to stakeholders (Tower, 1993; Connolly & Hyndman, 2004) as well as to fulfil legal obligations.

The Charity Commission note that accountability is a charity’s response to the legitimate information needs of its stakeholders (Charity Commission, 2004). Islamic accountability requirements suggest that charity organisations should be fulfilling these requirements as a bare minimum of what they do. Unlike other charity organisations that act out of legal and moral obligations, MCOs also have a religious duty placed upon them as khalifah (vicegerents) of Allah to manage and distribute alms (zakah) and charity (sadaqah) to the poor, as part of trust (amanah). This religious duty is paramount when it comes to dealing with zakah, sadaqah and waqf funds. Muslim charities should ensure that the process of charity distribution is truthful (siddiq) and should do all they can to provide a full account of their activities to all stakeholders.

Figure 5.6 presents the theoretical framework for analysing communicated compliance accountability based on SORP compliance in the TARs and the functional accountability concepts discussed in section 2.2.2 and explained in the earlier section of this chapter. It is important to focus only on the functional aspects of accountability given the rigid nature of the SORP requirements and the nature of mandatory reporting for charities. Besides the functional accountability characteristics identified above, accountability for probity of the TARs, in relation to

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24 It was the original intent of the researcher to assess the disclosure of zakah, waqf and other religious charitable information, in addition to SORP requirements, for MCOs. However, initial examination of the MCO TARs found such information to be non-existent and hence the study was narrowed to focus only of SORP related items.
their relevance, reliability and legality as defined by the SORP, will also be examined.

**Figure 5.6: Exploring communicated compliance accountability**

As indicated in the framework, standard based accountability is explored through charity TARs adherence to *accountability for probity* by producing TARs which are
relevant, reliable and timely\textsuperscript{25}. The next box examines resource accountability which is evaluated by exploring the level of compliance to themes A and B of the charities SORP (refer to Appendix A for details of the SORP themes). These two themes deal with information pertaining to the administration as well as the structure and governance of the charities. The next aspects examine procedural accountability and performance accountability. In the context of charity TARs and the SORP, the two will be distinguished by evaluating procedural accountability in terms of disclosure of the charities’ objectives and mission (theme C) while performance accountability entails assessment of disclosure on their activities and achievements as well as financial review (themes D & E). At the top of the framework, leadership accountability can be linked to theme F within the SORP framework which looks at disclosure of plans for the future period. This aspect requires trustees to define what they will be doing over the next 12 months, and is a way by which they can be held to account in the following year’s TARs and also help in addressing the issue of sustainability.

Accordingly, each part of the framework of accountability addresses different aspects of the SORP framework. Moving up the framework changes the nature of the accountability relationship from being based on rigid rules to becoming more judgement-based. Hence, information reported at the top will be concerned with strategic rather than operational information. This theoretical framework is useful for analysing and discussing the subject of communicated compliance accountability in MCOs TARs.

\textsuperscript{25} These characteristics are explained further in chapter 6, section 6.3.3.1
5.4.2 Research objective 2

The second research objective seeks to explore how MCOs practice accountability at the organisational level. According to Tandon (1995, p.2), the governance of NGOs focuses on issues of policy and identity such as vision, mission and strategy, future directions and long-term strategic considerations, policy in relation to internal programming, staffing and resources. In addition, this involves defining the norms and values that are the basis of institutional functioning. Hence, the governance of a charity is both a legal and a moral obligation concerned with its effective functioning and performance in society.

According to Ebrahim (2003), the focus of NGO accountability at the organisational level is to both upward and downward stakeholders (accountability to whom). The stakeholders to whom this accountability is due is limited to those who influence or are directly influenced by the activities of the organisation. The likely upward stakeholders include the government, funders and donors while lateral stakeholders include trustees, employees, volunteers, auditors and members. Downward stakeholders, especially beneficiaries, may also have a small influencing role depending on the level of interactions they have with the organisation.

Following the discussion in chapter two (section 2.2.2.) and earlier in this section, the resource, procedural, performance and leadership accountability are examined when investigating the functional accountability of the MCOs (accountability for what). Given the nature of these types of accountability, it is the leadership (trustees and executive) of the organisation that will be ultimately responsible for ensuring that they are fulfilled (accountability by whom). These functional concepts of
accountability will be augmented by an evaluation of the personal responsibility/accountability (see section 2.2.2) of the individuals working within MCOs. This will allow for a holistic examination of the lived accountability practice of MCOs, as illustrated in Figure 5.7.

Figure 5.7: Exploring lived accountability practices in MCOs

Source: author
5.5 Summary

This chapter presented the theories and concepts which underpin this research and presented the framework (Figure 5.5) which will help make sense of the empirical data from the study. The chapter began by providing an overview of legitimacy theory and an explanation of Suchman’s (1995) typology of legitimacy. The chapter then re-visited the different accountability concepts which were first introduced in chapter 2, to form the basic framework of the study. After this brief re-introduction, the chapter then outlined how these different concepts of accountability will be used to explore both the communicated compliance accountability and the lived accountability in MCOs. Finally, this chapter presented the overall conceptual framework of the study by explaining how communicated compliance accountability leads to pragmatic legitimacy being maintained and how organisational level accountability enables moral and cognitive legitimacy to be maintained in MCOs. The next chapter presents the research method adopted in the study.
CHAPTER 6: RESEARCH METHOD

6.0 Introduction

In the previous chapter, the conceptual framework developed for this study has been explained. The focus of this chapter is on the research method employed to achieve the objectives of this study. The chapter is organised as follows: Section 6.1 justifies the research approach adopted and outlines the underlying philosophical paradigm within which this thesis is positioned. Section 6.2 describes the research method for the first stage of the research which examines communicated compliance accountability at the sector level. Section 6.3 outlines the research method for the second stage of the research which looks at the practice of lived accountability at the organisational level. Section 6.4 presents the summary of the chapter. The structure of this chapter is illustrated in Figure 6.1.
Figure 6.1: Structure of chapter

6.1 Research Philosophy

6.2 Research Design

6.3 Examining Communicated Compliance Accountability
   6.3.1 Population and sampling
   6.3.2 Data collection
   6.3.3 Research instrument design
      6.3.3.1 Capturing accountability for probity
      6.3.3.2 Capturing accountability for resources, procedures, performance and leadership
   6.3.4 Content analysis
   6.3.6 Reliability and validity
   6.3.7 Data analysis

6.4 Examining Lived Accountability
   6.4.1 Negotiating access
   6.4.2 Data collection: interviews
      6.4.2.1 Ethical clearance for interviews
      6.4.2.2 Development of the interview schedule
      6.4.2.3 Selecting interviewees and conducting the interview
      6.4.2.4 Transcription of interviews
   6.4.3 Data reliability and validity
   6.4.4 Data analysis
6.1 Research philosophy

Accounting research has traditionally been grounded in an objective ontology and positivist epistemology. However, positivism has increasingly come under fire primarily because it views the researcher as separate to the research object, i.e. the reality is independent of the researcher (Blaikie, 1993; Habermas, 1972; Bhaskar, 1975). Hence, positivism can provide a very limited view of reality and can lead to the ‘truth’ being very subjective (Morgan, 1988). In the words of Baker and Bettner (1997, p.293), positivism is “incapable of addressing accounting’s complex social ramifications”. The use of alternative paradigms in accounting research emerged gradually over the last century. In recent years, alternative research has gained more credibility particularly with the emergence of journals sympathetic to alternative research (Baker and Bettner, 1997).

Much of this alternative research has been conducted either from an interpretive or social constructionist stance. Social constructionism views reality as being socially constructed, leading to the presumption that there are many realities. However, from an interpretivism perspective, reality is not a thing to be interpreted in different ways but it IS those interpretations (Blaikie, 1993). From an interpretive perspective, reality is always specific to a person’s own interpretation of events. Therefore, the interpretation is subjective and dependent on the person’s own version of reality. The interpretive ontology, therefore, views reality as a complex set of socially constructed meanings and its epistemology views knowledge as being derived from every day concepts and meanings (Neuman, 2003).
Critics (Robson, 2002; Bhaskar, 1989) find flaws in the alternative stance by highlighting the inability of constructionism to acknowledge the role of institutional structures (Blaikie, 1993). To the social constructionist, the research participants help them construct their reality since the reality of the researcher will always be different to the researched. Robson (2002) further notes that any position which does not believe in an objective reality contradicts the real world. Agreeing with other critics of this position, he elaborates by saying that if there is no independent reality from the human mind “accords ludicrous powers to human thought” (Robson, 2002, p.24).

A middle ground between these two competing paradigms is pragmatism. Pragmatism advocates using whichever methodological approach that works best for a particular research problem or issue (Robson, 2002). This approach often leads to mixed-methods research, allowing both extremes to be mixed to get a more holistic picture of the reality being investigated, e.g. by using aspects of both quantitative (positivist) and qualitative (interpretivist) research within the same study. This therefore allows any research conducted using this stance to be strengthened against the problems that positivism and social constructionism individually face. Therefore, the present study employs a pragmatic approach to research methodology, which is explained in detail in the next section.

6.2 Research design

This research seeks to explore the accountability practices by MCOs through the discharge of compliance accountability via annual reports and the enactment of accountability principles within their organisations. Given the multiple research
objectives of the study (further explained below), a two-stage research design was deemed appropriate to fully understand and explain these objectives.

Following the research gap identified in chapter 4, the first research objective is to explore communicated compliance accountability of MCOs at the sector level, and this forms the first stage of the research. This stage requires a research design to be created in order to help assess the general level of accountability practices within MCOs and Christian charity organisations [CCOs] as well as by MCOs over two periods. Consequently, a positivistic research design using quantitative method of analysis is adopted as this will lend itself to statistical analysis and statistical generalisability. The findings from the first stage of the research will then be used to provide insights for the second stage of the research.

The second research objective is to explore lived accountability practices at the organisational level, in particular, issues related to resource, procedures, performance, leadership and personal responsibility/accountability. Such in-depth examination of accountability practice can be best explored using a qualitative approach. Previous research (Hyndman and McKillop, 1999; Connolly and Hyndman, 2000) highlights the need to study charity accountability using qualitative methods of analysis, in order to overcome the limitations of focusing solely on quantitative methods and disregarding actual organisational practice. The present exploratory study addressed these concerns by providing an in-depth account of the accountability mechanisms in place within the charities using interviews. The following sections discuss how the research was conducted at each of the two stages.
6.3 Stage one: Exploring communicated compliance accountability

This stage of the research design focused on the following research objectives and questions:

**Research Objective 1a:** To examine the extent to which RCOs communicate compliance accountability.

RQ1a (i): To what extent do RCOs’ TARs demonstrate compliance accountability?

RQ1a (ii): Is there a significant difference in the communicated compliance accountability between MCOs and CCOs?

**Research Objective 1b:** To examine if there has been significant changes in the communicated compliance accountability of MCOs TARs between 2008 and 2010.

RQ1b: Is there a significant change in the communicated compliance accountability of MCO TARs between 2008 and 2010.

The first research objective focuses on MCOs and CCOs. Since there is a lack of literature examining religious charities which can be used to compare the findings of this study, this comparative part of the research will allow the *communicated compliance accountability* of MCOs to be examined in respect of the accountability practices of the rest of the sector (i.e. using CCOs as a benchmark). This approach is appropriate given the dominance of Christian charities in the religious charity sector (83% of the total sector) and the longer established nature of CCOs in the UK compared to MCOs. Thus, the *communicated compliance accountability* of CCOs should reflect that of the whole sector. Furthermore, since both religions have roots in the Abrahamic tradition and follow similar proactive ethos on accountability (Wilson, 1997), any variations in their accountability practices may be attributed to
underlying organisational weakness rather than due to the religious nature of the charities.

The second part of the first research objective focuses only on MCOs over a two year period 2008 and 2010. It was the original intent of the researcher to also capture information related to zakah and waqf disclosure, as well as other Shariah related information when examining MCOs for this research objective. However, initial inspection of the reports found such information to be non-existent and therefore the focus of this research objective was narrowed to the disclosure requirements of the SORP.

The SORP was introduced in April 2005, and it can arguably, take a couple of years for charities to fully implement regulatory changes (Connolly and Hyndman, 2001). Reports which had a year-end between March 31 2008 - December 31 2008 were chosen as the base year for investigation. However, once examination of the accounts was undertaken, the levels of disclosure found in MCO TARs were unexpected. To ensure the findings were not due to a lag in implementing reporting procedures or due to any adverse effects caused by the 2007/2008 financial crisis, the reports for year end 2010 were also examined for comparative purposes. Ongoing regulatory changes in 2009 meant this year was deemed unsuitable for selection. The SORP rules were updated in 2008 changing the reporting requirements for TARs submitted in 2010 for charities that were considered large or very large (see 6.3.1a for distinction). Large and very large TARs were required to provide full disclosure

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26 Connolly and Hyndman (2001) found there to be a lagged effect on the implementation of regulation in the case of previous SORPs, therefore TARs for the year ending 2008 were chosen for investigation (i.e. three years following the implementation of SORP 2005).

27 The reporting requirements pre 31 March 2008 and post 31 Dec 2008 were different.
on all aspects of the SORP from 2010, rather than the respective mandatory and recommended items required for the 2008 TARs (see appendix a). The changes meant that only those charities classified as small or medium had comparative disclosure requirements with 2008 TARs.

6.3.1 Population and sample

The population for this study consists of MCOs registered with the Charity Commission for England and Wales\textsuperscript{28}, whose Trustees Annual Reports (TARs) for 31 March 2008 – 31 December 2008 were downloadable on the Charity Commission website\textsuperscript{29}. A request was made to the Charity Commission of England and Wales for a list of information they held on MCOs and CCOs in respect to the name of the charity organisations, their objectives, their income and their registration date. The list was correct as at November 2009. With CCOs, the Commission stated in an email that “there are many more which indicate by their classification or objects that they are for the advancement of religion, though they do not state which religion, and still others which consider themselves Christian but have nothing to indicate the fact in the information we hold about them in our database”, and therefore only those charities that specifically stated they were Christian religious charities in their objectives or elsewhere were considered.

MCOs were selected first and were then pair-matched against an equal number of CCOs. Muslim charities were sampled first due to practical reasons. The number of Muslim charities was much lower than Christian charities and it was found to be

\textsuperscript{28} It has been decided not to include charities in Scotland and Ireland as they have a different regulatory framework than those in England and Wales.

\textsuperscript{29} Under the England and Wales regulations, all charities that have an income above £25,000 must submit their annual reports to the Charity Commission for publication online. However, only charities with an income over £100,000 are required to produce reports which are compliant with the SORP 2005.
more efficient to sample these first and then pair-matched with Christian charities rather than vice-versa. The population was then reduced to include only those charities which fitted the criteria of the study. There were 1551 MCOs registered with the Charity Commission as of November 2009 (date sampling began), of which 341 had an income greater than £100,000 and were therefore required to produce SORP compliant accounts. All 341 charities were cross-checked on the Charity Commission website and those which had not submitted accounts for the year-end 2008 or whose income level had dropped below £100,000 for that year, were discounted. This brought the final population size to 190 MCOs. A sample size of 123 (Sekaran, 2003) Muslim charities was deemed appropriate for the reduced population and using a combination of stratified, proportionate and match-pair sampling, an equal number of CCOs were selected, bringing the total sample size to 246 RCOs. The sampling method is illustrated in Table 6.1.

For the second part (research objective 1b), the same charities were used in 2010 for comparison purposes. Table 6.2 presents the final sample by size and type.

This process of mapping charities to choose comparators has been used in a number of similar studies (see for example, Connolly and Hyndman (2001; 2004)) and was based on income level (as a proxy for the size of charity, +/- 5%) and type30 (according to the activities of the charity).

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30 It was decided to base the match-pair sample on type and size rather than size only to reduce any bias in sampling.
Table 6.1 Five stage sampling process

| Stage 1: Calculate sample size | Population = 190  
Required sample size = 123 (Sekaran, 2003) |
| Stage 2: Stratified sampling | Group all 190 charities according to size and type as explained below. |
| Stage 3: Proportionate sampling | Type of charity  | % in population  | No in final sample |
| Ascertain how many charities of each type are present in the population and then choose an equal number in the final sample. | Educational  | 48  | 59 |
| | Place of worship  | 23  | 27 |
| | Welfare  | 22  | 28 |
| | International aid  | 7  | 9 |
| Stage 4: Random sampling | Within each type, every $n^{th}$ number of charities was chosen until appropriate sample size was reached. |
| Stage 5: Match – pair sampling | Map selected Muslim charities with equivalent Christian charities based on type and size. |

Table 6.2 Final sample

<table>
<thead>
<tr>
<th>Size</th>
<th>Type</th>
<th>Edu.</th>
<th>Welfare</th>
<th>Int Aid.</th>
<th>Mosque</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Medium</td>
<td>Large</td>
<td>V. Large</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>69</td>
<td>30</td>
<td>12</td>
<td>12</td>
<td>59</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>69</td>
<td>30</td>
<td>12</td>
<td>12</td>
<td>59</td>
<td>27</td>
</tr>
<tr>
<td>Total number of RCOs – step 1</td>
<td>138</td>
<td>60</td>
<td>24</td>
<td>24</td>
<td>128</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>60</td>
<td>30</td>
<td>14</td>
<td>11</td>
<td>59</td>
<td>23</td>
</tr>
<tr>
<td>Total number of MCOs in 2010 step 2</td>
<td>129*</td>
<td>60</td>
<td>26</td>
<td>23</td>
<td>118</td>
<td>50</td>
</tr>
</tbody>
</table>

* 123 charities were sampled in 2008 however some of these charities (8) failed to submit an annual report for year-end 2010, hence a difference in the total number between 2008 and 2010 charities.
a) **Size**

Size of the charity was captured using the income of the charity as proxy. Harrow *et al.* (1999) categorised charities as small if they had an income of less than £1 million, medium if they had an income between £1 million and £10 million and large if they had income over £10 million. Crawford *et al.* (2009) focused only on smaller charities and grouped them as follows: £100,000-£249,999 (small), £250,000-£499,999 (medium) and £500,000+ (large). In contrast, the Charity Commission website splits charities according to the following income bands: £100,000-£500,000; £500,000-£1 million; £1 million-£10 million and £10 million+. Since the majority of religious charities selected are small and having an income range between £100,000 and £500,000, the income categories by Crawford *et al.* (2009) was adopted. An additional category was included for charities with income over £1 million which was termed as very large charities.

b) **Type**

Based on information provided by the Charity Commission, the religious charities were found to have four broad ranging activities and each charity could therefore fit into one of the following four groups:

- **Place of Worship** – the main aim was to provide a place of worship and/or advance the teaching of the relevant faith, i.e. Islam and Christianity. This includes those that categorised themselves as mosques or churches.

- **Educational** – the main aim was to advance the propagation of the religion through educational activities outside the remit of just teaching and/or those that categorised themselves as educational centres.
• International Aid – the main aim was to alleviate poverty and help those in distress outside the UK.

• Welfare organisations – these are organisations that either mention in their objectives that they are primarily a welfare organisation or those organisations that fall into ALL of the above 3 categories.

Table 6.3 provides a detailed breakdown of the original (2008) sample of charities chosen. Panel C of Table 6.3 shows the combined income of the sample chosen for investigation is over £130million. The average CCO has been registered with the Charity Commission for 20 years compared to 15 years for MCOs.

**Table 6.3: Details of sampled charities according to type and size (2008)**

<table>
<thead>
<tr>
<th>Charity Type</th>
<th>Matched number of charities</th>
<th>Total Income (£) MCOs</th>
<th>Total Income (£) CCOs</th>
<th>Income as a % of total sample</th>
<th>Minimum Income (£) MCO</th>
<th>Maximum Income (£) MCO</th>
<th>Minimum Income (£) CCO</th>
<th>Mean income (£) MCO</th>
<th>Mean income (£) CCO</th>
<th>Mean Age (years registered with the Charity Commission)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational</td>
<td>118 (48%)</td>
<td>33,205,892</td>
<td>33,288,759</td>
<td>29%</td>
<td>100,109</td>
<td>5,975,513</td>
<td>101,245</td>
<td>1,313,814</td>
<td>562,711</td>
<td>20 21</td>
</tr>
<tr>
<td>Place of Worship</td>
<td>56 (23%)</td>
<td>8,377,049</td>
<td>8,370,488</td>
<td>7%</td>
<td>101,245</td>
<td>1,313,814</td>
<td>562,711</td>
<td>52,415</td>
<td>296,428</td>
<td>15 22</td>
</tr>
<tr>
<td>Welfare</td>
<td>54 (22%)</td>
<td>15,943,542</td>
<td>15,970,423</td>
<td>14%</td>
<td>103,498</td>
<td>6,557,662</td>
<td>588,888</td>
<td>10 16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Aid</td>
<td>18 (7%)</td>
<td>58,459,789</td>
<td>58,476,075</td>
<td>50%</td>
<td>121,556</td>
<td>47.9m</td>
<td>6.5m</td>
<td>10 15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel B: Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>138 (56%)</td>
<td>11,003,308</td>
<td>10,998,837</td>
<td>10%</td>
<td>100,109</td>
<td>247,497</td>
<td>159,435</td>
<td>15 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>60 (24%)</td>
<td>10,748,708</td>
<td>10,732,029</td>
<td>9%</td>
<td>258,441</td>
<td>492,618</td>
<td>358,012</td>
<td>14 19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>24 (10%)</td>
<td>8,183,629</td>
<td>8,199,647</td>
<td>7%</td>
<td>503,185</td>
<td>939,077</td>
<td>682,636</td>
<td>15 21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Large</td>
<td>24 (10%)</td>
<td>86,050,617</td>
<td>86,175,232</td>
<td>74%</td>
<td>1,149,597</td>
<td>47.9m</td>
<td>7.2m</td>
<td>15 19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel C: Total irrespective of size and type</td>
<td>246</td>
<td>115,986,272</td>
<td>116,105,745</td>
<td>100%</td>
<td>100,109</td>
<td>47.9m</td>
<td>943,089</td>
<td>15 20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Panel B of Table 6.3 suggests that only Muslim charities that are classified as small have been registered longer than their Christian counterparts. Moreover, the majority
(56%) of charities are small charities but they only account for 10% of the total income. According to panel A of Table 6.3, Christian educational charities have been registered slightly longer than similar Muslim charities. This is not surprising since Muslim schools and other educational establishments have only grown recently following the growth in the Muslim population in the UK. It can also be seen in panel A that although international aid charities make up 7% of the final sample, they account for 50% of the total income of this sample. Places of worship make up 23% of the final sample but account for only 7% of the total income in contrast to welfare (22%) which accounts for double (14%) the total income. The largest charity in the sample was a Christian international aid charity with an income over £47.9 million. Overall there is not much difference between the two groups due to the sample being match-paired based on income.

6.3.2 Data collection

Data was collected from the trustees annual reports [TARs] of the charities selected. Arguments in the literature suggest that although the TARs do not actually report on the accountability of organisations per se, it is still considered to be a primary medium of accountability (Ryan et al., 2000; Taylor and Rosair, 2000 and Coy et al., 2001). Studies in the corporate sector widely use the annual report to assess corporate voluntary disclosure. The literature review also discussed a body of research within the charity sector which has analysed both voluntary and mandatory disclosure via annual reports. Nevertheless, there are some researchers who have doubted the ability of annual reports to discharge accountability and question their value and usefulness, particularly where other methods of communication are widely used (Jetty and Beattie 2009). However, the charity sector is unlike the corporate
sector and there are a large number of charities that are small or medium sized\textsuperscript{31}. The present study found 87\% and 90\% of Muslim and Christian charities respectively, fall within this category. Therefore, the major communication medium these charities are likely to use is the mandatory annual report. This also suggests that, contrary to Pendlebury and Jones (1996), more people are likely to use the trustees annual reports to assess the performance and achievements of the charities. In addition, all the reports are available to download online, therefore there are no accessibility issues (Jones \textit{et al.}, 1985).

6.3.3 Research instrument design\textsuperscript{32}

The research instrument was designed to capture \textit{communicated compliance accountability} through the compliance of RCO TARs to SORP (2005). The research instrument was developed based on SORP and pilot tested on 20 charities selected at random from each religious group. During the pilot phase, any overlapping found amongst certain categories in the research instrument was amended accordingly. A Microsoft Excel spreadsheet was used to record information collected based on the research instrument, as this was found to be the most efficient way of recording data. As the majority of charity TARs were only a few pages in length, the required data were searched manually using the headings defined by the SORP. Table 6.4 presents how the communicated accountability was assessed and captured in the research instrument.

\textsuperscript{31} The Charity Commission defines small charities as those with an income of less than £10,000 and medium charities as those with an income between £10,000 and £250,000.

\textsuperscript{32} As it was the original intent of the researcher to also capture information related to \textit{zakah} and \textit{waqf} disclosure, as well as other \textit{Shariah} related information when examining MCOs for research objective one b, a Islamic accountability index was also produced for this purpose. However, given the lack of such disclosure, this instrument has not been presented and utilised in the thesis.
6.3.3.1 Capturing accountability for probity

For information to be transparent and fulfil the requirements of probity, it needs to contain a number of qualitative characteristics. The Charity Commission (2004) requires accounting information to be relevant, reliable, timely, comprehensive, comparable, objective and consistent. The SORP 2005 goes someway in ensuring that charities provide information which fulfils the criteria of consistency and comparability, as all charities follow the same framework each year to prepare the annual report and accounts. In order to assess the accountability for probity of the TARs, this study explored their reliability, relevance and timeliness.

Charities are expected to render an appropriate and reliable account (Connolly and Hyndman, 2000). According to the Charities Act (2006), all charity TARs submitted to the Charity Commission have to be audited or independently externally examined. The publication of annual accounts which have been subjected to independent scrutiny is a significant means by which charity trustees and management demonstrate their accountability and enhance reliability of the information they have provided. It has been argued that anything less than an audit is insufficient for assurance purposes (see for example Arnott, 2003) but Morgan (2011) argues that an independent examination does not fall far short of what is required by an audit. Reliability was examined on three fronts: the expected reliability, the actual reliability and the overall reliability as explained in Panel a, Table 6.4.

33 For an excellent overview of the requirements of an independent examination please refer to Morgan (2011).
Table 6.4 Capturing communicated compliance accountability

<table>
<thead>
<tr>
<th>Panel A: Accountability for Probity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reliability:</strong></td>
</tr>
<tr>
<td>Expected Reliability</td>
</tr>
<tr>
<td>Expected verification of charity reports</td>
</tr>
<tr>
<td>Actual Reliability</td>
</tr>
<tr>
<td>Actual verification undertaken of charity reports</td>
</tr>
<tr>
<td>Overall Reliability</td>
</tr>
<tr>
<td>Of those examined, an assessment of whether the actual verification was as expected, below expected or above expected.</td>
</tr>
<tr>
<td><strong>Relevance:</strong></td>
</tr>
<tr>
<td>Comprehensiveness:</td>
</tr>
<tr>
<td>Contains all key organisational information (1), has relevant policy notes (1) and informs about performance for the year (1)</td>
</tr>
<tr>
<td>Presentation:</td>
</tr>
<tr>
<td>Contains graphics (1), tables and charts# (1) and has an easy to follow structure§ (1)</td>
</tr>
<tr>
<td><strong>Timeliness: external</strong></td>
</tr>
<tr>
<td>Total Time</td>
</tr>
<tr>
<td>Total time taken from year end till the TAR is submitted with the Charity Commission</td>
</tr>
<tr>
<td>Days Late</td>
</tr>
<tr>
<td>If late submission, the time taken for charity to submit post deadline date (10 months post year end)</td>
</tr>
<tr>
<td><strong>Timeliness: internal</strong></td>
</tr>
<tr>
<td>T1</td>
</tr>
<tr>
<td>Time taken from year end till trustees sign off accounts</td>
</tr>
<tr>
<td>T2</td>
</tr>
<tr>
<td>Time taken from trustee signoff till auditors sign off accounts</td>
</tr>
<tr>
<td>T3</td>
</tr>
<tr>
<td>Time taken from auditor’s signing off to submission to Charity Commission</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B: Accountability for resources, procedures, performance and leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource</strong></td>
</tr>
<tr>
<td>Themes A &amp; B: nine mandatory and 11 voluntary items</td>
</tr>
<tr>
<td><strong>Procedures</strong></td>
</tr>
<tr>
<td>Theme C: 1 mandatory and four voluntary items</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
</tr>
<tr>
<td>Themes C &amp; D: three mandatory and seven voluntary items</td>
</tr>
<tr>
<td><strong>Leadership</strong></td>
</tr>
<tr>
<td>Theme F, two voluntary items</td>
</tr>
<tr>
<td>Dichotomous scoring for each item</td>
</tr>
</tbody>
</table>

Note: *Audit is required if income is 500k or above. Independent examination is required if income is <£250k. If income is between 250k – 500k, then independent examiner must be qualified. #Table and charts refer to textual information which has been summarised for ease of presentation; graphics refer to pictures and other imagery which has been used as a promotional tool. §This requires subjective judgement on the part of the coders.

Discharging accountability in the TAR requires provision of relevant information to users. This was measured against the comprehensiveness of information and quality of presentation (Charity Commission, 2007). This study followed a similar approach
to the Charity Commission (2007) when analysing the relevance of TARs by exploring the comprehensiveness and presentation of the TARs as a measure of their relevance. In terms of *comprehensiveness*, a score of 3 (good) is given if the TAR (a) contains all key organisational information, (b) has relevant policy notes and (c) informs on the performance for the year, while a score of 2 (adequate) or 1 (poor) is given for disclosure of any two or one aspect of the information, respectively. As for *quality of presentation*: a score of 3 (good) is awarded if the TAR contains (a) graphics, (b) tables and charts and (c) an easy to follow structure; a score of 2 (adequate) if any two aspects is fulfilled and a score of 1 (poor) if only one aspect is covered. A score of 0 (very poor) is awarded to presentation that does not cover any of the three aspects. Table and charts refer to textual information which has been summarised for ease of presentation and graphics refer to pictures and other imagery which have been used as promotional tools.

It has been argued that information loses usefulness for economic decision making with time (Whittred, 1980). Moreover, timeliness can also be a measure of the willingness of an organisation to be held to account. The Charity Commission requires all TARs to be submitted within 10 months of the year end date. Following the Charity Commission (2004), this study examined the ‘internal timeliness’ of charity organisations by breaking the time taken for submission into three separate periods: the time taken for trustees to sign off accounts from the year end date, the time taken for auditors to sign off the accounts after the trustee had signed off the accounts, and finally the time taken to submit the accounts to the Charity Commission once the auditors had signed off the accounts. This approach allowed detailed analysis to be made on what drives external timeliness.
6.3.3.2 Capturing accountability for resources, procedures, performance and leadership

The accountability of the TARs was measured against compliance to the SORP requirements for the narrative disclosure of information to be contained in the TARs. These requirements have been defined by the SORP (2005) in paragraphs 41-57 which cover the following: (A): trustees, advisors and administration; (B): structure, governance and management; (C): objective and mission; (D): achievements and performance; (E): financial review; and (F): future plans. The use of pre-defined themes overcomes the difficulty of developing categories or themes for classifying content units (Haniffa and Cooke, 2005). This aspect of the research instrument collected information disclosed by the charities in relation to both mandatory and recommended SORP requirements. The outcome of this exercise produced a matrix of information identifying the incidence of accountability across six themes. The final checklist consisted of 38 accountability and governance related items of which 13 items were mandatory and 25 items were recommended\(^{34}\) (see appendix A for full disclosure checklist). The Charity Commission (2004) regard mandatory SORP compliance as the minimum standard of accountability; hence all charities should be complying with the mandatory aspects of the SORP by law. Any disclosure above this, i.e. compliance to recommended aspects of the SORP by the MCOs reflect higher efforts in demonstrating accountability.

\(^{34}\)The mandatory/recommended distinction was valid for TARs submitted in 2008. For the 2010 TAR, only small and medium sized charities had to abide by this distinction as all items were made mandatory for large and very large sized charities
6.3.4 Content analysis

Content analysis was conducted to assess accountability practice and compliance to SORP (2005). Compliance to accountability for probity was assessed through the relevance, reliability and timeliness of the TARs as explained in panel a, Table 6.4 and following Charity Commission (2004).

Compliance to the accountability checklist assessing accountability for resources, procedures, performance and leadership used dichotomous scoring, i.e. the presence/absence of the disclosure item to capture the broad accountability practices in accordance with prior studies on charity disclosure (Connolly and Hyndman 2000; Palmer et al., 2001). An item scored one (1) if disclosed and zero (0) if not. The scores for each item were then added to derive a final score for that particular theme of disclosure for each TAR. Different measures have been used by prior studies to assess disclosure. Some studies have used weighted measures (Jetty and Beattie 2009; Crawford et al. 2009) as opposed to dichotomous scoring by providing uneven scores for quantitative and qualitative disclosure. However, this method does not provide any further insights into accountability and can be affected by potential scoring bias and scaling problems (Haniffa and Cooke, 2005). Although dichotomous scoring does not differentiate between the levels of disclosure within categories, it provides a more objective basis for coding by giving less choice to the coders (Hackston and Milne, 1996, p. 88). Some studies have used the number of pages (Deegan and Rankin, 1996) and proportion of a page (Crawford et al., 2009) to reflect the amount of space given to a topic and hence the importance of that topic. However, such measurements may be affected by font size, margins and treatment of blank parts of a page. The use of number of words (Deegan and Rankin, 1996;
Haniffa and Cooke, 2005) is a more practical method but can be affected by different styles of writing (Hackston and Milne, 1996). In this study, the number of words was also used but due to the limited length of the TARs and the minimal disclosure provided by the RCOs, no significant variations in disclosure were found between the different types and size of charities between and across themes. Hence, only the results based on dichotomous scoring are reported.

6.3.5 Reliability and validity

A number of considerations have been made to ensure the reliability and validity of this stage of the research. The annual reports were first read thoroughly and a brief note made on sections of interest. It was then re-read looking at the research instrument and once information associated with each variable was found, it was noted on the coding worksheet. Krippendorff (2003) notes that effective content analysis should be valid and reliable. In terms of reliability, he states that the content analysis must be stable, reproducible and accurate. In order to ensure this happens, there needs to be an explicitly designed research instrument with accompanying coding rules that makes the process of coding systematic and uniform. To ensure reliability and validity, a set of basic coding rules was constructed. Once all the data was gathered, the coding worksheet was checked again by the researcher and her supervisor. The supervisor scored a sample of reports using the same coding rules and they were found to be consistent with the researcher.

6.3.6 Data analysis

Since this research is exploratory, descriptive statistics have been predominantly used. In addition, to test for significant differences in the compliance of the TARs
per research questions 1a (ii) and 1b, both the parametric independent sample t-test and the non-parametric Mann Whitney U test have been conducted. Both these tests examine the means of two independent samples and assess if they are significantly different. The independent samples T-test is used when the assumptions of normality of data have been met. Its non-parametric equivalent is the Mann-Whitney U test, which examines data when population distributions are not normal.

6.4 Stage two: Exploring lived accountability

The second stage of the research seeks to explore the second research objective and the following research questions:

Research objective 2: To explore the lived accountability practices of MCOs.

RQ2a: How do individuals within MCOs enact functional accountability to achieve moral legitimacy?

RQ2b: What aspects of personal accountability and responsibility help individuals within MCOs navigate cognitive legitimacy?

RQ2c: What factors facilitate or impede moral and cognitive legitimacy in MCOs?

For the purpose of this research, it is important to use a research design which allows an in-depth account to be collected on the accountability and governance practices of the charities, especially when exploring the religious element within the organisation. There have also been calls within the charity accounting literature (e.g., Hyndman and Mckillop, 1999; Connolly and Hyndman, 2000) for studies of a more qualitative nature as opposed to traditional quantitative studies that have been too limited in their research approach. As described in Chapter 2, the studies which have sought to analyse accounting and accountability within a situated context have all used case studies as the research design (for example, Laughlin, 1988; 1990; Booth, 1993;
Jacobs and Walker, 2004, etc). These studies have shown how case studies can provide a deeper and richer understanding of accounting practices in the social context (Scapens, 2004).

The initial intention of the researcher was to undertake in-depth case study analysis of two or three Muslim charity organisations. However, this was found to be extremely difficult as the charities contacted were unwilling to provide full access to the site including access to all key individuals, observations of internal meetings, documentary analysis of internal documents, etc. The reasons given by the charities for the reluctance to take part include being too busy, did not have enough resources available, did not want to share internal practices, the information requested was confidential and that the organisation was undergoing re-structuring. As it is crucial for full access to be obtained for a successful case study research project, the decision was made early on at the data collection phase that the scope of the study would be extended and a larger number of MCOs would be approached with a view to undertake interviews with key individuals within various organisation. Hence, face to face interviews form the empirical data for this stage of the research.

6.4.1 Negotiating access

The MCOs chosen to take part in the interviews were selected from the population in the first stage of the research. It was envisaged the research interest would only be transparently observable in those organisations which were sufficiently large enough to have an established accountability and governance structure and which were subject to Charity Commission regulation (Pettigrew, 1988). Hence, those charities which were registered with the Charity Commission and had an income greater than
£500,000 per annum were chosen. Established organisations were sought as they were expected to have established programs and formal structures. Formal structures implied a functioning accounting system and accompanying governance frameworks were anticipated. Given this criteria, all those chosen for interview consisted of international aid organisations.

Access was negotiated (pilot and main) through informal contacts in the first instance. This was done through email and telephone contact to introduce the researcher and ascertain potential interest of the organisations in the research. A number of emails and follow-up telephone calls had to be made over a period of 3 months. Of the 25 charities contacted, 11 agreed informally to take part in the research. This informal agreement was quickly followed by a formal letter inviting the organisation to participate in the research study. This letter outlined the scope of the research and also included a consent form for the organisational gatekeeper to sign and send back (this can be found in appendix B). Out of the 11 letters sent inviting organisations to participate 7 responded (six charities and one consultancy) and interviews were conducted in these organisations. This negotiation process was extremely time consuming and took the researcher three months from initial contact to the first interview being arranged in early 2012. Table 6.5 provides a brief breakdown of the organisations taking part in the study. Due to issues of confidentiality, a linkage has not been made with the respective interviewees shown in Table 6.6. As can be seen from this table the income level of the charities varied greatly as did the number of employees in each organisation. Hence, even within these large/very large MCOs (using the distinction made in stage one of the study),
the charities can be considered small and large based on the number of personnel they employ and the variation in the income levels.

Table 6.5: MCOs taking part in study

<table>
<thead>
<tr>
<th>Charity</th>
<th>Approx income level (yr end 2010)</th>
<th>Paid employees</th>
<th>Trustees</th>
<th>No of respondents interviewed</th>
<th>Small or large?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£0.54m</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>S</td>
</tr>
<tr>
<td>2</td>
<td>£0.55m</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>S</td>
</tr>
<tr>
<td>3</td>
<td>£0.72m</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>S</td>
</tr>
<tr>
<td>4</td>
<td>£3.23m</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>S</td>
</tr>
<tr>
<td>5</td>
<td>£24.80m</td>
<td>110</td>
<td>6</td>
<td>4</td>
<td>L</td>
</tr>
<tr>
<td>6</td>
<td>£64.35m</td>
<td>370</td>
<td>8</td>
<td>6</td>
<td>L</td>
</tr>
</tbody>
</table>

6.4.2 Data collection: Interviews

Interviews can be considered as an interchange of views between people (Kvale, 1996), which allows those being interviewed an opportunity to provide interpretations of the world from their own point of view. Kvale (1996, p.126) summarises that “interviews are different in the openness of their purpose, their degree of structure, the extent to which they are exploratory or hypothesis testing, whether they seek description or interpretation, whether they are largely cognitive focused or emotion focused”. There are three main types of interviews consisting of in-depth, semi-structured and structured, which can take place in either a formal or informal setting. The type of interview will dictate the types of questions which will be asked and these can be either closed or open-ended. In-depth and semi-structured interviews usually contain open-ended questions and whilst structured interviews usually contain close-ended questions (Robson, 2002). In structured interviews,

\[35\] The reports for year end 2010 were published in 2011. These were used to contact the appropriate charities in 2012.
researchers are not free to go beyond the listed questions and this can hinder researchers from following up interesting responses and opening new lines of enquiry. Structured interviews are too standardised and require a pre-determined set of close-ended questions. This is a very restrictive form of interview and not conducive to fulfil the research objectives of this study.

Semi-structured interviews, on the other hand, require an interview schedule which helps establish a clear framework and reduce bias in the study and at the same time allows prepared questions, probes and prompts to direct the flow of interviews (Robson, 2002). Semi-structured interviews, therefore, are appropriate methods to use for exploring sensitive topics and clarifying queries raised during the actual interview (Babbie, 2004) as they allow a flexible approach to be undertaken enabling the researcher to capture complex issues related to individuals’ perceptions and experiences (Cohen and Manion, 1995; Patton, 1990). Hence, this study adopts semi-structured interviews to gain insight into participants’ opinions on the accountability practices of the organisation.

As with any type of data collection method, interviews have their advantages and disadvantage. According to Robson (2002), the advantages of interviews include their adaptability since it is easier to elicit participants’ ideas, probe their responses and clarify vagueness compared to questionnaires. In fact, interviews can encourage participants to give their personal beliefs and views in face-to-face interviews compared to questionnaires. In addition, interviews can help facilitate better understanding of topics under discussion through an interpretation of body language,
such as facial expressions, nods and smiles (Bell, 1999), yielding rich and unpredictable information (Rubin and Rubin, 2005).

There are also a number of disadvantages which must be considered by the researcher when considering interviews as a method of data collection. The process of interviewing can be an exhaustive process if done correctly, so the researcher must ensure that all phases from the planning through to analysis are meticulously planned and thoroughly executed. This process can be expensive and time-consuming, especially if it requires travelling to various places to conduct the interview. In addition, the act of interviewing itself must be sympathetic to the participants and the experience of the researcher is clearly a factor in how successful or not an interview is (Robson, 2002).

The following subsections now outline the ethical clearance procedure for this study, how the interview schedule was developed, how interviewees were selected and how the interviews were conducted, including how the interviews were transcribed into written form.

6.4.2.1 Ethical clearance for interviews

As this research requires the use of human participants, the ‘Ethical Procedures for Research and Teaching’ guidelines developed by the University of Hull Business School were followed. The researcher applied for and was granted ethical clearance to conduct interviews in November 2011, prior to the commencement of pilot interviews.
6.4.2.2 Development of the interview schedule

Following the research questions, appropriate topics and interview questions were identified from the accountability literature and these were then linked to the different types of accountability being explored in the study. Based on this a number of interview questions were developed. The most appropriate persons able to answer the questions were then identified. Sample interview questions can be found in appendix C. These interview questions were modified and re-drafted several times during the pilot phase as explained in section 6.4.2.3.

6.4.2.3 Selecting interviewees and conducting the interviews

The interviewees were purposefully chosen (Patton, 1990) to ensure key informants within the organisations were interviewed. This meant that people who were either experts in the area or privy to key information required for the research questions were interviewed. They included trustees, management, auditors/independent examiners, directors and/or preparers of accounts. In larger MCOs, the role of the executive committee is similar to that of the board of directors in corporations, with senior managers working underneath them. Trustees take on a role similar to non-executive directors, but are much more pro-active and are responsible for advising directors on strategic direction with the responsibility lying with directors on how the strategies are implemented. This role means that trustees are also very difficult to interview as they are often away in places where the majority of the MCO’s activities are undertaken. Further interviews were also conducted with external actors influencing the accountability practices of the organisations, i.e. external consultants to the sector and with junior staff who may have a different perspective on how the organisation fulfils accountability. These interviewees allowed detailed insight and
opinions to be gained on accountability and governance practices within the social setting (Janestick, 2000).

Once access was negotiated, a list of preferred interviewees was sent to the named contact in each organisation. This ‘gatekeeper’ then forwarded this request onto the particular people who either accepted or declined request for an interview. Once interviews were arranged with key people, snowballing was also used to ensure key personnel unknown to the researcher were not missed out. A total of 18 people were interviewed: three trustees, six executive directors, seven senior management, three junior staff and two external consultants. All participants and organisations were guaranteed confidentiality to gain the trust of the interviewees so that they would speak freely. Hence, all transcripts were codified and the codes were used in the final analysis.

Prior to beginning the main study, a number of pilot interviews were undertaken in three stages in December 2011. These pilot interviews helped the researcher to refine the interview schedule. The pilot process is explained in detail in appendix D. In the main study, each of the semi-structured interviews were held in surroundings familiar to the interviewee and were in the majority of cases held in the interviewees offices. The interviewees were all informed that there were no right or wrong answers and that they were free to amend, qualify or not answer any question. All the interviews were tape-recorded with no interviewees requesting otherwise. Transcripts of the interviews were sent to participants to confirm the authenticity where this was requested (in four instances). Table 6.6 shows the interviewees as well as the dates, times and length of interviews conducted.
Table 6.6: Interviewees for study

<table>
<thead>
<tr>
<th>Position</th>
<th>Gender</th>
<th>Age range</th>
<th>Date</th>
<th>Duration</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trustees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trustee -CEO</td>
<td>Female</td>
<td>40-45</td>
<td>20-Jan-12</td>
<td>1hr 40min</td>
<td>T1</td>
</tr>
<tr>
<td>Trustee-CEO</td>
<td>Male</td>
<td>40-45</td>
<td>14-Mar-12</td>
<td>1hr 50min</td>
<td>T2</td>
</tr>
<tr>
<td>Trustee- CEO</td>
<td>Male</td>
<td>50-60</td>
<td>24-Mar-12</td>
<td>2hrs</td>
<td>T3</td>
</tr>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO</td>
<td>Male</td>
<td>50-60</td>
<td>13-Mar-12</td>
<td>1hr</td>
<td>ED1</td>
</tr>
<tr>
<td>Assistant CEO</td>
<td>Male</td>
<td>50-60</td>
<td>13-Mar-12</td>
<td>1hr 15min</td>
<td>ED2</td>
</tr>
<tr>
<td>UK Director</td>
<td>Male</td>
<td>40-50</td>
<td>02-May-12</td>
<td>1 hr 30 min</td>
<td>ED3</td>
</tr>
<tr>
<td>CEO</td>
<td>Male</td>
<td>40-50</td>
<td>04-Jun-12</td>
<td>1 hr 25 min</td>
<td>ED4</td>
</tr>
<tr>
<td><strong>Senior Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications Director</td>
<td>Male</td>
<td>30-40</td>
<td>23-Jan-12</td>
<td>1hr 13min</td>
<td>SM1</td>
</tr>
<tr>
<td>Head of Accounts</td>
<td>Male</td>
<td>40-45</td>
<td>13-Mar-12</td>
<td>20min</td>
<td>SM2</td>
</tr>
<tr>
<td>Head of Fundraising</td>
<td>Male</td>
<td>40-45</td>
<td>02-May-12</td>
<td>1 hr 5min</td>
<td>SM3</td>
</tr>
<tr>
<td>Head of Communication</td>
<td>Male</td>
<td>30-40</td>
<td>02-May-12</td>
<td>1 hr 5min</td>
<td>SM4</td>
</tr>
<tr>
<td>Head of Finance</td>
<td>Male</td>
<td>40-45</td>
<td>16-May-12</td>
<td>1 hr 5min</td>
<td>SM5</td>
</tr>
<tr>
<td>Internal Audit Manager</td>
<td>Male</td>
<td>40-45</td>
<td>16-May-12</td>
<td>1 hr</td>
<td>SM6</td>
</tr>
<tr>
<td><strong>Junior staff</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Preparer</td>
<td>Male</td>
<td>30-40</td>
<td>26-Jan-12</td>
<td>1hr 10 min</td>
<td>JS1</td>
</tr>
<tr>
<td>Accounts Assistant</td>
<td>Female</td>
<td>20-30</td>
<td>23-Jan-12</td>
<td>23min</td>
<td>JS2</td>
</tr>
<tr>
<td>Fundraising officer</td>
<td>Female</td>
<td>20-30</td>
<td>02-May-12</td>
<td>35 min</td>
<td>JS3</td>
</tr>
<tr>
<td><strong>External Consultants to Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ex-CEO / Consultant MA</td>
<td>Male</td>
<td>70-80</td>
<td>13-Mar-12</td>
<td>1hr 15min</td>
<td>EC2</td>
</tr>
<tr>
<td>Auditor and Consultant</td>
<td>Male</td>
<td>30-40</td>
<td>16-May-12</td>
<td>1hr 50min</td>
<td>EC1</td>
</tr>
</tbody>
</table>

6.4.2.4 Transcription of interviews

All the interviews were transcribed as soon as possible after the interview by the researcher herself (Bartlett and Payne, 1997). In most cases, there was a break of a few weeks between interviews at different sites and the researcher used this period to transcribe interviews in order for new insights to be gained which could then be used
as follow-up questions in subsequent interviews. For example, the earlier interviews mentioned difficulties in explaining administration costs to their donors and hence this was incorporated into subsequent questioning. Issues surrounding the anti-terrorism and money laundering legislation and the role played by the Muslim Charities Forum were some of the issues identified in early interviews.

The researcher used the transcription software Dragon Naturally Speaking to voice transcribe the interviews by listening to the audio of the interview playing in headphones and then speaking this into the microphone for transcription. The interviews were slowed down using Windows media player. This allowed interviews to be transcribed on a much faster basis than manual transcription. This method of voicing the interviews also allowed the researcher to experience the interview again during the transcription phase. The transcription of the interviews was completed by August 2012.

6.4.3 Data reliability and validity

Data validity and data reliability need to be carefully ensured in qualitative research. According to Yin (2009), a number of steps need to be undertaken to ensure validity and reliability of case study data. A similar approach was taken for this study and adapted for qualitative research based mainly on interviews and documentary analysis. Reliability and validity were ensured by making certain that:

- Each step of the data collection was documented by the researcher.
- Interviews were transcribed as soon as possible and then re-checked for accuracy by the interviewees.
- Electronic software such as Nvivo was used to aid analysis.
Data triangulation (Silverman, 2005) was attempted by collaborating interviews with documentary evidence. Interviewees were sent a draft of the final report for verification.

6.4.5 Data analysis
The software package Nvivo was used to catalogue, collect and sort the interview transcripts, interview notes and documentary evidence for analysis. The audio files were also imported into the project files in case a need arises to refer back to the original source. Robson (2002) suggests there is no best way to analyse qualitative data. However, where qualitative data is the only or major part of a study, then serious consideration needs to be given to the way in which it is analysed. Different researchers have given different meanings to the way data is arranged and analysed. In particular, Crabtree and Miller (1992) summarise four different approaches to data analysis: Quasi-statistical, template, editing, and immersion, ranging from the highly structured to the less structured. Robson (2002) argues that of these four types, template and editing approaches are the most useful for qualitative data analysis due to the systematic way in which they are employed. The template approach relies on finding themes in the data and thus, provides higher levels of systematic analysis than the editing approach. The editing approach is typified by grounded theory research (Robson, 2002).

It is necessary to undertake a systematic approach to data analysis using a structured process to limit issues of reliability. This is because qualitative data analysis can be susceptible to the biases and deficiencies of the analyser. Fetterman (1989, p.88) notes that qualitative data analysis is based on the ability of the researcher to think
clearly and have an ability to “process information in a meaningful and useful manner”. Hence, this study used the template approach when analysing the vast array of data. Template analysis is a form of thematic analysis and is used to analyse qualitative data, usually interview transcripts (Saunders et al., 2007). Themes are identified from the data, which are then used to form a coding template which summarises all the important themes into a meaningful and useful format. The coding process is central to qualitative analysis as it makes the retrieval of material at a later date easier and faster. The codes must be both internally and externally valid – i.e. meaningful in relation to data and in relation to other categories (Dey, 1993) and they must also evolve as new themes are identified. Aronson (1994) calls these codes ‘patterns of experiences’ and Miles and Huberman, (1994, p.56) note they are “tags or labels for assigning units of meaning to the descriptive or inferential information compiled during the study”.

The coded data was then subsequently analysed using narrative analysis techniques, which included identifying commonalities and differences, exploring recurring themes and patterns, and making notes of particular key words and phrases (Miles and Huberman, 1994). This narrative analysis of the data allowed different topics to be grouped together into sets of manageable themes and sub-themes. The data analysis was undertaken alongside data collection as this enabled further exploration of emerging themes in subsequent interviews.

6.5 Summary

This chapter concludes the third part of the thesis examining research methodology. It explains how, given the research objectives, a mixed methods approach will be
undertaken to explore the accountability practice within MCOs. The first stage involves a quantitative analysis of the communicated *compliance accountability* of both MCOs and CCOs at the sector level. Using the SORP framework as a guide, this analysis helps answer the first research objectives and involves the analysis of 246 RCO TARs to answer the first two research questions, and an analysis of 215 MCO TARs to answer the third research question. *Accountability for probity* will be assessed via an examination of the relevance, reliability and timeliness of TARs, whilst *accountability for resources, procedures, performance and leadership* will be assessed by analysing the level of disclosure to the SORP disclosure checklist (appendix a).

The second stage of the research involves a qualitative exploration of the lived accountability practices of MCOs at the organisational level. This stage of the research focuses on conducting 18 semi-structured interviews with key organisational members in 8 MCOs. The accountability concepts discussed in chapter 5 have been used as a guiding framework to prepare both the interview schedule and to organise the *a priori* codes for thematic analysis.

The following part of the thesis will present the empirical findings of the study, organised into two chapters each presenting the results for the different stages of research.
PART IV: EMPIRICAL EVIDENCE

This part presents the empirical evidence on the accountability practices of MCOs. Chapter seven explores how effectively MCOs communicate accountability through the trustees’ annual reports and chapter eight presents the findings in relation to how MCOs practice and live accountability at the organisational level via an exploration of their governance mechanisms. Both these chapters discuss the findings in relation to the conceptual framework outlined in chapter 5.
CHAPTER 7: COMMUNICATED COMPLIANCE ACCOUNTABILITY

7.0 Introduction

This chapter presents the results of the first stage of the research which analyses the communicated compliance accountability of RCOs and MCOs through their narrative reporting practice. The results are presented in accordance with the research objectives of the study:

Research objective 1a explores the extent to which RCOs communicate compliance accountability and examines two particular research questions:

RQ1a (i): To what extent do RCO TARs demonstrate compliance accountability?

RQ1a (ii): Is there a significant difference in the communicated compliance accountability between MCOs and CCOs?

To briefly summarise, this research objective focuses on Muslim and Christian charities. Given the lack of literature examining religious charities which can be used to compare the findings of this study, this comparative part of the research allows the communicated compliance accountability of MCOs to be examined with respect of the accountability practices of the rest of the sector (i.e. using CCOs as a benchmark). This approach is appropriate given the dominance of Christian charities and the longer established nature of CCOs in the religious charity sector in the UK compared to MCOs.
Research Objective 1b explores significant changes in the communicated compliance accountability of MCO TARs between 2008 and 2010:

RQ1b: Is there a significant change in the communicated compliance accountability of MCO TARs between 2008 and 2010.

The second part of the research objective focuses on MCOs. Initial examination of the 2008 MCO TARs found unexpected levels of disclosure. Thus, to ensure the findings were not due to a lag in implementing reporting procedures or due to any adverse effects caused by the 2007/2008 financial crisis, the reports for year end 2010 were also examined for comparative purposes. Ongoing regulatory changes in 2009 meant this year was deemed unsuitable for selection. It was the original intention of the researcher to also examine MCO TARs for Islamic religious disclosure. However, initial assessment of the reports found such information to be absent and hence this research objective was narrowed to focus specifically on SORP disclosure.

The communicated compliance accountability of the TARs is discussed in accordance with the conceptual framework illustrated in Figure 5.6 (chapter 5); i.e. through an examination of their accountability for probity, resources, procedures, performance and leadership. The probity of the reports was examined based on their reliability, relevance and timeliness, as explained in Table 6.4 of chapter 6. The accountability for resources, procedures, performance and leadership was examined by analysing the level of compliance to the SORP 2005 guidelines on the narrative content of RCO TARs (appendix A contains the list of items required to be disclosed under the SORP guidelines). The percentage of charities disclosing each item, as
well as the instances of disclosure per charity is presented. The structure of chapter 7 is illustrated in Figure 7.1.

Figure 7.1: Structure of chapter seven

7.1 Comparison of communicated compliance accountability of MCOs and CCOs
  7.1.1 Accountability for probity
  7.1.2 Accountability for resources, procedures, performance and leadership
    7.1.2.1 Accountability for resources
    7.1.2.2 Accountability for procedures
    7.1.2.3 Accountability for performance
    7.1.2.4 Accountability for leadership
  7.1.3 Overall communicated compliance accountability of MCO and CCO TARs

7.2 Comparison of communicated compliance accountability of MCOs for 2008 and 2010
  7.2.1 Accountability for probity
  7.2.2 Accountability for resources, procedures, performance and leadership
7.1 Comparison of communicated compliance accountability of MCOs and CCOs

7.1.1 Accountability for probity

In terms of reliability, TARs were either required to have an independent examination or an audit. As discussed in chapter 6 (see table 6.4), the reliability explores the expected and actual levels of examination and if this examination of the reports was below, above or as expected. The TARs were ‘below expected’ if they were likely to have an audit but had an independent examination instead. They were considered ‘as expected’ if they had the required examination and considered ‘above expected’ if they had an audit when an independent examination was required. Table 7.1 presents the findings in relation to the reliability of the TARs. This table presents the reliability of the charities sampled according to number of charity and the percentage in brackets. An independent T-test was conducted to check for significant differences and any significant results are shown in bold, using the following significance levels: * 10% level, ** 5% level, ***1% level.

Panel A (Column 1) of Table 7.1 shows the number of CCOs and MCOs that were expected to have an independent examination (80%) and audit (20%). Column 2 of Panel A indicates the actual type of verification utilised by both groups. It can be seen that 15% of MCOs and 8% of CCOs failed to undertake any form of verification, which should be of concern. Column 3 of Panel A, presents the percentage of MCOs (17%) and CCOs (33%) that chose to have an audit when an independent examination was required, suggesting a large number of religious

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36 The se results have been published in the Journal of Business Ethics - Yasmin et al. (2013)
37 Both the independent T-test and Mann Whitney U test were conducted on the data. As no differences in significance were found between the 2 tests, only the independent t-test has been reported here.
charities place importance on audits. The majority of MCOs (81%) and CCOs (66%) had the required level of verification for their income group.

Table 7.1  
Reliability of MCO and CCO TARs

<table>
<thead>
<tr>
<th></th>
<th>1. Expected verification</th>
<th>2. Actual verification</th>
<th>3. Overall reliability</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IE²</td>
<td>Audit</td>
<td>IE²</td>
<td>Audit</td>
</tr>
<tr>
<td>Panel A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Muslim</td>
<td>99</td>
<td>(80)</td>
<td>24</td>
<td>(20)</td>
</tr>
<tr>
<td>Christian</td>
<td>99</td>
<td>(80)</td>
<td>24</td>
<td>(20)</td>
</tr>
<tr>
<td>Difference#</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel B – By size of charity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small MCO</td>
<td>69</td>
<td>(100)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Small CCO</td>
<td>69</td>
<td>(100)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium MCO</td>
<td>30</td>
<td>(100)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Medium CCO</td>
<td>30</td>
<td>(100)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Large MCO</td>
<td>0</td>
<td>(100)</td>
<td>12</td>
<td>(100)</td>
</tr>
<tr>
<td>Large CCO</td>
<td>0</td>
<td>(100)</td>
<td>12</td>
<td>(100)</td>
</tr>
<tr>
<td>Very Large MCO</td>
<td>0</td>
<td>(100)</td>
<td>12</td>
<td>(100)</td>
</tr>
<tr>
<td>Very Large CCO</td>
<td>0</td>
<td>(100)</td>
<td>12</td>
<td>(100)</td>
</tr>
<tr>
<td>Panel C – By type of charity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational MCO</td>
<td>46</td>
<td>(78)</td>
<td>13</td>
<td>(22)</td>
</tr>
<tr>
<td>Educational CCO</td>
<td>46</td>
<td>(78)</td>
<td>13</td>
<td>(22)</td>
</tr>
<tr>
<td>Difference</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare MCO</td>
<td>21</td>
<td>(78)</td>
<td>6</td>
<td>(22)</td>
</tr>
<tr>
<td>Welfare CCO</td>
<td>21</td>
<td>(78)</td>
<td>6</td>
<td>(22)</td>
</tr>
<tr>
<td>Difference</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Aid MCO</td>
<td>7</td>
<td>(78)</td>
<td>2</td>
<td>(22)</td>
</tr>
<tr>
<td>International Aid CCO</td>
<td>7</td>
<td>(78)</td>
<td>2</td>
<td>(22)</td>
</tr>
<tr>
<td>Place of worship MCO</td>
<td>25</td>
<td>(89)</td>
<td>3</td>
<td>(11)</td>
</tr>
<tr>
<td>Place of worship CCO</td>
<td>25</td>
<td>(89)</td>
<td>3</td>
<td>(11)</td>
</tr>
</tbody>
</table>

Note: This table presents the reliability of the charities sampled according to number of charity and % in brackets. Those results which show a significant difference are in Bold. #The Independent T-test results are shown here. Significance: *10% level, **5% level, ***1% level. *None signifies the number of TARs that had neither an audit nor an independent examination. ¹Overall reliability of those TARs examined, ²Independent examination, ³Below expected, ⁴As expected, ⁵Above expected.
Panel B of Table 7.1 presents the verification based on size of the charity. As can be seen from Column 1 of Panel A, all small and medium sized charities were expected to have an independent examination of their reports, whilst all large and very large sized charities were expected to have an audit. Column B of Panel B, shows a significantly higher percentage of small CCOs (30%) having an audit compared to small MCOs (13%). Furthermore, Column B also suggests the majority of TARs which were not verified were small in size. Column 3 of Panel B shows a large number of medium sized MCOs (43%) and CCOs (57%) having an audit instead of an independent examination, this may be due to their income size being closer to the audit requirement threshold of £500k. Consequently, the two large MCOs and one large CCO, presented in Panel C, as having an independent examination instead of an audit may also be due to the same reasons. For example, their income may have gone slightly above the £500k limit and they did not realise the implications of this on their reporting requirements.

Panel C of Table 7.1 presents the verification based on type of charity. Column 1 of Panel C points to a similar percentage of educational, welfare and international aid RCOs having an independent examination (78%) or audit (22%). A greater percentage of places of worship were expected to have an independent audit (89%), compared to the other types of charities as the majority of places of worship were small in size. Column 2 and 3 of Panel C suggest, not much difference in actual verification and overall reliability was found between the different types of MCOs and CCOs. In terms of actual verification (Column 2), significantly more educational MCOs (54%) that had their TARs independently examined compared to CCOs (34%). Conversely, significantly less MCOs (34%) had their reports audited
compared to their Christian counterparts (54%). This suggests that educational CCOs, the majority of which are schools, place a greater emphasis on audit, compared to educational MCOs (which are comprised on mainly local madrassahs - religious schools). Column 2 also suggests that of those charities not providing any verification, the majority comprised of educational charities. Column 3 of panel C, shows a similar number of MCOs and CCOs having an 'as expected' reliability, with the exception of welfare charities where CCOs had significantly greater reliability 'as expected' compared to MCOs.

These results offer a number of insights. Firstly, the findings suggest that smaller RCOS, in particular small MCOS, places of worship and educational charities, need to be carefully monitored to ensure they submit their verification reports with the TAR. Furthermore, the findings also reveal that charities, specifically educational RCOs, whose income levels are closer to the audit threshold of £500k need to be given timely advice to ensure they file the correct type of verification report for their income level. Finally, the findings point to a need for smaller MCOs to be educated on the value of getting their TARs audited, given the significant differences in actual verification between small MCOs and CCOs.

Although it is a legal requirement for the TARs to have been examined, the Charity Commission is not able to check all reports to ensure compliance. This prompted the researcher to undertake some further checks on the reports that had been submitted to explore if any other omissions were apparent. Unexpectedly, a number of charities had serious omissions within their submitted accounts in relation to the TARs and/or the examination reports presented in table 7.2 below:
Table 7.2  Omissions in 2008 RCO TARs

<table>
<thead>
<tr>
<th>Omissions</th>
<th>Total</th>
<th>MCO</th>
<th>CCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>No TAR submitted</td>
<td>11</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Un-dated/ unsigned TARs</td>
<td>21</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Undated/ unsigned examination reports</td>
<td>31</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>

Eleven charities, of which nine were Muslim and two Christian, had not submitted a TAR at all – only the financial statements were submitted. The majority of these were small charities. Twenty-one charities had undated/unsigned TARs (11 small/medium MCOs & ten mainly small CCOs) and thirty-one charities had undated/unsigned examination reports (15 small/medium MCOs & 16 mainly small CCOs). In addition, there were seven instances within CCOs where the examiners signed and dated the TARs before the trustees. This ranged from -1 to -13 days and involved mainly small and medium sized charities. As for the MCOs, one small educational charity had an internal examiner sign the accounts 24 days before it was signed by the trustees. Such instances raise questions on the possible complacency of the trustees and examiners. This does not bode well for the reliability of these religious charity organisations.

Table 7.3 summarises the findings in relation to the relevance and timeliness of the MCO and CCO TARs, according to the number of charities and then the percentage in brackets (where appropriate). Panel A shows the results for the whole sample split according to religious group. Panel B shows the results for the sample split according to size of charity and religious group. Panel C shows the results for the sample split according to type of charity and religious group. Those results which show a significant difference, are in bold. The Independent T-test results are reported here. 

35
Relevance: The relevance (see columns 1A & 1B) of the charity reports are analysed according to their comprehensiveness and quality of presentation. In terms of comprehensiveness, results in panel A, column 1A and 1B suggest that MCOs provide significantly poorer reports than CCOs especially for smaller and medium sized charities (panel B, column 1A and 1B). The findings further indicate that none of the 58 small MCOs (panel B) was found to have reports which are classed as good in terms of both presentation (column 1B) and comprehensiveness (column 1A). Size seems to be an important determinant of relevance of charity TARs, with larger charities providing more relevant accounts than their smaller counterparts. This is not unexpected since smaller charities have less resources and expertise to invest in producing fully transparent and promotional TARs, mirroring the findings of Connolly and Hyndman (2004) who also found larger charities to provide better quality performance related disclosure. However, presentation is also an issue for large and very large charities with the majority of their TARs being classed as poor in presentation. RCOs were generally found not to be particularly concerned with providing graphics and charts in the TARs possibly due to ease in complying with the SORP framework based on basic textual information.
Table 7.3: Relevance and timeliness of MCO and CCO TARs

<table>
<thead>
<tr>
<th>Panel A</th>
<th>1. RELEVANCE</th>
<th>2. TIMELINESS (based on mean number of days)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A: Comprehensiveness (%)</td>
<td>B: Presentation Quality (%)</td>
</tr>
<tr>
<td></td>
<td>Poor</td>
<td>Adeq.</td>
</tr>
<tr>
<td>Total</td>
<td>141 (57)</td>
<td>62 (24)</td>
</tr>
<tr>
<td>Muslim</td>
<td>79 (64)</td>
<td>22 (18)</td>
</tr>
<tr>
<td>Christian</td>
<td>62 (50)</td>
<td>40 (33)</td>
</tr>
<tr>
<td>Difference</td>
<td>3.263***</td>
<td>2.252**</td>
</tr>
<tr>
<td>Panel B – By size of charity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small MCO</td>
<td>49 (71)</td>
<td>9 (13)</td>
</tr>
<tr>
<td>Small CCO</td>
<td>44 (64)</td>
<td>18 (26)</td>
</tr>
<tr>
<td>Difference</td>
<td>2.441**</td>
<td>2.145***</td>
</tr>
<tr>
<td>Medium MCO</td>
<td>21 (70)</td>
<td>6 (20)</td>
</tr>
<tr>
<td>Medium CCO</td>
<td>15 (50)</td>
<td>13 (43)</td>
</tr>
<tr>
<td>Difference</td>
<td>1.782*</td>
<td>1.885***</td>
</tr>
<tr>
<td>Large MCO</td>
<td>6 (50)</td>
<td>3 (25)</td>
</tr>
<tr>
<td>Large CCO</td>
<td>3 (25)</td>
<td>4 (33)</td>
</tr>
<tr>
<td>Difference</td>
<td>1.981**</td>
<td>3.750***</td>
</tr>
<tr>
<td>Very Large MCO</td>
<td>3 (25)</td>
<td>4 (33)</td>
</tr>
<tr>
<td>Very Large CCO</td>
<td>0</td>
<td>5 (42)</td>
</tr>
<tr>
<td>Panel C – By type of charity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational MCO</td>
<td>37 (63)</td>
<td>9 (15)</td>
</tr>
<tr>
<td>Educational CCO</td>
<td>32 (54)</td>
<td>17 (29)</td>
</tr>
<tr>
<td>Difference</td>
<td>3.098***</td>
<td>2.171***</td>
</tr>
<tr>
<td>Welfare MCO</td>
<td>16 (59)</td>
<td>9 (34)</td>
</tr>
<tr>
<td>Welfare CCO</td>
<td>10 (37)</td>
<td>12 (44)</td>
</tr>
<tr>
<td>Difference</td>
<td>1.978*</td>
<td>2.337***</td>
</tr>
<tr>
<td>International Aid MCO</td>
<td>5 (56)</td>
<td>2 (22)</td>
</tr>
<tr>
<td>International Aid CCO</td>
<td>3 (33)</td>
<td>4 (45)</td>
</tr>
<tr>
<td>Place of worship MCO</td>
<td>21 (75)</td>
<td>2 (7)</td>
</tr>
<tr>
<td>Place of worship CCO</td>
<td>17 (61)</td>
<td>7 (85)</td>
</tr>
<tr>
<td>Difference</td>
<td>2.742***</td>
<td>2.121**</td>
</tr>
</tbody>
</table>
Note: This table presents the relevance and timeliness of the charities sampled according to the number of charities and then the percentage in brackets (where appropriate). Panel A shows the results for the whole sample split according to religious group. Panel B shows the results for the sample split according to size of charity and religious group. Panel C shows the results for the sample split according to type of charity and religious group. Those results which show a significant difference are in Bold.

1The Independent T-test results are shown here. Significance: * 10% level, ** 5% level, ***1% level.

2This column shows the number of incomplete TARs which were discounted when analysing the relevance of the reports some charities (the majority of which were small Muslim charities), as some charities did not submit a complete TAR and only submitted the legal information required by the SORP.

*See Table 2 for definitions of T1, T2 and T3.
Furthermore, panel C column 1A suggests that welfare (59%) and place of worship (75%) MCOs provide significantly less comprehensive TARs, compared to their Christian counterparts (welfare 37%, place of worship 61%). No Muslim welfare or place of worship charity had a TAR which can be classed as comprehensive. Similarly, panel C column 1B suggests educational MCOs (37%) have significantly more TARs classed as very poor in terms of presentation compared to CCOs (16%). A possible reason for educational and place of worship charities having less comprehensive and poorly presented TARs may be attributed to their small size.

**Timeliness:** The timeliness (see column 2) of the TARs was examined according to its external timeliness (see column 2A), i.e. the total time taken for TARs to be submitted and the internal timeliness (see column 2B). In terms of external timeliness, as indicated in panel A, MCOs were found to take significantly longer (panel A, column 2A) in submitting their reports to the Charity Commission and significantly more MCOs compared to the CCOs were late in submitting their reports (panel A, column 2A). This significant difference is mainly attributable to small sized place of worship MCOs, who took significantly longer to submit post the deadline date (panel C, column 2A). It seems these types of MCOs need to be more carefully monitored by the Charity Commission to ensure they submit the TARs on time.

As for internal timeliness, the longest period of time was taken by charity trustees to sign off the accounts for both types of RCOs, with MCOs taking significantly longer compared to their Christian counterpart (see T1 in column 2B). This can be mostly attributed to Muslim place of worship charities (panel C, column 2B). In both RCOs,
the time taken from trustee signoff to auditor signoff is short (see T2 in column 2B), suggesting charity trustees wait for the audit/independent examination to begin before signing the accounts. However, MCOs take significantly less time to submit reports once auditors/independent examiners have signed them off compared to CCOs (see T3 in column 2B). Ideally, this time period should be the shortest since once all the signatures have been completed, the accounts should be submitted straight away, yet the findings did not reflect this. This is indicative of charities not realising the importance of prompt submission of charity accounts and TARs. The findings also suggest the Charity Commission may need to do more with small mosques to raise awareness on the importance of the TAR and timely submission, or provide incentives for timely submission such as financial grants etc.

7.1.2 Accountability for resources, procedures, performance and leadership

Table 7.4 presents the overall instances of disclosure per charity for each type of accountability. Panel A shows the overall accountability. Panel B shows results split within size and panel C shows the results split within type of charity.
Table 7.4: Instances of disclosure per charity

<table>
<thead>
<tr>
<th>Panel A</th>
<th>Instances of disclosure: Mean of disclosure (i.e. average disclosure for each charity)</th>
<th>Differences in instances of disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MCO 2008</td>
<td>CCO 2008</td>
</tr>
<tr>
<td>Overall</td>
<td>14.8 (39)</td>
<td>21 (55)</td>
</tr>
<tr>
<td>Resource</td>
<td>9.03 (46)</td>
<td>11.80 (59)</td>
</tr>
<tr>
<td>Procedures</td>
<td>2.2 (37)</td>
<td>3.1 (51)</td>
</tr>
<tr>
<td>Performance</td>
<td>2.89 (29)</td>
<td>5.18 (52)</td>
</tr>
<tr>
<td>Leadership</td>
<td>0.6 (30)</td>
<td>1 (50)</td>
</tr>
</tbody>
</table>

Panel B

<table>
<thead>
<tr>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
</tr>
<tr>
<td>Medium</td>
</tr>
<tr>
<td>Large</td>
</tr>
<tr>
<td>Very Large</td>
</tr>
</tbody>
</table>

Procedures

| Small | 1.83 (30)                          | 2.75 (46)                            | 0.806    | .000  |
| Medium | 2.4 (40)                          | 3.07 (51)                            | 1.802    | .077  |
| Large | 2.33 (39)                          | 3.83 (64)                            | 2.026    | .055  |
| Very Large | 4 (67)                          | 3.9 (65)                            | 0.178    | .860  |

Performance

| Small | 2.08 (21)                          | 4.61 (46)                            | 6.425    | .000  |
| Medium | 3.4 (31)                          | 5.30 (53)                            | 2.998    | .044  |
| Large | 3.59 (36)                          | 6.25 (63)                            | 2.384    | .026  |
| Very Large | 5.67 (57)                         | 7.08 (71)                            | 1.780    | .089  |

Leadership

| Small | 0.46 (23)                          | 0.83 (41)                            | 2.360    | .010  |
| Medium | 0.53 (27)                          | 0.93 (47)                            | 1.881    | .065  |
| Large | 0.75 (38)                          | 1.5 (75)                             | 2.367    | .027  |
| Very Large | 1.42 (71)                        | 1.65 (83)                            | 1.265    | .219  |

Panel C

<table>
<thead>
<tr>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational</td>
</tr>
<tr>
<td>Place of Worship</td>
</tr>
<tr>
<td>Welfare</td>
</tr>
<tr>
<td>International Aid</td>
</tr>
</tbody>
</table>

Procedures

| Educational | 2.27 (38)                          | 2.96 (49)                            | 2.541    | .012  |
| Place of Worship | 1.29 (21)                        | 2.93 (48)                            | 3.968    | .000  |
| Welfare     | 2.78 (46)                          | 3.11 (52)                            | 0.934    | .354  |
| International Aid | 3.22 (54)                        | 3.22 (54)                            | 0.912    | .375  |

Performance

| Educational | 2.97 (30)                          | 5.02 (51)                            | 4.213    | .000  |
| Place of Worship | 1.97 (20)                        | 4.46 (47)                            | 4.051    | .000  |
| Welfare     | 3.41 (34)                          | 5.70 (57)                            | 3.702    | .001  |
| International Aid | 3.78 (38)                        | 6.89 (70)                            | 2.583    | .020  |

Leadership

| Educational | 0.59 (30)                          | 0.89 (45)                            | 1.835    | .069  |
| Place of Worship | 0.43 (21)                        | 0.89 (45)                            | 2.030    | .048  |
| Welfare     | 0.7 (35)                           | 1.26 (63)                            | 2.570    | .013  |
| International Aid | 0.89 (44)                        | 1.44 (61)                            | 1.562    | .138  |
Note: This table shows the mean level of disclosure by each charity within each type of accountability and in brackets this disclosure as a % of maximum disclosure within that theme. The differences in volume (mean) of disclosure tests for differences between the mean disclosure of Muslim vs. Christian charity organisations. Panel A shows the overall accountability. Panel B shows results split within size and panel C shows the results split within type of charity. *two-tailed. †Only the results for the t-test are shown here as the significance levels were found to be the same for the Mann Whitney U test.

Table 7.5 presents the percentage of charities disclosing a particular item within each theme and highlights any significant differences in disclosure between MCO and CCO TARs. Tables 7.4 and Table 7.5 are discussed in the following sub-sections.

Table 7.5: Percentage of charities disclosing each item

<table>
<thead>
<tr>
<th></th>
<th>1. Mean % of charities disclosing item</th>
<th>2. Significant differences in disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MCO 2008</td>
<td>CCO 2008</td>
</tr>
<tr>
<td><strong>Panel A: Resource Accountability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Theme A: Details of trustees, advisors and administration</strong></td>
<td>89</td>
<td>98</td>
</tr>
<tr>
<td>Registered name of charity (m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charity registration number/company reg. number (m)</td>
<td>89</td>
<td>98</td>
</tr>
<tr>
<td>Address of principal office/registered office (m)</td>
<td>88</td>
<td>93</td>
</tr>
<tr>
<td>Names of all trustees at date of report (m)</td>
<td>85</td>
<td>96</td>
</tr>
<tr>
<td>Name of chief executive</td>
<td>46</td>
<td>50</td>
</tr>
<tr>
<td>Name and address of auditors/independent examiner</td>
<td>78</td>
<td>84</td>
</tr>
<tr>
<td>Name and address of bankers</td>
<td>65</td>
<td>78</td>
</tr>
<tr>
<td>Name and address of solicitors</td>
<td>22</td>
<td>41</td>
</tr>
<tr>
<td>Name and Address of any other principle advisor</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>Reasons for non-disclosure provided</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Theme B: Information of structure, governance and management</strong></td>
<td>68</td>
<td>89</td>
</tr>
<tr>
<td>Nature of governing document (m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How charity is constituted (m)</td>
<td>70</td>
<td>89</td>
</tr>
<tr>
<td>Methods for recruitment and appointment of trustees (m)</td>
<td>46</td>
<td>70</td>
</tr>
<tr>
<td>Details of constitutional provisions relating to appointments (m)</td>
<td>29</td>
<td>56</td>
</tr>
<tr>
<td>Explanation of other bodies authorised to appoint trustees (m)</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Procedure for induction and training of trustees</td>
<td>17</td>
<td>42</td>
</tr>
<tr>
<td>Organisational structure of charity</td>
<td>39</td>
<td>67</td>
</tr>
<tr>
<td>Relationship with other affiliated charities</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>Relationship between charity and any subsidiaries/collaborators</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Statement of risk assessment</td>
<td>50</td>
<td>68</td>
</tr>
<tr>
<td><strong>Average mandatory disclosure</strong></td>
<td>63</td>
<td>78</td>
</tr>
<tr>
<td><strong>Average recommended disclosure</strong></td>
<td>31</td>
<td>48</td>
</tr>
<tr>
<td><strong>Average disclosure of process accountability</strong></td>
<td>45</td>
<td>59</td>
</tr>
</tbody>
</table>
Panel B: Procedural Accountability

**Theme C: Outline its objectives and mission**

<table>
<thead>
<tr>
<th>Summary of objectives of charity (m)</th>
<th>85</th>
<th>94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aims of charity and how it seeks to make a difference</td>
<td>46</td>
<td>79</td>
</tr>
<tr>
<td>Explanation of charities strategies for achieving objectives</td>
<td>47</td>
<td>68</td>
</tr>
<tr>
<td>Explanation of how these activities benefit the public</td>
<td>27</td>
<td>25</td>
</tr>
<tr>
<td>Statement on grant-making policies</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>Detailed role of volunteers</td>
<td>10</td>
<td>24</td>
</tr>
<tr>
<td><strong>Average mandatory disclosure</strong></td>
<td>85</td>
<td>94</td>
</tr>
<tr>
<td><strong>Average recommended disclosure</strong></td>
<td>28</td>
<td>42</td>
</tr>
<tr>
<td><strong>Average disclosure of performance accountability</strong></td>
<td>37</td>
<td>51</td>
</tr>
</tbody>
</table>

Panel C: Performance Accountability

**Theme D: Information on achievements and performance**

<table>
<thead>
<tr>
<th>Review of charitable activities undertaken (m)</th>
<th>67</th>
<th>89</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of measures used to assess performance</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Details of performance against fundraising activities</td>
<td>20</td>
<td>36</td>
</tr>
<tr>
<td>Explanation of impact on future income generation</td>
<td>20</td>
<td>63</td>
</tr>
<tr>
<td>Details of material investments held</td>
<td>9</td>
<td>32</td>
</tr>
<tr>
<td><strong>Average mandatory disclosure</strong></td>
<td>59</td>
<td>81</td>
</tr>
<tr>
<td><strong>Average recommended disclosure</strong></td>
<td>18</td>
<td>44</td>
</tr>
<tr>
<td><strong>Average disclosure of performance accountability</strong></td>
<td>26</td>
<td>52</td>
</tr>
</tbody>
</table>

**Theme E: The financial review**

<table>
<thead>
<tr>
<th>Policy on reserves (m)</th>
<th>59</th>
<th>81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Details of any deficits (m)</td>
<td>42</td>
<td>39</td>
</tr>
<tr>
<td>Principal funding sources</td>
<td>43</td>
<td>62</td>
</tr>
<tr>
<td>How expenditure has helped charity meet objectives</td>
<td>7</td>
<td>58</td>
</tr>
<tr>
<td>Investment policy and objectives inc. social, ethical, environmental considerations</td>
<td>18</td>
<td>51</td>
</tr>
<tr>
<td><strong>Average mandatory disclosure</strong></td>
<td>56</td>
<td>70</td>
</tr>
<tr>
<td><strong>Average recommended disclosure</strong></td>
<td>18</td>
<td>44</td>
</tr>
<tr>
<td><strong>Average disclosure of performance accountability</strong></td>
<td>26</td>
<td>52</td>
</tr>
</tbody>
</table>

Panel D: Leadership Accountability

**Theme F: Plans for future period**

<table>
<thead>
<tr>
<th>Future plans and objectives</th>
<th>41</th>
<th>61</th>
</tr>
</thead>
<tbody>
<tr>
<td>Details of planned activities</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td><strong>Average mandatory disclosure</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Average recommended disclosure</strong></td>
<td>31</td>
<td>51</td>
</tr>
<tr>
<td><strong>Average disclosure of policy accountability</strong></td>
<td>31</td>
<td>51</td>
</tr>
</tbody>
</table>

**Note:** This table shows disclosure as the percentage of charities disclosing a particular item within each theme. Those results which show a significant difference between the accountability of MCOs and CCOs TARs have been shown according to both the Independent Samples T-test and the Mann Whitney U Test. Significance: * 10% level, ** 5% level, *** 1% level. (M) = mandatory item

7.1.2.1 Accountability for resources

Accountability for resources was evaluated against compliance to themes A (administrative information) and B (information on structure and governance) of the SORP framework. The majority of both RCOs provided information related to this
type of accountability. This may be attributed to the majority of charities providing a one page report outlining their ‘legal and administrative information’, which contained the majority of disclosure required within theme A. These findings mirror those of Connolly and Hyndman (2003; 2004) who found administrative information to be more heavily disclosed than information pertaining to performance achievements. From Panel A, of Table 7.4, it can be seen that CCOs provide significantly more disclosure than MCOs on this type of accountability. This could be linked to the age of the charities as CCOs have been established for much longer in the UK than MCOs. Panel B of Table 7.4 suggests small and medium CCOs provide significantly more disclosure than their Muslim counterparts. Similarly, Panel C of Table 7.4 shows educational and place of worship CCOs disclose significantly more resource accountability than their Muslim counterparts.

Table 7.5, Panel A suggests the majority of charities disclosed the charity name, registration number, registered address, names of trustees and the name and address of auditors/independent examiners. The greatest difference between MCOs and CCOs is related to disclosure of solicitor details (a recommended item) possibly due to the majority of MCOs not having a regular legal advisor. Furthermore, Theme A, (panel A of Table 7.5), shows how less than half of the MCOs reports examined provided any information on how trustees were recruited and appointed, a mandatory requirement, and less than one fifth provided the recommended information on trustee induction and training. Both these items are key issues outlined within the Charity Commissions (2010) guide ‘Hallmarks of an effective charity’.
Moreover, both groups of RCOs seem less comfortable in disclosing information related to the governance of the charities, with the average MCO disclosing less than 55% of items required within this theme (see theme B, end of panel A, column 1 of Table 7.5). The greatest difference in disclosure was on information pertaining to the charity’s organisational structure, another recommended item. This is suggestive of MCOs having either more informal organisational structures (Dhanani, 2009) or a preparer of the TAR who is not familiar with the organisational structure, thus pointing to a lack of communication or transparency within the charity itself (Samkin and Schneider, 2010).

7.1.2.2 Accountability for procedures

*Accountability for procedures* was evaluated against compliance to theme C (objectives and mission) of the SORP framework. As can be seen from Panel A of Table 4, MCOs provide significantly lower levels of disclosure compared to CCOs. Panel B, of Table 7.4 suggests this difference is not significant for very large organisations, possibly due to such organisations having better performance measurement systems. They are therefore better able to keep track of their goals and activities. In addition, small CCOs (panel B, Table 7.4) and Christian places of worship (panel C, Table 7.4) provide significantly more *procedural accountability* disclosure than similar MCOs.

Panel B of Table 7.5 suggests the majority of charities provided a summary of their objectives (mandatory) but less information was provided on the recommended items. In fact, only a quarter of the charities across the sample provided any indication of how the activities benefit the public. In addition, all charities are reliant
on volunteers to some extent but the results (column 1, panel B) indicate that less than 10% of MCOs and only a quarter of CCOs provide any information on the role played by volunteers within their organisation. Such detailed information requires exact knowledge of how the charity operates and the results are suggestive of charity TARs being prepared by external parties to the charity, such as consultants and external accountants, rather than through their internal processes.

7.1.2.3 Accountability for performance

This type of accountability was evaluated against compliance to themes D (activities and achievements) and E (financial review). Panel A of Table 7.4 indicates performance accountability to be the least disclosed accountability by MCOs compared to the other types of accountability. Panel B and C, of Table 7.4 suggests that all size and type of MCOs provide significantly lower levels of performance disclosure compared to CCOs. With Mosques providing the lowest levels of disclosure compared to all the other types of RCOs. This may possibly be due to the ‘religious’ nature of mosques, as they may not like to promote what they are doing due to issues of humility.

Panel C of Table 7.5 suggests the lowest frequency of disclosure was found for information related to achievements and activities and financial review, suggesting that charities like to mention this aspect but they do not have much to say on it. In fact, only 18% of recommend items compared to 56% mandatory items were disclosed by MCOs (end of panel C, column 1 of Table 7.5). The greatest significant difference in disclosure within this type of accountability is related to how expenditure has helped charity meet objectives with 51% more CCOs providing this
information compared to MCOs (panel C, column 1 of Table 7.4). Neither group of RCOs provided much information on measures used to assess performance, a recommended item, possibly due to the less sophisticated performance management and governance structures within RCOs (Torry, 2005).

Furthermore, panel C of Table 7.5 suggests that less than half of the MCOs provided any details of deficits (a mandatory requirement) or information on investment policies. Given that RCOs are major investors with sometimes substantial investment volumes (Louche et al., 2012), they should take this opportunity to make their stakeholders aware of their investment practices, so that funders can better appreciate what happens to the funds that are not directly used in charitable endeavours.

### 7.1.2.4 Accountability for leadership

This type of accountability was evaluated against theme F of the SORP framework. This theme is important as discussions on future plans are important in ensuring sustainability and also in allowing comparisons to be made with previous years, to see if objectives have been met, thereby leading to aspects of leadership accountability being fulfilled. Furthermore, disclosure of such information can be classed as moderately to very important for charity stakeholders (Connolly and Hyndman, 2013). Table 7.4, Panel A shows that CCOs provide significantly greater levels of disclosure on this accountability compared to MCOs, however the levels of disclosure are still less than 50%.

Table 7.5 Panel D, shows how there are only two categories within this theme and less than 41% of MCOs and 61% CCOs failed to provide any disclosure on these
items, probably as both items were recommended and because RCOs may not feel comfortable disclosing information which they may be held to account. Column 2, panel D suggests a greater number of CCOs disclosed each item compared to MCOs. Nevertheless, this is an improvement compared to the findings by Dhanani (2009), who found only a third of charities providing information on future plans.

7.1.3 Summary of communicated compliance accountability of MCO and CCO TARs

These results highlight concerns about the communicated compliance accountability of RCO TARs. The timeliness of the reports need to be improved as 20% of charities submitted reports late suggesting a lax attitude towards reporting requirements. These findings are significantly worse than those found by the Charity Commission (2004). Furthermore, Table 7.4 shows MCO TARs were less accountable than CCO TARs with the latter providing more disclosure across all themes compared to MCOs. In addition, all RCOs prefer to disclose mandatory items with only a small minority providing full accountability through recommended disclosure. Ideally, mandatory disclosure should be 100% if charities are fully compliant but this study shows only 70% and 35% of mandatory and recommended items were disclosed respectively by the RCOs in the sample.

Moreover, the charity TARs mostly disregard judgment based disclosure and do not disclose the whole range of accountability as required by the SORP framework. In particular, there is a lack of information on objectives and public benefit (procedural accountability) and a poor explanation of activities and spending (performance and leadership accountability). In relation to procedural accountability, the lack of
disclosure could be linked to a lack of awareness of the regulations surrounding charity reporting on the part of both the trustees and preparers. In relation to performance and leadership accountability, trustees may simply not know enough of the activities of the organisations to report them. This may be indicative of poor performance management systems within the organisation.

Size seems to play an important part in the differences in levels of disclosure. These findings mirror prior studies by Williams and Palmer (1998) and Connolly and Hyndman (2004) who also found evidence of better disclosure by larger charities. Meek et al. (1995) argue that larger organisations have lower information production costs and more resources available in terms of personnel to prepare reports and compile performance figures for disclosure. Due to these additional resources, larger organisations may also have experienced consultants able to provide tailored detailed technical advice (Gibbins et al., 1990), such as in-house account preparers, who are more familiar with how the organisation operates and who work solely on recording and collating data for the annual reports. This makes their reports much more comprehensive than those organisations which rely on external preparers who only visit the organisation once a year.

Furthermore, smaller and medium sized charities often employ external parties to prepare and verify reports as they do not have the resources to prepare reports in house. This means the majority of charities have preparers and verifiers who predominantly deal with the business world and only prepare one-off charity reports. This could explain the lack of compliance and transparency found in the reports and the subsequent willingness of verifiers to sign off un-compliant reports. Possibly
pointing to the majority of verifiers not being fully clear on the actual requirements linked to charity TARs.

On the other hand, the type of charity does not seem to have a major effect on disclosure. This is especially true in relation to recommended disclosure items where all types of RCOs provide similar levels of disclosure. By and large, humanitarian charities provide the most comprehensive disclosure across the themes with places of worship providing the least. Again this could be linked to their size, as international aid organisations tend to be very large in size and the majority of the places of worship are small in size.

The following section explores research objective one b and presents any changes that have been found in the communicated compliance accountability of MCO TARs from 2008 to 2010.

7.2 **Comparison of communicated compliance accountability of MCOs for 2008 and 2010**

7.2.1 **Accountability for probity**

Table 7.6 summarises the findings in relation to the reliability of the TARs and highlights any changes that have happened from 2008 to 2010. Similar to Table 7.1, Table 7.6 presents the reliability of the charities according to number of charity and percentage in brackets. The TARs were ‘below expected’ if they were likely to have an audit but had an independent examination instead. They were considered ‘as expected’ if they had the required examination and considered ‘above expected’ if they had an audit when an independent examination was required Columns 1,2,3 and
4 show the results for the 2010 TARs and Column 5 highlights changes that have happened over the two periods examined. As with previous analysis, the independent T-test has been conducted and significant results are shown in bold.

From panel A and column 3, it can be seen that the verification of the majority of charities by an external party was as expected (84%), with 15% being above expectation and 14% not having any form of verification (column 2). A closer examination (panel B, column 2) reveals that 33% and 8% of medium and small MCOs respectively, had an audit conducted when an independent examination was required. This is an increase by 5.4% for small charities and decrease by 6.7% for medium sized charities compared to 2008 (panel B, column 5). The increase could be reflective of smaller MCOs placing more confidence in an audit. On the other hand, given the tough financial climate, medium sized charities that were previously having audits, may have decided to forgo the more expensive audit in favour of the less expensive independent examination.

According to column 5, which looked at the change in reliability between 2008 and 2010, the overall number of charities being audited increased by 1.39% and charities not externally verified at all dropped by 0.72%. Although not a huge increase, this is nevertheless a positive sign that MCOs are beginning to take the external verification requirements more seriously. Panel B column 5, finds very large charities have the most consistent reports when it comes to reliability as no changes have been found over the two years.
### Table 7.6  Reliability of MCO TARs for 2010

<table>
<thead>
<tr>
<th>Panel A</th>
<th>1. Expected reliability</th>
<th>2. Actual reliability</th>
<th>3. Overall reliability&lt;sup&gt;1&lt;/sup&gt;</th>
<th>4. Total</th>
<th>5. % Change in reliability from 2008 to 2010&lt;sup&gt;#&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IE&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Audit</td>
<td>IE&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Audit</td>
<td>None*</td>
</tr>
<tr>
<td>Overall</td>
<td>90 (78)</td>
<td>25 (22)</td>
<td>60 (53)</td>
<td>39 (34)</td>
<td>16 (14)</td>
</tr>
<tr>
<td>Panel B – By size of charity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>60 (100)</td>
<td>0</td>
<td>40 (67)</td>
<td>5 (8)</td>
<td>15 (25)</td>
</tr>
<tr>
<td>Medium</td>
<td>30 (100)</td>
<td>0</td>
<td>19 (63)</td>
<td>10 (33)</td>
<td>1 (4)</td>
</tr>
<tr>
<td>Large</td>
<td>0</td>
<td>14 (100)</td>
<td>1 (7)</td>
<td>19 (93)</td>
<td>0</td>
</tr>
<tr>
<td>Very Large</td>
<td>0</td>
<td>11 (100)</td>
<td>0</td>
<td>11 (100)</td>
<td>0</td>
</tr>
<tr>
<td>Panel C – By type of charity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational</td>
<td>46 (78)</td>
<td>13 (22)</td>
<td>31 (53)</td>
<td>21 (36)</td>
<td>7 (12)</td>
</tr>
<tr>
<td>Welfare</td>
<td>17 (74)</td>
<td>6 (26)</td>
<td>12 (52)</td>
<td>9 (39)</td>
<td>2 (9)</td>
</tr>
<tr>
<td>International Aid</td>
<td>5 (56)</td>
<td>4 (44)</td>
<td>4 (44)</td>
<td>4 (44)</td>
<td>1 (11)</td>
</tr>
<tr>
<td>Mosque</td>
<td>22 (92)</td>
<td>2 (8)</td>
<td>13 (54)</td>
<td>5 (21)</td>
<td>6 (25)</td>
</tr>
</tbody>
</table>

**Note:** This table presents the reliability of the charities sampled according to number of charity and % in brackets. Column 1 shows the results for 2010 TARs and Column 2 highlights changes that have happened over the two periods examined. 

#The Independent T-test has been conducted and significant results are shown in bold. Significance: *10% level. 

*None signifies the number of TARs that had neither an audit nor an independent examination.  
<sup>1</sup>Overall reliability of those TARs examined, <sup>2</sup>Independent examination, <sup>3</sup>Below expected, <sup>4</sup>As expected, <sup>5</sup>Above expected.
Based on panel C, column 3, it can be seen that although the only charity below expectation in terms of *reliability* was an educational charity, the majority of cases (17%) with above expected reliability are also educational charities. Educational charities, usually madrassahs (religious schools), have only recently begun to get themselves registered due to recent government legislation. It seems they have not fully grasped the reporting and verification requirements incumbent upon them.

As for cases with no external verification at all (panel C, column 2), the majority (21%) comprised of mosques, followed by international aid (17%) charities. Furthermore, it can be seen from panel C, column 5, that the majority (11%) of international aid charities (typically larger in size) not being externally verified has dropped in 2010 but mosques (typically smaller in size) have had an increase in TARs (7%) not being externally verified. This suggests that perhaps the non enforcement of mandatory compliance to reporting requirements by the Charity Commission is having a negative effect on some mosques which are not seeing the submission of external reports as important to them. Despite the mosques being accused of nurturing terrorism, they do not seem to want to be transparent.

In addition to these findings, a number of observations in relation to *reliability* are worth highlighting. A total of six reports had auditors/independent examiners signed the reports before the trustees had signed off the reports and in two instances, the trustees had signed the reports prior to the year end. In addition, nineteen of the charities failed to submit their TARs with their annual reports, twenty-four failed to provide their trustee signature/date on the reports and thirty-two failed to provide a
signature or date on the verification report. These findings are shown in Table 7.7 below:

<table>
<thead>
<tr>
<th>Table 7.7</th>
<th>Omissions in 2008 and 2010 MCO TARs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>No TAR submitted</td>
<td>9</td>
</tr>
<tr>
<td>Un-dated/ unsigned TARs</td>
<td>11</td>
</tr>
<tr>
<td>Undated/ unsigned examination reports</td>
<td>15</td>
</tr>
</tbody>
</table>

This table suggests that instead of the expected improvements, the situation has actually worsened in 2010 in terms of reliability. This is more serious from the Shariah perspective which emphasises the role of accountability by trustees in protecting the interest of the ummah. Accountants and examiners have greater responsibilities for Muslim charities due to the emphasis placed in the Shari’ah on refraining from khiyana\(^{38}\) (Alam, 1998). However, the fact that so many non-compliant reports were prepared\(^{39}\) and signed, suggest that MCOs need to be more careful in ensuring that the people they appoint to monitor and prepare the accounts are aware of the requirements in relation to reporting and disclosure. MCOs need to have examiners/preparers that are aware of how they operate and are familiar with the nuances of religious charity reporting.

Table 7.8 summarises the findings in relation to the relevance and timeliness of the 2010 TARs and highlights any significant changes that have occurred from 2008 to 2010. The findings suggest that MCOs’ TARs have not changed much in the two years.

\(^{38}\) This includes all types of fraud, embezzlement, falsification of accounts, bogus claims, Zakat evasion, misstatement of accounts, window dressing etc.

\(^{39}\) It is often the accountant who is responsible for the preparation of the trustee’s annual report in charities.
**Table 7.8** Relevance and Timeliness of 2010 MCO TARs

| Panel A | Combined 2010 | Number (as %) | A: Comprehensiveness (%) | B: Presentation Quality (%) | C: Total Incomplete Total Time No. late Days Late A. External B. Internal*
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Poor Adeq. Good</td>
<td>Very Poor Adeq. Good</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel B</td>
<td>By size of charity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>37 (62)</td>
<td>8 (13)</td>
<td>1 (2)</td>
<td>19 (32)</td>
<td>23 (38)</td>
</tr>
<tr>
<td>Medium</td>
<td>18 (60)</td>
<td>7 (29)</td>
<td>5 (17)</td>
<td>9 (30)</td>
<td>14 (47)</td>
</tr>
<tr>
<td>Large</td>
<td>4 (29)</td>
<td>8 (57)</td>
<td>2 (14)</td>
<td>2 (14)</td>
<td>10 (71)</td>
</tr>
<tr>
<td>Very Large</td>
<td>0</td>
<td>5 (45)</td>
<td>6 (55)</td>
<td>0</td>
<td>4 (36)</td>
</tr>
<tr>
<td>Change from 2008 to 2010</td>
<td>- (*)</td>
<td>- (*)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel C</td>
<td>According to Type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational</td>
<td>34 (58)</td>
<td>9 (15)</td>
<td>8 (14)</td>
<td>17 (29)</td>
<td>26 (44)</td>
</tr>
<tr>
<td>Welfare</td>
<td>9 (39)</td>
<td>9 (39)</td>
<td>3 (13)</td>
<td>5 (22)</td>
<td>10 (43)</td>
</tr>
<tr>
<td>Change from 2008 to 2010</td>
<td>- (**)</td>
<td>+(*)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Aid</td>
<td>2 (22)</td>
<td>5 (56)</td>
<td>2 (22)</td>
<td>2 (22)</td>
<td>3 (33)</td>
</tr>
<tr>
<td>Mosque</td>
<td>14 (58)</td>
<td>5 (21)</td>
<td>1 (4)</td>
<td>6 (25)</td>
<td>12 (50)</td>
</tr>
<tr>
<td>Change from 2008 to 2010</td>
<td>- (*)</td>
<td>- (*)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** This table presents the relevance and timeliness of the charities sampled according to the number of charities and then the percentage in brackets of total sample (where appropriate). Panel A shows the results for 2010. Panel B shows the results split according to size of charity. Panel C shows the results split according to type of charity. Those results which show a significant change in relevance are shown in Bold. (-) implies a decrease from 2008 to 2010 and (+) implies an increase from 2008 to 2010.

1The Independent T-test results are shown here. Significance: *10% level, **5% level, ***1% level.

2This column shows the number of incomplete TARs which were discounted when analysing the relevance of the reports some charities (the majority of which were small Muslim charities), as some charities did not submit a complete TAR and only submitted the legal information required by the SORP.

*See Table 2 for definitions of T1, T2 and T3.
**Relevance:** In terms of comprehensiveness, 52% of TARs were classed as poor and only 12% regarded as good with marginal improvements in 2010 (panel A, column 1A). Panel B column 1A indicates that very large charities also had significantly less TARs classed as poor in 2010 (0%) compared to 2008 (25%). This is a positive indication that very large charities, who have the resources to provide comprehensive TARs, are approaching TAR production more responsibly. Panel C, column 1A shows mosques have the greatest percentage of TARs classed as poor but significant improvement has been made in the 2010 TARs, with a drop from 78% to 58%. Again, this is a positive indication the mosques are viewing the TAR more seriously in 2010. In contrast, international aid charities, the majority of which are large or very large, have the greatest number of TARs being classed as good (panel C, column 1A). Similar findings can be observed in terms of the presentation of the TARs (column 1B).

**Timeliness:** With regards to external timeliness, panel A shows that although the number of charities submitting late has dropped from 2008 to 2010 by 5 days, the total time taken for the charities to submit their reports has increased by 43 days in 2010. MCOs are therefore taking the maximum time allowed to submit their reports (i.e. 10 months).

A possible reason for both small charities and mosques not placing emphasis on the probity of the TARs is probably due to these types of organisations often having less funders, who are mostly private donors, that are less likely to make formal reporting demands, leading to such charities not placing much emphasis on their external reporting.
7.2.2 Accountability for resources, procedures, performance and leadership

Table 7.9 presents the percentage of charities disclosing a particular item within each theme and highlights any significant differences in disclosure from 2008 to 2010 in bold. For comparison purposes with 2008 no distinction has been made between the requirements of small/medium and large/very large charities for the year end 2010. However, the change in rules has been considered in discussion of findings.

Table 7.9: Percentage of charities disclosing each item

<table>
<thead>
<tr>
<th>Panel A: Resource Accountability</th>
<th>1. Mean % of charities disclosing item</th>
<th>2. % difference between 2008 &amp; 2010 TARs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theme A: Details of trustees, advisors and administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered name of charity (m)</td>
<td>89</td>
<td>91</td>
</tr>
<tr>
<td>Charity registration number/company reg. number (m)</td>
<td>89</td>
<td>91</td>
</tr>
<tr>
<td>Address of principal office/registered office (m)</td>
<td>88</td>
<td>90</td>
</tr>
<tr>
<td>Names of all trustees at date of report (m)</td>
<td>85</td>
<td>87</td>
</tr>
<tr>
<td>Name of chief executive</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>Name and address of auditors/independent examiner</td>
<td>78</td>
<td>77</td>
</tr>
<tr>
<td>Name and address of bankers</td>
<td>65</td>
<td>68</td>
</tr>
<tr>
<td>Name and address of solicitors</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>Name and Address of any other principle advisor</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Reasons for non-disclosure provided</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Theme B: Information of structure, governance and management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature of governing document (m)</td>
<td>68</td>
<td>71</td>
</tr>
<tr>
<td>How charity is constituted (m)</td>
<td>70</td>
<td>65</td>
</tr>
<tr>
<td>Methods for recruitment and appointment of trustees (m)</td>
<td>46</td>
<td>53</td>
</tr>
<tr>
<td>Details of constitutional provisions relating to appointments (m)</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Explanation of other bodies authorised to appoint trustees (m)</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Procedure for induction and training of trustees</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>Organisational structure of charity</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>Relationship with other affiliated charities</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Relationship between charity and any subsidiaries/ collaborators</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Statement of risk assessment</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td><strong>Average mandatory disclosure</strong></td>
<td>63</td>
<td>65</td>
</tr>
<tr>
<td><strong>Average recommended disclosure</strong></td>
<td>31</td>
<td>33</td>
</tr>
<tr>
<td><strong>Average disclosure of process accountability</strong></td>
<td>45</td>
<td>47</td>
</tr>
</tbody>
</table>

Panel B: Procedural Accountability

**Theme C: Outline its objectives and mission**

<p>| Summary of objectives of charity (m) | 85 | 83 | -2 |
| Aims of charity and how it seeks to make a difference | 46 | 60 | +14** |</p>
<table>
<thead>
<tr>
<th>Topic</th>
<th>MCOs</th>
<th>CCOs</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation of charities strategies for achieving objectives</td>
<td>47</td>
<td>42</td>
<td>-5</td>
</tr>
<tr>
<td>Explanation of how these activities benefit the public</td>
<td>27</td>
<td>27</td>
<td>-</td>
</tr>
<tr>
<td>Statement on grant-making policies</td>
<td>8</td>
<td>6</td>
<td>-2</td>
</tr>
<tr>
<td>Detailed role of volunteers</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Average mandatory disclosure</td>
<td>85</td>
<td>83</td>
<td>-2</td>
</tr>
<tr>
<td>Average recommended disclosure</td>
<td>28</td>
<td>29</td>
<td>+1</td>
</tr>
<tr>
<td>Average disclosure of performance accountability</td>
<td>37</td>
<td>38</td>
<td>+1</td>
</tr>
</tbody>
</table>

Panel C: Performance Accountability

**Theme D: Information on achievements and performance**

<table>
<thead>
<tr>
<th>Activity</th>
<th>MCOs</th>
<th>CCOs</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of charitable activities undertaken (m)</td>
<td>67</td>
<td>70</td>
<td>+3</td>
</tr>
<tr>
<td>Summary of measures used to assess performance</td>
<td>5</td>
<td>8</td>
<td>+3</td>
</tr>
<tr>
<td>Details of performance against fundraising activities</td>
<td>20</td>
<td>35</td>
<td>+15**</td>
</tr>
<tr>
<td>Explanation of impact on future income generation</td>
<td>20</td>
<td>36</td>
<td>+16***</td>
</tr>
<tr>
<td>Details of material investments held</td>
<td>9</td>
<td>8</td>
<td>-1</td>
</tr>
</tbody>
</table>

**Theme E: The financial review**

<table>
<thead>
<tr>
<th>Activity</th>
<th>MCOs</th>
<th>CCOs</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy on reserves (m)</td>
<td>59</td>
<td>63</td>
<td>+4</td>
</tr>
<tr>
<td>Details of any deficits (m)</td>
<td>42</td>
<td>34</td>
<td>-8</td>
</tr>
<tr>
<td>Principal funding sources</td>
<td>43</td>
<td>49</td>
<td>+6</td>
</tr>
<tr>
<td>How expenditure has helped charity meet objectives</td>
<td>7</td>
<td>43</td>
<td>+36****</td>
</tr>
<tr>
<td>Investment policy and objectives inc. social, ethical, environmental considerations</td>
<td>18</td>
<td>21</td>
<td>+3</td>
</tr>
<tr>
<td>Average mandatory disclosure</td>
<td>56</td>
<td>56</td>
<td>-</td>
</tr>
<tr>
<td>Average recommended disclosure</td>
<td>18</td>
<td>29</td>
<td>+11**</td>
</tr>
<tr>
<td>Average disclosure of performance accountability</td>
<td>26</td>
<td>37</td>
<td>+11**</td>
</tr>
</tbody>
</table>

Panel D: Leadership Accountability

**Theme F: Plans for future period**

<table>
<thead>
<tr>
<th>Activity</th>
<th>MCOs</th>
<th>CCOs</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future plans and objectives</td>
<td>41</td>
<td>44</td>
<td>+3</td>
</tr>
<tr>
<td>Details of planned activities</td>
<td>20</td>
<td>29</td>
<td>+9*</td>
</tr>
<tr>
<td>Average mandatory disclosure</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Average recommended disclosure</td>
<td>31</td>
<td>37</td>
<td>+6</td>
</tr>
<tr>
<td>Average disclosure of policy accountability</td>
<td>31</td>
<td>37</td>
<td>+6</td>
</tr>
</tbody>
</table>

**Note:** This table shows disclosure as the percentage of charities disclosing a particular item within each theme. Those results which show a significant difference between the accountability of MCOs and CCOs TARs have been shown according to both the Independent Samples T-test and the Mann Whitney U Test. Significance: *10% level, **5% level, ***1% level.

(M) = mandatory item

Table 7.10 presents the overall instances of disclosure per charity for each type of accountability and highlights any significant differences in disclosure from 2008 to 2010 in bold.
Table 7.10: Instances of disclosure per charity

<table>
<thead>
<tr>
<th>Instances of disclosure:</th>
<th>Mean of disclosure (i.e. average disclosure for each charity)</th>
<th>Differences in instances of disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MCO 2008</td>
<td>MCO 2010</td>
</tr>
<tr>
<td><strong>Panel A</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td>14.8 (39)</td>
<td>16.1 (42)</td>
</tr>
<tr>
<td>Procedures</td>
<td>9.03 (46)</td>
<td>9.5 (48)</td>
</tr>
<tr>
<td>Performance</td>
<td>2.2 (37)</td>
<td>2.3 (38)</td>
</tr>
<tr>
<td>Leadership</td>
<td>2.89 (29)</td>
<td>3.64 (36)</td>
</tr>
<tr>
<td></td>
<td>0.6 (30)</td>
<td>0.7 (35)</td>
</tr>
<tr>
<td><strong>Panel B</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>7.71 (39)</td>
<td>7.5 (38)</td>
</tr>
<tr>
<td>Medium</td>
<td>9.5 (48)</td>
<td>10.47 (53)</td>
</tr>
<tr>
<td>Large</td>
<td>11.58 (53)</td>
<td>12.15 (61)</td>
</tr>
<tr>
<td>Very Large</td>
<td>13.92 (70)</td>
<td>13.63 (68)</td>
</tr>
<tr>
<td>Procedures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>1.83 (30)</td>
<td>1.70 (28)</td>
</tr>
<tr>
<td>Medium</td>
<td>2.4 (40)</td>
<td>2.37 (40)</td>
</tr>
<tr>
<td>Large</td>
<td>2.33 (39)</td>
<td>3.21 (54)</td>
</tr>
<tr>
<td>Very Large</td>
<td>4.67 (67)</td>
<td>4 (67)</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>2.08 (21)</td>
<td>2.48 (25)</td>
</tr>
<tr>
<td>Medium</td>
<td>3.4 (31)</td>
<td>3.97 (40)</td>
</tr>
<tr>
<td>Large</td>
<td>3.59 (36)</td>
<td>5.5 (55)</td>
</tr>
<tr>
<td>Very Large</td>
<td>5.67 (57)</td>
<td>6.64 (66)</td>
</tr>
<tr>
<td>Leadership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>0.46 (23)</td>
<td>0.5 (25)</td>
</tr>
<tr>
<td>Medium</td>
<td>0.53 (27)</td>
<td>0.8 (40)</td>
</tr>
<tr>
<td>Large</td>
<td>0.75 (38)</td>
<td>1.07 (54)</td>
</tr>
<tr>
<td>Very Large</td>
<td>1.42 (71)</td>
<td>1.36 (68)</td>
</tr>
<tr>
<td><strong>Panel C</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational</td>
<td>8.78 (44)</td>
<td>9.11 (46)</td>
</tr>
<tr>
<td>Place of Worship</td>
<td>7.93 (40)</td>
<td>8.59 (43)</td>
</tr>
<tr>
<td>Welfare</td>
<td>10 (50)</td>
<td>10.3 (52)</td>
</tr>
<tr>
<td>International Aid</td>
<td>11.2 (56)</td>
<td>11.45 (57)</td>
</tr>
<tr>
<td>Procedures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational</td>
<td>2.27 (38)</td>
<td>2.14 (36)</td>
</tr>
<tr>
<td>Place of Worship</td>
<td>1.29 (21)</td>
<td>1.50 (25)</td>
</tr>
<tr>
<td>Welfare</td>
<td>2.78 (46)</td>
<td>2.96 (49)</td>
</tr>
<tr>
<td>International Aid</td>
<td>3.22 (54)</td>
<td>3.56 (59)</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational</td>
<td>2.97 (30)</td>
<td>3.62 (36)</td>
</tr>
<tr>
<td>Place of Worship</td>
<td>1.97 (20)</td>
<td>2.58 (26)</td>
</tr>
<tr>
<td>Welfare</td>
<td>3.41 (34)</td>
<td>4.17 (42)</td>
</tr>
<tr>
<td>International Aid</td>
<td>3.78 (38)</td>
<td>5.11 (51)</td>
</tr>
<tr>
<td>Leadership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational</td>
<td>0.59 (30)</td>
<td>0.69 (35)</td>
</tr>
<tr>
<td>Place of Worship</td>
<td>0.43 (21)</td>
<td>0.5 (25)</td>
</tr>
<tr>
<td>Welfare</td>
<td>0.7 (35)</td>
<td>0.83 (42)</td>
</tr>
<tr>
<td>International Aid</td>
<td>0.89 (44)</td>
<td>1.33 (67)</td>
</tr>
</tbody>
</table>
Note: This table shows the mean level of disclosure by each charity within each type of accountability and in brackets this disclosure as a % of maximum disclosure within that theme. The differences in volume (mean) of disclosure tests for differences between the mean disclosure of Muslim vs. Christian charity organisations. Panel A shows the overall accountability. Panel B shows results split within size and panel C shows the results split within type of charity. *two-tailed. †Only the results for the t-test are shown here as the significance levels were found to be the same for the Mann Whitney U test.

Resource accountability: Table 7.9 and Table 7.10 show no significant differences and/or improvements in the 2010 MCO TARs compared to the 2008 TARs. However, panel A column 1 of Table 7.9, does suggest there was a slight increase in the percentage of charities disclosing their method for recruitment and appointment of trustees (+7%) and their procedure for the induction and training of trustees (+7%). This points to possible more awareness of MCOs around the need to have appropriately appointed and trained trustees. Table 7.10, Panel B suggests this may be linked to the increased disclosure (+8%) by large MCOs in 2010.

Procedural accountability: Table 7.9, Panel B shows that although 83% of charities provided a summary of their objectives in 2010; only 60% provided further details on how this makes a difference. However, significantly more charities provide this detail in 2010 (60%) compared to 2008 (46%) suggesting more MCOs are now providing a more detailed discussion of their objectives. This also is reflected in the 15% increase in instances of procedural accountability for large charities (Table 7.10, panel B). Surprisingly, no increase was seen in the charities providing an explanation of how their activities benefit the public. This low level was unexpected given the emphasis placed in the revisions to the SORP in 2008 on demonstrating public benefit.
**Performance accountability:** According to Table 7.9 Panel C, although performance accountability items were least disclosed by MCO’s, significant improvements have been made in the 2010 reports related to the number of charities disclosing recommended items, especially in relation to how expenditure has helped meet charity objectives, impact on future income generation and details of performance against fundraising activities. The finance related items are interconnected and it is likely that an increase of disclosure in one area inevitably has an impact on the other two items. Table 7.10, panel B suggests this increase in disclosure was mainly due to large MCOs for whom these items were now mandatory rather than recommended. The findings also suggest that MCOs do not place importance on reserves as this money is not used directly in helping their beneficiaries. Thus, a disregard of more judgement based disclosure (Stewart, 1984) suggests MCOs either prefer providing less judgement based information which they cannot be held to account for in the future and which is more costly, or they have inadequate resources/expertise or knowledge, to fully cover all the accountability requirements.

**Leadership accountability:** Table 7, Panel D illustrates a significant increase in the number of charities disclosing details of future planned activities in 2010 compared to 2008, however on the whole levels of disclosure still remain quite low since such items are only recommended.

**Overall,** it was found that larger MCOs were still providing more disclosure compared to their smaller counterparts. Having said this, the amount of recommended disclosure for large and very large charities should have increased by a greater margin in 2010 than the findings suggest, given all the items were now
mandatory. The lack of disclosure on more performance related items, by small and medium sized charities, could be linked to an ignorance of the regulations surrounding charity reporting on the part of both the trustees and preparers. This could also be evidence of MCOs not knowing exactly what they do and how they actually plan to achieve their objectives, suggestive of possible poor strategic planning on the part of the trustees, or trustees simply not knowing enough of the activities of the organisation to report them.

These poor findings indicate that MCOs’ trustees are failing to adequately fulfil their role as custodians of public money by not providing even basic disclosure of transactions and activities of the organisation as required by the SORP. However, our findings suggest this issue being taken more seriously in 2010 compared to 2008, possibly due to the effects of the difficult economic climate on MCOs in 2008. Overall disclosure has increased from 2008 to 2010 but the increase is not significant. Although larger MCOs have begun to concentrate on providing more of the previously recommended (in 2008) and now mandatory accountability information in 2010, it still falls far short of providing full disclosure on all items.

Looking at the findings from an Islamic accountability perspective, the lack of information on religious expenditure is disappointing. As stated earlier in the thesis, it was the original intention of the researcher to examine the level and content of religious disclosure in addition to basic SORP disclosure. An Islamic accountability index was created specifically for this purpose. However, upon initial inspection of the TARs it was found no charity to have disclosed any shariah related information, in particular zakah and waqf disclosure. The absence of such religious reporting
disclosure means donors are unable to assure themselves that their donated funds are being spent in accordance with the spirit of the Shari’ah, this is especially important given the importance placed on zakah as one of the five pillars of the Islamic faith. From an Islamic perspective, nothing should hinder an organisation from fulfilling and disclosing their religious obligations. Hence, the absence of information on zakah spending could be a reflection on the internal practices of the charity (Lumley et al., 2005; Dhanani, 2009), pointing to deeper organisational reasons reflected in the lack of accountability found in this study.

7.3 Summary

Research objective one examined if there was a significant difference in communicated compliance accountability of MCOs and CCOs. Given the lack of research on MCOs, the comparison with CCOs allowed a general understanding of the communicative accountability of RCOs in the sector and sought to understand how MCOs were disclosing in comparison to the rest of the sector. It has been found that RCOs are undertaking preparations of accounts as rituals rather than paying attention to the detail which is contained within them. These results suggest that, despite the prominence given to accountability by the SORP, considerable variations still exist in the amount of information disclosed by RCOs. Size seems to play an important part in the differences in levels of disclosure with larger RCOs provide more disclosure and better quality TARS than smaller charities. The nature of larger organisations means there are more upward accountability demands on them due to the level of funds they handle, especially in the case of institutional funders who demand detailed reports of where and how their funds have been spent (Christensen and Ebrahim, 2006). This larger and wider donor base means such organisations
need to work harder to keep donors fully informed of their activities, and hence disclosure becomes linked to their income maintenance strategy (Connolly and Hyndman, 2004). As such, the reporting requirements for large and very large charities are greater than for smaller charities causing them to take their responsibilities more seriously.

The findings from research objective one a also found significant differences in the disclosure practices of MCOs compared to CCOs. MCOs were found to provide significantly less accountability for probity and significantly less disclosure on the SORP framework compared to CCOs. This may be due to age related factors as CCOs have been in existence longer than MCOs, yet this should not really be impacting on their reporting requirements given this is a legal obligation. In addition, the fact that so many non-compliant reports were prepared and signed, suggest that RCOs need to be more careful in ensuring the people they appoint to monitor and prepare the accounts are aware of charity reporting requirements.

Due to the poor level of accountability found for the 2008 MCO TARs, research objective 1 b examined if there was a significant change in disclosure in the MCO TARs from 2008 to 2010. Furthermore, this focus also sought to assess how well MCOs were disclosing Shariah related items, in particular linked to zakah and waqf donations. However, upon initial examination of the reports, it was found that MCOs were providing no disclosure on any Shariah related aspect, therefore the focus was narrowed to SORP disclosure.
Given the religious nature of MCOs, they should be aware of the need to provide *shariah* disclosure in particular on the need to manage *zakah* funds separately from other donations. However, the findings of this stage of the study reflect otherwise. There could be a number of reasons for this which will be followed up in the second stage of the study. Firstly, MCO members themselves may not be aware of the need to carefully manage *zakah* disclosure and then report on this. Or else, it may be that individuals are aware of the importance of handling *zakah* separately but their accounting systems may not allow it to be distinguished when it comes to reporting. Furthermore, in terms of spending, MCOs may not have the required expertise and manpower to adequately collate and then report a breakdown of *zakah* expenditure. On the other hand, these findings may also suggest that MCOs may not be viewing accounting and disclosure requirements as part of their religious duty and may be trying to keep the ‘sacred’ separate from the ‘secular’ (see Laughlin, 1990), by using the ‘secular’ annual report primarily for the purpose of fulfilling the UK legal requirements rather than conveying religious accountability.

Following the findings from stage one of the study, a number of aspects linked to reporting and Islamic religious disclosure will be followed up in the second stage of the study, in particular when examining reporting issues. The interviews will help explore if there is a possible situation of a:

- Lack of awareness amongst MCO members on how to manage *zakah* funds.
- Lack of awareness amongst MCO members on need to report *zakah* spending.
- Accounting systems which do not distinguish between *zakah* and non *zakah* spending.
- Lack of resources to adequately collate and report on *zakah* spending.
• MCOs are viewing reporting as a 'secular' activity which must be kept separate from the sacred activities linked to their core objectives.

The second stage of the research focuses only on large and very large international aid charities (i.e. had an income greater than £500k). The reasons for this surround issues of access and are discussed in section 6.4.1. It is envisaged that the charities taking part in the second stage of the research, will have more resources available, in terms of personnel to prepare reports and compile performance figures for disclosure (Meek et al., 1995). They should therefore be able to place more emphasis on strategy and strategic planning and introduce better governance procedures. Due to these additional resources, these charities may also have in-house account preparers who are more familiar with how the organisation operates and who work solely on recording and collating data for the annual reports. Hence, in addition to the points noted above, the second stage of the research will also explore if the charities interviewed have:

• In-house account preparers.
• Emphasis on strategy and strategic planning.
• Strong governance procedures.
• Performance management and measurement systems.
CHAPTER 8: LIVED ACCOUNTABILITY

8.0 Introduction

This chapter presents the findings from the second stage of the research which seeks to examine the lived accountability of MCOs through interviews with charity trustees, executive directors, senior management and junior employees. In particular, research question 2a explores how individuals within MCOs enact functional accountability to achieve moral legitimacy while research question 2b explores what aspects of personal accountability and responsibility help individuals within MCOs navigate cognitive legitimacy. Research question 2c examines factors that facilitate or impede moral and cognitive legitimacy in MCOs.

In chapter 5, moral and cognitive legitimacy are described as two strands of legitimacy put forward by Suchman (1995). He describes moral legitimacy as examining activities being undertaken as they should be, in reference to broader norms of the socio political environment (Dart, 2004). The moral legitimacy view would frame organisations not according to the revenue or income but according to the ideal way in which they are run. Cognitive legitimacy, on the other hand, refers to basic, preconscious taken for granted assumptions about the nature and structure of social activities. Cognitive legitimacy is therefore gained when the organisation undertakes those activities which are seen as proper and ‘making sense’ to wider society. This type of legitimacy emerges from the acceptance of organisational activities as fitting into an acceptable story about their roles in society. This suggests that moral legitimacy can be better understood by examining organisational practice while cognitive legitimacy is linked to individual values and beliefs.
Following the research questions, section 8.1 discusses moral legitimacy in light of functional accountability mechanisms and section 8.2 discusses cognitive legitimacy in light of aspects of personal responsibility and accountability, which includes Islamic values and beliefs. A number of factors which either drive or constrain both moral and cognitive legitimacy are discussed in section 8.3. The structure of chapter 8 is illustrated in Figure 8.1.

Figure 8.1: Structure of chapter

8.1 The enactment of functional accountability
8.1.1 Functions of accounting and auditing
  8.1.1.1 Function of reporting and communication
  8.1.1.2 Function of budgeting
  8.1.1.3 Function of internal control
8.1.2 Functions of governance and oversight
  8.1.2.1 Function of governance
  8.1.2.2 Function of oversight

8.2 Personal responsibility and accountability
8.2.1 Accountability to oneself (ruhiyah)
8.2.2 Accountability to Allah (amanah and khalifah)
8.2.3 Accountability to society (masuliyah, istislah)
8.2.4 Knowledge and experience (tabligh, ri’ayah)

8.3 Dynamics of accountability
8.3.1 Facilitators of accountability
  8.3.1.1 Institutional funding
  8.3.1.2 Legislation
  8.3.1.3 Muslim charities forum
  8.3.1.4 Donor trust
8.3.2 Impediments to accountability
  8.3.2.1 Lack of internal capacity
  8.3.2.2 Focus on communication, reporting and accounting
  8.3.2.3 Public perception on administration costs
  8.3.2.4 Trustee issues
  8.3.2.5 Hesitance of sharing practice
8.1 The enactment of functional accountability

This section presents and discusses the findings based on interviews with charity trustees, executive directors, senior management and other charity personnel on how functional accountability is operationalised in MCOs to help achieve moral legitimacy. Chapter 2 (Table 2.1) presents and categorises the different types of accountability utilised in this study. Understanding moral legitimacy requires an assessment of organisational practice and in particular an evaluation of the functional aspects of accountability, which include accountability for resources, procedures, performance and leadership.

As explained earlier, resource accountability examines how well an organisation uses funds and resources in an authorised manner, procedural accountability ensures the correct activities have been undertaken to meet organisational goals, performance accountability ensures an organisation meets required standards of performance and leadership accountability is closely linked to how well organisational leadership carries out its role in ensuring that the organisation’s vision and mission are achieved. This involves understanding what charity leadership must do to gain and maintain accountability what their main responsibilities are to help gain moral legitimacy from their stakeholders.

As MCOs are often wholly dependent on donated funds and resources, the way they attain and manage their resources is critical to the way the organisation attains, loses or maintains its moral legitimacy (Goddard and Assad, 2006). Section 5.3.3 of chapter 5 linked moral legitimacy and its different aspects [as discussed by Suchman, 40

40 As discussed in chapter 5, section 5.3.3.
1995] to these different types of functional accountability. This section explained how enacting resource accountability can help an organisation gain structural legitimacy, enacting procedural accountability can help gain procedural legitimacy, enacting performance accountability can help gain consequential legitimacy and enacting leadership accountability can help gain personal legitimacy.

The findings from the qualitative analysis of the interviews suggest aspects of functional accountability can be fulfilled through the functions of accounting and auditing, and of governance and oversight. In particular, accountability for resources and procedures is enacted through the function of accounting and auditing and accountability for performance and leadership is enacted through the function of governance, control and oversight. These issues are discussed in more detail below.

8.1.1 Functions of accounting and auditing

The functions of accounting and auditing were core processes that helped aid accountability and moral legitimacy in MCOs. It was found MCOs place a great emphasis on reporting and communication, which is in direct contrast to the overall findings from stage one of the study. This could be because the interviews were conducted with respondents from large and very large international aid charities (using the size criteria in stage one of the study), and hence the findings from the interviews can only be linked to the reporting of these MCOs. In addition, it was found that the budgeting process and a focus on internal controls also strengthened the accounting practice of MCOs. Each of these aspects is discussed below.
8.1.1.1 Function of reporting and communication

The function of reporting ensures funds are appropriately managed and helps manage stakeholder demands/concerns by adequately communicating how funds have been utilised. Reporting was seen by respondents as an important medium through which MCOs could attract funding and ensure sustainability, as well as ensuring proper procedures were maintained and stopping any chances of corruption or fraud. Not only was it seen by respondents as a legal requirement, but a core basic principle and the very minimal requirement from an accountability perspective. These findings mirror those from stage one of the study where, in general, large and very large international aid organisations were shown to have provided better disclosure compared to the other size and type of MCOs.

A good organisation should know how much money they have raised and spent as well as how much is left, at any given point in time. Hence, reporting should be a significant process in all organisations with book-keeping practices being an integral way of keeping track of cash flow. However, it was found that only large\(^{41}\) MCO, (please see Table 6.5 for distinction between large and small MCOs) actually produced the end of year reports in-house with the remaining outsourcing the final account preparation to independent external accountants. While some view outsourcing as a positive thing “because it's good that externally somebody keeps an eye..” [T2]\(^{42}\), others highlighted that it may lead to chasm in the information flow between the charity and the account preparers. In the case of small\(^{37}\) MCOs, which

\(^{41}\) All those MCOs taking part in the interviews had an income greater than £500k. However, the income levels and number of people employed in the charities varied – please refer to table 6.5. The reason for this variation was linked closely to the strategy of the charity and how they utilised their funds. Therefore, the reference to small and large charities in this chapter refer's to the distinction made in table 6.5 and linked to the number of personnel employed in the MCO.

\(^{42}\) Refer to Table 6.6 for interviewee codes
often outsource the preparation of the accounts, they would only know how much was raised and spent over the previous accounting period [EC2] after six or seven months due to the time taken by external preparers to prepare and discuss the reports. The lack of reliability (see Table 7.6, 7.7), probity (see Table 7.8) and disclosure (Table 7.10) found in stage one of the study could therefore be linked to these MCOs having outsourced their reporting. This has implications for both resource accountability and structural legitimacy as the organisations would not be able to satisfy stakeholders that they had the appropriate structures in place to check funds and resources had been used in an authorised manner. Although MCOs place great emphasis on their reporting, the findings of stage one of the study suggest this emphasis is not being fully translated into practice.

Closely linked to this reporting was investment decision making and planning. Many of the respondents stated that their organisations did not have any particular policies on investment, other than the investment had to be risk free, Shariah compliant and linked to the motives of the charity. One organisation used waqf as an investment tool:

“The way we have preferred to invest historically has been in property. We use waqf funds to purchase property and the return from these waqf funds is the return on investment. You can argue that with hindsight, especially with the current economic climate, this was the safest investment. Going forward we are looking at whether that model is still relevant or if we should be branching out and looking at investing in other things.” [SM5]

This type of faith-consistent investing is common amongst RCOs (Louche et al., 2012). Many charities used the statutory reserve as a back-up fund for activities and responding to emergencies and very few viewed it as an organisational infrastructure reserve. These findings have also been reflected in stage one of the study (see section 7.1.2.3) where MCOs were found not to disclose much information on their
investment policies. Only one organisation had a comprehensive reserve policy outlined in their reports and one organisation which was currently undergoing change had started building up a reserve to employ more staff in the future.

**Reporting and managing stakeholder demands**

MCOs in the UK interact with many different stakeholders. In the UK, this comprises mainly of upward stakeholders: the government, the Charity Commission, funders (both institutional and local), standard setting bodies, and some lateral stakeholders such as employees, volunteers and other MCOs. In the areas where they conduct activities, the stakeholders can include the host government (upward), field agents, partner organisations (lateral) and most importantly the beneficiaries (downward). The issues facing MCOs in identifying their main stakeholders are similar to other mainstream organisations in the sector (refer to chapter 4).

Given the lack of internal capacity and the desire to help humanity, it is not surprising that all interviewees felt both donors and beneficiaries were their main stakeholders when it came to reporting. Some organisations focused primarily on their funders, both private and institutional, since in these organisations the donors dictate the activities of the organisation. With institutional funders, there was a contractual obligation upon organisations to act in a certain way. On the other hand, the relationship with private donors was very much based on legitimizing their actions to ensure continued support and donations. The dominance of upward hierarchical accountability has also created concerns in the literature that NFP accountability priorities are being distorted (Ebrahim, 2003, 2005).
Some interviewees viewed beneficiaries as their main stakeholder and their mission and very existence as humanitarian organisations was linked to helping the poor and placing their need before the public. Many respondents felt that if the need wasn’t there, then they wouldn’t exist. This bond with the beneficiaries was based on trust and closeness:

“I feel as if [charity x] is very much driven by our beneficiaries. Whenever the need arises… that’s when we go out and fundraise. That’s where all the focus is… So my own opinion is that we’re driven by the beneficiaries and their needs and that’s how I feel. That’s how it comes across working here… absolutely.” [JS3]

Other respondents placed both donors and beneficiaries on an equal footing, as without the help of the donors, the activities of the organisation in helping the beneficiaries couldn’t be fulfilled. Hence, the majority of respondents focused on these stakeholders when discussing how accountability was discharged. Overall, it was clear from the interviews that these organisations chose to enact functional accountability mechanisms primarily to appease upward stakeholders, in particular their funders and regulatory bodies, whilst personal responsibility and accountability was linked to beneficiaries. The dysfunctional effects of differences in such demands for accountability have been noted by Bebbington and Riddle (1995), Ebrahim (2003, 2005), Najam (1996) and Edwards and Hulme (1996).

In terms of managing upward stakeholder demands, respondents viewed financial statements and annual reports in multiple ways: to trustees they were assurance documents which portrayed how management had performed, to donors they showed how effectively their funds had been utilised and to the Charity Commission they showed that legal obligations have been fulfilled. This was also evident from the findings in chapter 7, whereby large and very large international aid charities
provided more disclosure in their TARs compared to other types and size of MCOs, due to having greater upward accountability demands.

In fact, all respondents highlighted that they viewed financial statements and TARs as important in ensuring transparency, with all organisations providing easy access to them on their websites.

“It shows the health of an organisation and the donors will look at it. It increases the chance of getting funding for new projects…” [JS1]

“In fact we have put our financial statements on the website - private businesses are different… with them you don't have to. But with charities, it’s other people's money, so we have to make sure that people know where the money came from and how it was spent.” [SM1]

Some interviewees, especially those not conversant in finance, placed more emphasis on the TAR as providing better accountability than the financial statements, as they felt the TAR was more easily understood. It was also acknowledged by the respondents that the ‘impact’ of activities undertaken could be better explained in the TARs rather than in financial terms. They felt the TAR was a yardstick for their donors whereby they could evaluate the organisation by seeing how much was spent and in what way.

“... If you look at the financial accounts, most people won’t understand them. For them the annual reports are a lot easier, because that says something about what we have done in that year etc. So they will look at that, and I think that is better for a lot of people than the financial reports. Only the qualified professionals who know about bookkeeping or accounting side will understand the facts and the figures.” [ED4]

**Gaining and maintaining donor trust**

Trust was found to be an important issue which organisations sought to gain from both beneficiaries and donors via their communication process. The main forms of communication used by these organisations to convey accountability to donors were
TARs, financial statements, annual reviews, marketing campaigns, their websites, with a few also using the TV and social media to advertise their activities and raise awareness. Regular donors also received specific updates on how their donations had helped the project they were supporting. The communication itself was also focused heavily on conveying aspects of functional accountability, i.e. what projects have been delivered and how the organisation has managed its donations for these different projects. For example, one publication reads: “100,000 people received food packs from our camps, and 52,000 people were cared for through our health program....”. This was seen as an attempt to legitimise their actions to their funders and make the story of their activities ‘interesting to the community’ [ED2].

Many non-profit organisations are dependent on major funding bodies for their funding and this has significant implications for the forms of accountability promoted in the organisation (Ebrahim, 2005). Nearly all executive and senior managers discussed the need for gaining the trust of funders, especially community donors, in legitimising their activities. Furthermore, the majority of this communication was deliberately timed during Ramadhan [the Muslim holy month of fasting], when it is believed to be more reward-worthy for Muslims to give to charity. With institutional funders, all those receiving funding were under a contractual obligation to provide regular reports which were usually based on a template provided by the funder.

All senior management discussed the need to make further improvements in engaging stakeholders and explaining how their organisations have managed and spent their funds and resources. Some factors hindering more extensive engagement
were a lack of resources and the lack of channels, i.e. TV and social media, available to charities. There were also indications of a gulf between head office perception of engagement with donors and the actual level of engagement in more complex organisations. However, these organisations were actively seeking out such instances to remedy them:

“Recently we had the ‘evening of inspiration’ concerts and what I decided to do was go around, go on the tour and support the team but also speak to volunteers and speak to our supporters and see what they actually thought of us. It was to understand if our message was getting across to the people and the communities on the ground. In some places it was and in other places, no it wasn’t. There could be a number of factors, one could be that the local person was very busy. The other thing could be that as a communications department we need to get out there and be in touch with the ground reality. So not just create a marketing campaign because we in central office think it’s great but we need to understand the tools that those people need to spread our message far and wide.” [SM4]

Hence, donor trust was gleaned by providing as much information as possible on functional accountability mechanisms, i.e. how much was raised, where it was spent, and the impact it has made. The following section examines how beneficiary trust was gained and maintained.

**Gaining and maintaining beneficiary trust**

The beneficiary holds the local government to account, in a normal setting, through voting and participation in the democratic process. But in the charity situation it was found to be more of a top-down approach, where the beneficiary received what he or she was given, rather than demanding or voicing their needs. Mechanisms were needed in the sector where beneficiaries were able to say what they needed, what they received and how it helped improve their situation. Yet no formal mechanism of conveying accountability was found in any of the organisations with regards to beneficiaries and this was acknowledged by the charities themselves.
“We can prove to the donor that we took their money for Somalia and this is all the money that we raised and this is where we spent it. So we can quite comfortably prove to the donor through that accountability mechanism. The main question is how am I going to prove it to the beneficiary because in my mind the beneficiary is a key stakeholder” [ED3]

“We need to communicate more effectively with beneficiaries in the sense that we need to paint the whole picture for them. At the moment, it’s almost like you interact with them for that particular need, but you don’t show them the entire circle.” [ED4]

Connolly et al. (2013) acknowledge that such mechanisms can be difficult to achieve due to beneficiaries not wanting to engage, problems identifying beneficiaries and even a lack of interest in formal accountability mechanisms.

Interviewees highlighted that beneficiaries were not told how much was raised for their cause and how much was spent. They stated, it was often only the project staff that were involved directly with the beneficiaries, and communicated through face to face meetings and informal discussions with community leaders. These meetings and discussion happened on a daily basis due to the nature of the interaction and revolved mainly around service delivery. This would be through community mobilisation set-ups on the ground. These were mainly religious set-ups using mosques and imams (religious leaders) to gain wider coverage. These findings corroborate earlier studies on NGO accountability that found accountability mechanisms tend to focus on upward accountability to funder, and tend to disregard downward accountability to beneficiaries (Ebrahim, 2003, Unerman and O'Dwyer, 2006a; 2006b, Najam, 1996).

In all instances, the interviewees felt informal communication allowed the organisation to gain the trust of beneficiaries which was vital for effective service delivery. Some interviewees clearly stated they would not work in an area where the beneficiaries did not trust them. Beneficiary trust was gained by assuring
beneficiaries they wanted to help them, by empathising with their situation and by listening to their concerns.

“... because trust is absolutely key and critical to effective humanitarian intervention. Once you’ve created trust between the beneficiaries and [charity X] you get a better understanding of what is needed and that interface uses the participatory approach, using the communities as our catalysts to be able to bring about humanitarian intervention.” [ED3]

“If I went on the ground and the communities didn’t trust me, I wouldn’t work there... If that community is going to trust me to be there... I’m acting as a lifeline for them... and if I get a no, we don’t need your help, then I should just walk away.” [T1]

8.1.1.2 Function of budgeting

Budgets have a number of useful purposes for an organisation. They include (1) planning annual operations, (2) co-ordinating the activities of the various parts of the organisation and ensuring they work in harmony with each other, (3) communicating plans to various departmental managers, (4) controlling activities, and (5) evaluating the performance of manager (Drury, 2012). As such, the budgetary process was found to be heavily focused upon in all the organisations and respondents saw this as an important mechanism to aid achievement of organisational goals. These goals included targets related to fundraising, activities and programmes and internal organisational measures. Key processes that help aid the achievement of these goals include the budget monitoring and review process and the project forecasting and evaluation process. In most cases, the organisational budgets were prepared by department heads and were closely linked to both financial and operational strategy.

The respondents from the largest charity had a budget review committee, comprised from a cross-section of the organisation to scrutinise the budget before it was placed
before trustees for approval. This acted as a monitoring process overseeing the budget preparation.

“We all look at our needs then we put our business case forward... Again this is the thing about strategy. The strategy has been signed off by management so they all agree this is how much should be in... it’s just a matter of waiting. Once that budget has been allocated to me, then how I manage it is down to me and my team.” [SM4]

All organisations had some form of budgetary performance monitoring, with larger organisations being more sophisticated in their approach. This is not surprising given the importance of budgetary control in financial administration (Pendlebury, 1994). Interviewees highlighted the need to get better help, either from within the organisation or from external parties to better understand their organisations or departments budgetary performance. There was also an indication that some people did not understand the actual purpose of a budget and felt if they did not meet budgetary predictions then it could be a personal reflection on themselves:

“I think there is still a bit of education to do in the organisation that the budget is a plan and if you don't meet your plan then yes, questions will be asked. But the key is to make sure that the budget is accurate as possible at the time of the preparation.” [SM5]

Project expenditure forecasting was done on a monthly basis in all organisations. Those organisations with an established presence on the ground had project officers prepare forecasts which were then sent to head office for approval, while less established organisations prepared the forecast themselves and dictated to partners on the ground how much could be spent. This formalised process ensured field officers knew exactly how much was available for them to spend. Budgets were carefully monitored with smaller organisations having much less bureaucracy in releasing and allocating funding than larger organisations. This monitoring mechanism was undertaken on a monthly basis or after each project had ended.
The evaluation of finances occurred in a similar way to business organisations, with nearly all organisations using Key Performance Indicators [KPIs] and financial targets to manage fundraising and funding activities. The larger organisations were very much target driven with different departments having their own targets to meet. The financial evaluation went hand in hand with the evaluation of activities. For all organisations, the monitoring of funding and fundraising was a key concern in ensuring performance accountability was met.

**8.1.1.3 Function of internal control**

Staff in RCOs often see internal controls as unnecessary as NFPs do not have the same temptations and pressures of a business organisation (Wooten et al., 2003), yet all respondents within MCOs viewed internal controls as vital to the sustainability of the charity. Internal control within MCOs can be distinguished along the lines of responsibilities and processes. Interviewees were all clear on their own respective responsibilities, with junior staff explaining what they were and were not allowed to do and senior staff providing explanation of more detailed control processes. As Procedural legitimacy focuses on MCOs embracing socially accepted techniques and procedures, this enactment of procedural accountability through the various internal control processes, helped organisations navigate their procedural legitimacy.

**Roles and responsibilities and organisational structure**

A formalised job description with clear role and responsibilities for staff in any organisation can enhance accountability and moral legitimacy. All those interviewed had a clear idea of what their role entailed, the extent of their responsibilities and who their line manager was. Senior managers were free to direct and manage the
team and the resources assigned to them. Although targets and objectives were narrow with little room for manoeuvre, junior staff still felt they had sufficient flexibility to carry out their roles. Such organisational environment that empowers and supports staff members can lead to improved accountability on all levels while ensuring mission achievement (Christensen and Ebrahim, 2006). At the executive and senior management level, individuals were given targets and objectives and allowed to carry out their role as they saw fit:

“It depends... I don't always stick to the job description. If something needs to be done outside of the job description to bring money in then I will do that. So job descriptions are just guides for us, well for me anyway. The priority is to bring the money in and bring donations in.” [SM3]

Senior interviewees expressed the intense pressure and hard work that is required to work for a charity, stating there was a perception held in society that those who work for charities had an “easy ride” [SM3] due to the low salaries in the sector.

The organisational structure varied in different charities with some charities only having one active person involved in the charity and whose responsibilities were decided directly by trustees. This type of structure led to quick organisational decisions due to less bureaucracy compared to larger organisations. Larger MCOs were found to have complex structures with many departments and departmental heads who worked under a CEO. Each department then had a number of staff with each person undertaking a particular specialist role. As larger organisations handled greater resources, they also had more complex financial controls and oversight frameworks, incorporating budgetary review committees, separate accounts departments, separate departments/individuals to evaluate programs and budgets and separate compliance officers/departments for internal governance monitoring. These roles were linked to the mission and vision of the organisation and to the strategy.
When a strategic review was undertaken the roles also changed. This has been the case for two of the larger MCOs interviewed, whereby many roles had been removed and new roles brought in to fit with the new organisational structure to help achieve the new strategic direction.

Trustees and senior executive all had clear formalised roles and responsibilities that were linked directly to the strategy of the organisation. One organisation only had a trustee/CEO and a communications director as they focused on raising awareness. The communications director was able to use a variety of different marketing and communication strategies to encourage other people to raise funds for the organisation and this method was particularly successful for this organisation.

Those trustees and directors who were responsible for the organisations single-handedly, had a much varied role than those working in larger organisations. Some trustees handled the administration, including the accounts, payments cashiers roles as well as everything else that need to be done in relation to a charity. This has consequences for the internal controls of an organisation as there are no checks and balances in place to oversee the work of this one individual. This also has implications for stage one of the study and the lack of procedural and performance accountability disclosure, as the organisational processes and procedures are not distinct enough for adequate reporting.

In addition to having clear role and responsibilities, MCOs also had regular performance evaluations of individuals to aid internal controls. In the majority of cases, evaluation was undertaken by senior executives or trustees and occurred on an
annual basis. The larger organisations had multiple methods of evaluation for executives and senior management comprising of one to one basis where every employee will discuss their objectives, progress and challenges/issues with their line manager and a formal annual evaluation. There was acknowledgement of things getting ‘more formal’ over the years, which caused resentment amongst some staff:

“It's moved on quite a bit since the early days when there were a lot of JazakAllahs [thank you] and MashaAllahs [praise] and that was as far as the appraisal would go. It's very formal now. The pendulum swings, some of the old guard, old people think it's too formal. They’ll say we didn’t have to do this before, where is our sense of commitment and appreciation. Where is the recognition of our sacrifice and commitment and now you’re evaluating us on this and that performance mechanism and all that. But it's a necessary process.”[SM3]

One of the main issues highlighted was evaluation in smaller organisations, where there was only one person running the charity. Often this individual lacked any formal evaluation of performance as the trustees of the organisation were happy to take a passive role and let the ‘active’ employee get on with his/her work.

“There is nothing official in place, I mean they do monitor what I do, they do look at the work I do, how I do things…. it is like an evaluation you know, obviously they want to see how things are progressing and how I do my work. That does happen on regular basis, every six months, but not anything official or formal.”[ED4]

**Internal control processes**

Aspects such as segregation of duties, varying authorisation levels, locked safes for important documents, petty cash, the month end process, surprise cash counts, multiple signatories on cheques and payment authorisation documents were all found to be basic control processes in the organisations. In the smaller organisations, where resources were handled by one or two individuals, these issues were of less importance. Differences in the internal accounting system of organisations based on size were also found by Duncan *et al.* (1999).
Respondents highlighted that technology in terms of software programmes, the internet and the electronic banking system played an important part in helping their organisations implement and monitor controls over their resources. Technological capacity can often be seen as critical to organisational survival as information systems are necessary to document fiscal and programme accountability (Alexander, 2000). The impact of this has been to give charities more control over funds so they know how much the organisation has spent at any given point in time. Many of the more established charities were already at this stage.

“The aim of this infrastructure is to have everything as transparent as possible. The target is, if someone in a remote area of Bangladesh spends Rs.10 on travelling expense, at the end of the day that should be entered onto the system and the next day we should be able to see it here. We should be able to drill down every single transaction. Everything should be centrally stored in one main database. We will maintain it from here. But we can give access to anyone. Our accountants can have access to it, our auditors can access it, other country directors can access it.” [T2]

Technology was found to be central in helping smaller organisations strengthen their internal controls as well. There seems to be a reliance on technology to achieve accountability in these organisations. Respondents of these organisations explained how they logged every single transaction, so a clear audit trail could be found between activities and transaction. This was seen to be very important:

For example, when the Charity Commission conducted the review and we had done a few transfers outside of the banking system, it would have been difficult for others to prove where the payments have gone and justify this. It was much easier for us to show them where the payments have gone. [T2]

In addition, all respondents interviewed felt it was very important for them to use the banking system for all their transactions, with some even providing help to beneficiaries to open bank accounts, as they felt this would protect their reputation by minimising chances of funds going astray and in order to leave an audit trail.
“We don't deal with cash payments and we don't transfer the money through any source other than direct bank transfers. If we cannot do that in a country we do not work in that country as we need to leave an audit trail.” [T2]

**Internal controls and religious donations**

The unique donations structure of MCOs also meant these organisations had to ensure strict controls over religious donations. The majority of these organisations had similar ways in which they managed their religious donations. Sadaqah can be managed and handled similar to normal charity. However, zakah and waqf funds need to be handled separately. Only one of the organisations interviewed handled waqf due to its complex nature and they had a separate department to do this. This could be a reason for the lack of waqf disclosure found in stage one of the study, as not many MCOs are handling this type of donation.

The rest of the organisations accepted zakah donations. Zakah donations are restricted by their very nature to the prescribed categories of people stated in the Quran43, accordingly there was widespread awareness amongst all charities of how and why the funds needed to be managed separately. These funds were separated at point of collection by all charities and then logged into an electronic database, either manually or electronically.

> “We have a beautiful software support system. It is real time and it tells me exactly how much I get for each of my funds, in terms of the projects we have. Any kind of project that we have, it is all listed, along with the breakdown of Sadaqa, Zakah, Fitra...” [ED4]

All organisations realised the need to be absolutely transparent in this area due to the importance zakah has for Muslims. Hence, transparency was linked to better monitoring of these donations. However, respondents in the smaller charities stated

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43 See section 4.2.1.
that such policies weren’t explicit, since those handling the donations should know how to separate them.

“I don’t think that specific issues in terms of zakah are tackled in terms of written policy as such because everyone knows zakah must be handled separately” [JS1]

The lack of written procedures was more eminent in newer charities where procedures evolved from practice and "from copying other successful organisations" [T1]. Due to differences in organisational structure and lack of expertise, the uniform application of these policies was problematic, leading to some smaller charities having inadequate controls. In addition, there was feeling amongst some of the charity personnel that a proportion of the zakah income should be used to cover administration costs. Nevertheless, as this is a contentious issue amongst the Muslims, none of the organisations were using zakah in this way.

"We don’t charge any admin fees on any zakah that comes in, I personally think that we should but I can’t win that argument within the board of trustees. So our policy on zakah is that no admin fees is taken on any zakah that we get in". [SM2]

These findings go some way to explain why none of the charity TARs had any zakah disclosure as found in chapter 7 of the study. It can be seen a lack of written policies and consensus on how to distribute zakah is hindering some MCOs on providing full disclosure on their zakah expenditure. Hence, the absence of Islamic charitable expenditure information may not be due to an unwillingness to disclose, but rather due to an inability to disclose resulting from deficiencies in the organisations’ internal accounting systems.

8.1.2 Functions of governance and oversight

MCOs have begun to realise the importance of having good governance frameworks to aid both accountability and efficiency. Good governance requires the creation of
structures and processes which enable the organisation to monitor performance and remain accountable to its stakeholders (Tandon, 1995). The functions of governance rely mainly on the role of trustees, executive and management to effectively carry out their duties. Trustees help ‘steer’ (Hyndman and McMahon, 2011) or guide a charity and provide oversight and monitoring on the activities of senior management. Hence, by ensuring the organisation meets required standards of performance, it is able to navigate its consequential legitimacy. By ensuring management is effective in their role, the organisation can better navigate its personal legitimacy. The governance of an organisation also has implications on its reporting and communication as suggested in chapter 7.

8.1.2.1 Function of governance

The executive of the organisation were perceived as implementers of strategy who worked with guidance from trustees\(^{44}\) and helped strengthen governance. The executive comprised of the CEO and directors of the organisation who were responsible for implementing the agreed strategic direction of the trustees. Consequently, they were found to have a limited strategic decision making role themselves but the day to day running of the organisation was entirely the director’s responsibility. This has been found to be both beneficial and restricting for voluntary organisations, with Coule (2007) arguing for implementers to be given greater say in strategy as this aids organisational learning. One of the organisations interviewed was thinking about introducing some sort of rotation for the executive board to enhance governance and strengthen the constitution. So the CEO, the assistant CEO and country directors all had to move on after a certain period of time:

\(^{44}\) The role of trustees has been discussed in more detail in section 8.1.2.1 – Function of oversight.
“We don’t want country directors in different countries going for more than 15 years, because then they become part of the furniture. They become very localised and start accepting everything that is happening as the right thing.” [ED1]

**Performance strategy management**

For governance mechanisms to be effective, an organisation needs to have effective strategy planning mechanisms linked to organisational mission and values which feed into both financial and non-financial decision making. All respondents indicated strong belief in their mission and values and all activities of the organisation were constantly evaluated against these beliefs. There was widespread awareness amongst respondents of what their organisational mission and values were and how this fed back into their strategy. In the majority of instances the mission and values were linked directly to the strategy of the organisation. In contrast, Kilby (2004) found that this was often only at the surface level with actual accountability not originating from values and mission. This study found smaller and less established organisations had the most difficulties in reconciling mission and values with activities. This was often because they lacked the time and expertise to develop a concise strategy. This could explain the findings in chapter 7 which showed the communication of governance related items and leadership accountability to be lacking.

There was also a consistent feeling amongst all interviewees that the main inspiration for the organisation stemmed from faith but all organisations were keen to point out that this did not mean they have limited their activities to Muslims only.

“The inspiration is from the faith, we are a faith-based organisation, but that does not mean that we do not reach others. ….. So it is a Muslim charity but working for all. It's agenda is very, very clear... it is relief development and empowerment, wherever they are.” [EC2]
The leadership played an important role in driving the organisation and its activities through effective strategic decision making. Some organisations had the trustees or CEO as the main driver of strategy, while others used a consensus approach in steering the organisation. In all cases, the final decision making responsibility rested with the trustees. This is consistent with Bryson’s (1988) work, who found trustees as the final decision makers within a voluntary organisation. Those charities that used a consensus approach took the advice of different department heads and experts in the field before deciding on the final objectives of the organisation. In some cases, even junior staff were encouraged to put ideas forward that would help expand the organisations’ activities.

“Within the organisation responsibility lies with different people. For example, the current five-year strategic plan - I was responsible for that. So I led the programme, with the help of the whole team, we took one year developing the strategic program and we took input from our country directors and from all our staff members, input from our trustees and input from our donors and volunteers.” [ED2]

The larger organisations were more sophisticated with their mission development and their course of direction and have been focused on developing their ‘brand’ and making an established presence on the international development scene. Their financial stability from institutional funders and from global operations has made them realise they need to go beyond fundraising and emergency relief to make an impact. This was evidenced in the more detailed strategic vision of these organisations:

We have four priorities; the first is to provide relief to the people in the field, in the needy situations. Second is to promote long-term development of sustainable solutions. The third is advocacy and campaigning on issues and the fourth is that we ensure we have a good, strong governance framework worldwide. These are our 3 to five-year targets. These are four areas we really want to become good at and ours is to raise money to help support those areas. [SM3]
This was also evidenced in chapter 7, where very large international aid organisations, were found to have provided the greatest amount of procedural and leadership accountability information in their TARs.

All respondents agreed on the need to move beyond emergency relief and into sustainable development if they were to make any real impact. The key challenge was ensuring that they also provide the requisite holistic accountability to measure the impact of their activities (O’Dwyer and Unerman, 2007). The majority of organisations had grown on the back of emergencies, having received major funding, institutional support and then grown as a result. There seemed to be a consensus that this was a short-term approach and there needed to be more focus given to innovative ways of helping people in the long term. Although this largely seemed to be a top-down approach, with trustees deciding strategy for these organisations, there had been a shift in attitude with the larger charities gaining wider stakeholder consensus when engaging in strategic change.

“It was a two year process by the way, which involved outside stakeholder engagement. What others thought about us, from the government, to DFID, peers, Christian Aid, Oxfam. So it was a massive big consultation project. It involved internal, involved the global [charity x] family. So full stakeholder analysis, internal understanding, an actual snapshot of where we are, what's at stake, from the field, that includes Pakistan, Indonesia, Bangladesh, to the big donor countries from the United States, Canada and the UK.” [ED3]

**Financial strategy planning**

All respondents interviewed indicated that their organisations had some form of financial strategies linked back to their mission and vision, so they only considered those funding opportunities that were in keeping with the Islamic ethos and that matched with the organisations overall strategy. Yet, no mention of this was found in the MCO TARs during stage one of the study. This is particularly important given
a non-profit organisation’s survival can often rest on a well developed reputation for reliability and accountability (Hannan and Freeman, 1977). Hence, funding of a humanitarian nature was specifically sought and other funding opportunities that had a wider agenda were largely ignored. Organisations that didn’t have a formalised strategy also didn’t have preference for any particular type of funding:

“There is no such preference for a particular type of funding - it’s all about addressing the problem. Whichever way we can address the problem – we go for that funding. We don’t prefer one over the other. Whichever is possible to get to deliver the results...”[T1]

There were three main ways in which organisations funded their activities: these were through community fundraising, institutional donors and trustee donations. Community donors and individual donations rely heavily on the ability of the organisation to raise fund and market its activities and projects to the public. A number of the organisations interviewed had community fundraising as their sole source of income and hence, concentrated all their activities on fundraising. Community funding was also the main source of receiving religious donations, such as zakah and sadaqah and such religious donations peaked for all charities during the month of Ramadhan (the Muslim fasting month).

Institutional funding was heavily relied upon by the larger organisations. The main funding bodies are the Department for International Development (DFID), the UN and the International Organisation for Migration (IOM). The process of applying for institutional funding can often be time-consuming and require a specialist person in the field of international development to write the project applications. With numerous charities applying for the same pot of funding, it was not seen as a practical option for many smaller charities [ED2].
Many funding bodies look at organisational capacity and how long organisations have been established before giving funding. Therefore, internal expertise and capacity were key factors which decide what kinds of funding an organisation would approach. Consequently, infrastructure building is also a key aspect of formulating an effective financial strategy.

“So in order to get things done properly, you need to have paid staff. That’s unfortunate, but that is how it works. Even when you get the money, there are a lot of strings attached to it, a lot of paper work attached to it.” [ED4]

Raising funds for general activities as opposed to specific causes was also an issue raised by some of the respondents. Funds raised for specific causes cannot be utilised on other projects, hence fundraising jargon can sometimes restrict spending on wider activities. Fundraisers were therefore being encouraged to raise money for general causes rather than specific (e.g. drought in Africa, rather than water pumps in Kenya etc.). This was found to be a process of educating both fundraisers on how to manage donor expectations and also educating donors on how their donations can have a wider impact.

“In many ways this helps us because some countries are in desperate need but because they’re not in the media and they are not being commonly talked about, they are not getting much funding. So that unrestricted funding helps our work in those countries which are not in the news.” [SM3]

**Non-financial strategy planning**

As with financial strategies, it is also important for an organisation to engage in those activities which help fulfil its mission and vision (Kilby, 2004). In the majority of cases, their activities’ stemmed directly from their strategy and mission and values.

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45 Un-restricted funding is money raised without links to a specific project. Organisations mention a country or an overall aim, such as water solutions, this then gives the organisation greater freedom on how to spend the money.
At the beginning of this year, we prioritised which countries we were going to focus on. So for example, we prioritised Pakistan and Bangladesh and Africa. So we have four of five priority countries. Then we have level II priority countries, then we have level III countries. So we are focusing primarily on raising money for level I and level II countries…” [SM3]

Respondents explained how they began all projects with a needs assessment, by using project staff to assess the situation on the ground and asking beneficiaries what they required. This was a crucial process through which the organisations were able to categorise the needs of different people and then tailor their activities accordingly. Hence, although the design of projects is a top-down approach, the delivery of those projects started from the ground up. The needs assessment was to avoid duplication, ensure that resources provided to beneficiaries were not wasted and by involving beneficiaries from the beginning, a sense of community ownership also developed.

“We say look it is yours now, it is not ours. It is your ownership; you look after it, we have given it to you.” [EC2]

“In Syria now there is an emergency, they need to send something for people at the border, in Lebanon and in Jordan. In Lebanon what do they need most? They come wounded and injured and they are hungry and cold, so three elements; medical & food and some type of clothing, particularly blankets.” [EC1]

Furthermore, a number of interviewees explained how their organisation used this initial stage to help build the capacity of the community as well as providing direct help. This included using local skills and knowledge and training local people to help with projects. This way was found to ensure beneficiary involvement in the activities and allowed for a wider volunteer base to be employed. This also meant that in many cases charities had to find innovative ways of working on the ground. One interviewee explained how after the 2007 tsunami, their organisation was credited with reviving a traditional wooden house which could be built for half the cost yet was strong enough to withstand further storms.
“So we used that technology and we found one person who had experience and expertise in building these wooden houses. We said to him that we will give you a free house, provided you build your house with another six people. So when he was building his house, he trained the six people... then to those six people, we said you will get a free house each if you could train another six people. Within a month we had 36 skilled hands.” [EC1]

This kind of beneficiary engagement required the internal processes of the organisation to be well connected, so there was strong support between the fundraising and program delivery departments, as well as between head-office and project staff/ partner organisations on the ground. There was a fundamental requirement to have experienced project staff able to handle the level of delivery required to adequately fulfil beneficiary needs. These initiatives point to attempts being made by these organisations to broaden functional accountability mechanisms into social accountability (O’Dwyer and Unerman, 2007).

Moreover, many of the organisations interviewed had recently undergone or were undergoing strategy change. This change was brought about by awareness that the organisation needs to be better focused in their activities and consequently their strategy. This is to be expected in light of the growing prominence given to trustees’ strategy-making role (Coule, 2007), with trustees experiencing a significant increase in advice pertaining to how to perform effectively, behave legally, and provide leadership for their organisation (Harris 1991; Quint, 1994; Hind, 1995).

There were a number of internal and external factors which affected the activities the organisation engaged in. Internal capacity was again a major factor underlying which activities an organisation engaged in. Respondents were acutely aware of the need to provide sustainable long-term help to beneficiaries but didn’t necessary have the resources to do so. Other larger organisations, which had ample capacity, were
able to consider wider issues of impact when deciding on activities and could engage in issues such as advocacy.

“After the emergency phase we always try to find out what was the real cause of the emergency, whether it is man-made or natural. If it is manmade emergency, then we try to find the root cause through advocacy and through negotiation and we try to resolve the problem” [ED1]

In terms of external factors, organisations also understood they had a duty of care towards their employees to ensure they did not place them in dangerous situations. Dangerous situations were assessed on a case by case basis and if necessary, local organisations (as opposed to using own staff) were used to handle the programmes instead. Organisations may also get involved in particular projects for publicity and image management reasons. For example, a large number of these organisations responded to the Haiti disaster, in particular because they wanted to show the wider community that they were all inclusive and “not just here to help Muslims” [ED4].

8.1.2.2 Function of oversight

Senior management viewed trustees as the governing body of the organisation, who acted as guardians to provide oversight for the organisation. Trustees were also viewed as providing a second layer of vigilance over the organisation. They are ultimately the persons who are answerable and responsible for everything and are directly liable for the actions of the organisation to the Charity Commission. In stage one of the study, the Trustees Annual Reports of MCOs were examined. These TARs provide upward stakeholders, such as the Charity Commission, an overview of the work the trustees have undertaken in the organisation and how they have managed the funder resources.
It was felt that the trustee role should ensure the organisation was operating within the legal framework and procedures but not interfere in day to day work. This was consistent with Buse (1993 p.43-44) who argues that the important function of trustees is “not to manage process but to manage outcome, with the trustees being guardians of the values of the charity, and the values driven by the charity’s planning”. Therefore playing a more ‘hands-off’ role [ED2], by delegating the overall broad targets of the organisation to the executive and leaving it up to the directors to decide how these are implemented.

“But I think my experience compared to other charities is that our trustees are not bad... I mean some charity trustees are very, very hands-on on a daily basis. I don’t think that's the right way, so our trustees are not like that, they are not hands-on on a daily basis which is what I prefer.”[SM3]

This was felt to be important as trustees often did not have the expertise required to run the charity.

Trustees were also found to be actively involved in checking projects and activities of the organisation, by taking a keen interest in impact and the delivery on the ground. Some of the smaller organisations heavily relied on the ability of trustees to provide more practical support to the organisation. One organisation used a trustee who was a qualified accountant to prepare its final end of year accounts, while another hoped to use its overseas trustees to manage the fundraising for their own respective countries. Although the majority of trustees didn't have any active role in managing the organisation, most still required progress reports to be submitted to the Board either quarterly or semi-annually. Executive directors were given targets for their remit, e.g. fundraising targets which trustees wanted them to reach. So the reports allowed trustees to see where progress had been made and if there were any issues.
There was a feeling that the role of trustees was to provide a strong base for the organisation, yet many of the smaller organisations had only one or two active trustees. Finding trustees to work in a voluntary capacity for the amount of work required was difficult. This task was made even more difficult in the case of one organisation where the only active trustee was seriously ill but still continued to run the operations of the organisation.

“... on one side it has re-enforced the requirement that we should have a proper organisational framework so the organisation can continue its work. On the other side, it slows things down as well because obviously the attention gets diverted with treatment and those things.” [T2]

The issue of trustee board appointments was closely linked to how the leadership effectively discharged its accountability. Within these organisations, trustees were either founding trustees or were nominated by an existing trustee. Trustees preferred to work with people they already knew and could trust to help run the organisation effectively, or those people who they knew could help raise awareness and funds for the organisation. However, Tandon (1995) notes that such family orientated non-profit boards are sometimes unable to provide a competent governing mechanism. As trustees work in a voluntary capacity, all those interviewed understood the sincerity that is required for such a position. In some cases trustees even chose to forego payment for legitimate expense claims as donations to the organisation.

“And not only do they give time to the charity, they also promote charity in their own way of work, in their own communities, which is brilliant.” [ED4]

Hence, when discussing the type of characteristics required by the trustee board, all interviewees agreed upon having the right skills, time and dedication as vital to their roles as trustees. A clear and reputable background was also important as this had a
direct effect on the reputation of the organisation. In terms of specific skills, it was agreed that trustees needed to have a critical eye for detail and be able to see the bigger picture. The main thing was for them to bring in their wider experience into the organisation and look at the organisation from an outsider's perspective. There was consensus amongst interviewees that trustees should be primarily hired according to their skills. It was felt to be very important for trustees to have specific responsibilities and areas of expertise which could then be used to plan the strategic direction of the organisation:

“somebody on international development, somebody on finance, somebody in business, somebody on strategy, somebody on processes and somebody on communication” [SM4].

Legislation and best practice guidelines

Oversight in the form of legislation and best practice guidelines also seemed to provide impetus in improving governance in these organisations, with many viewing the consequential bureaucracy and added cost as necessary for the sake of accountability and transparency. This is more so in the current climate where these organisations receive greater scrutiny from the Charity Commission and government alike:

“... nowadays we have to be very very careful. Muslim charities especially need to show where the funds are going. It is hard and that has increased the costs, because there are more procedures, more rules, more oversight now. It is a lot more layered now and that is why the charities spend about 40% on their costs.” [EC2]

These issues can create greater bureaucracy leading to an internal struggle of how much bureaucracy to implement before it hampers mission and activities, and this often leads to slower response times. Most organisations were grappling with this issue. Although adequate governance frameworks are vital in ensuring organisations meet their required standards and performance, the study also found instances of
‘surface governance’ where the focus was on writing frameworks, diagrams and policies rather than on the actual implementation of these policies. This was primarily with those organisations where respondents also complained of lack of capacity.

“It is one thing to say we have these policies and another to say we have actually written these down and codified them, but it’s an entirely different dimension when you pick up your policies and say you are really implementing them” [ED1]

A willingness to be open to external scrutiny was also found to be an important element. Two ways by which this takes place are through external funding bodies assessing how effectively their funds have been utilised by the organisations and through voluntary initiatives by the organisations themselves, where they sign up to various benchmarking initiatives. The former organisations include bodies such as the Department for International Development (DfID), European Commission for Humanitarian Organisations, and the International Organisation for Migration (IOM). The latter include standards/ benchmark of the International Commission of the Red Cross (ICRC), The Sphere standards, (Fundraising Standards Board) FRSB, Humanitarian Accountability Partnership (HAP), Disasters Emergency Committees (DEC), Bond and National Council for Voluntary Organisations (NCVO) etc.

Unerman and O’Dwyer (2006a) suggest that without voluntary implementation of such accountability mechanisms, some NFP may face threats to their continued legitimacy and can be the subject of more formal, rigid mechanisms from upwards stakeholders.

Adherence to these policies was found to help the organisations focus their activities and strengthen their internal governance procedures, as they provided a form of external monitoring currently lacking in the sector.
“We work with Echo... it’s the humanitarian branch of the EU. When they give you funding, they are quite strict. They’ll come and check and do full audits. They might come to the office and say - the last few years we’ve done six projects with you and we want to see this and this and this project. Bring the documents, bring your procedures, bring your controls. They’ll spend two weeks and go through everything. Then they will say this is not right but this is okay.” [SM6]

One of the charities interviewed was preparing to become a Disasters Emergency Committee [DEC] member. This required considerable strengthening of its procedures and it was preparing for this external monitoring by engaging in an internal review of its departments:

“What we do is different desk managers peer review each other. So we have the desk manager for Africa who prepares his proposals and comments on the programmes being implemented in Somalia or Sudan and the desk manager for the Middle East, she will have a look at that and she will say well, you need to do this and you need to do that. Likewise he would look at South East Asia. In my last staff meeting, I said that this is a very good idea and what we would like to do is we need to develop it further and have different departments peer reviewing each other. So we can have the fundraising Department peer-reviewed by another department. So this will help us get ready and used to the idea.” [ED1]

Active external scrutiny, especially from funding bodies, has proven to be a positive influence in helping larger organisations in improving their transparency. These organisations seemed to be comfortable with evaluating projects undertaken, often using formal evaluation strategies, as this was an area where they were most likely to be questioned on. This involved the writing of post-activity reports by field offices, real-time evaluations, personal verification by trustees, independent activity audits and benchmarking by the project team against pre-requisite indicators etc.

Activities funded by institutional funders had two fold evaluations: through the charities own procedures and by the funder themselves. This has been termed ‘internal’ and ‘external’ evaluation respectively, by Ebrahim (2003). Some charities varied the evaluation according to the type of partner they were using in the field:
“So we have classified our partners as A, B or C. A is the one that is working at an NGO level. They’ve got their governance mechanisms, they’ve got their accounting reports, they have a publicity department and you can see and visibly talk to them. Category B is somewhere in between, there have accounts on Excel but they don’t publish them. But we can see from the registers they are all there, but they are not really sophisticated. And C is just a ‘walking’ charity. They are very basic, they don’t have an idea what bookkeeping is. So we deal with departments according to this and the C ones would be used only occasionally.” [ED2]

This meant they were able to take a risk-focus approach to evaluation and monitoring, hence freeing up resources to be better utilised elsewhere. Project evaluation is a highly specialised area if done properly and as most of these organisations did not have highly experienced people with pure technical skills, it was even more important they used their resources efficiently.

Key issues with larger organisations were related to control in field offices. Most charities operate in ten to twelve different countries and the concern is often ensuring policies are uniformly applied and implemented in all field offices. There were often insufficient mechanisms and resources in place for charities to ensure processes were actually being followed. A strong internal audit function that reports to an independent audit committee can help charities strengthen internal controls in field offices. Yet, only one of the charities interviewed had an internal audit function with an accompanying audit committee. The remaining organisations had something similar to a compliance officer whose remit was often much more limited.

8.2 Personal responsibility and accountability

Research question 2b sought to explore the aspects of personal accountability and responsibility which helped individuals navigate cognitive legitimacy. Cognitive legitimacy refers to basic, preconscious taken for granted assumptions about nature and structure of social activities. This level of legitimacy operates at the sub-
conscious level, making it difficult for organisational actors to influence and manipulate (Palazzo & Scherer, 2006). Personal responsibility and accountability is linked to internal aspects of personal conscience and is driven by adherence to internal, moral and ethical values (Harmon & Mayer, 1986). It is regarded as particularly powerful because it is enforced by psychological rather than external controls (Sinclair, 1995).

Personal responsibility and accountability can affect the cognitive legitimacy of individuals as it can be accorded to the intrinsic values held by organisational members. Findings from the interviews indicate that Islamic values based on the notion of accountability to oneself, society and God, combined with the knowledge and experience of individuals, helped shape how individuals fulfilled mission and vision and acquired cognitive legitimacy. It was evidenced that Islamic values (as discussed in chapter 3) such as *amanah, siddique, falah, ihsan, istiqamah, tabligh, ri’ayah, masuliya*, and *istislah* [trust, honesty, success, excellence, consistency, ability to deliver, professionalism, social responsibility and public interest respectively] were found to be at the heart of personal responsibility and accountability of individuals working in MCOs.

In addition, the findings from the interviews also suggest measures to gain and maintain beneficiary trust was important for MCOs to help improve their personal responsibility and accountability.

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46 As discussed in chapter 5, sections 5.2.2 and 5.3.4.
8.2.1 Accountability to oneself (ruhiyah)

The concept of taklif, i.e. that everyone is accountable for their actions or inaction's on the day of judgment (Abdul-Rahman and Goddard, 1998), was found to heavily influence all those interviewed. Even little details, such as use of a stamp for personal use [T3], or charging one's personal phone battery [JS3] were things individuals felt they would be held accountable for by Allah in the akhirah (hereafter).

“...Because we are going to be held accountable on the day of judgement for where that money has gone.” [JS3]

Individuals endeavoured to work in a manner that accepted responsibility for affecting the lives of others and working towards excellence, or ehsan in their activities [SM4].

“So I personally focus on this thing on a daily basis. I evaluate myself at the end of the day... I ask myself how did I do? what did I achieve? What could I do better? What I do personally is that I go out of the way and do some of the things that I’m not asked to do.. like working on weekends and working on Eid day. So then I may compensate for a gap or weakness where I wasn’t able to deliver. There are a lot of ways you know but that’s just my way of being accountable to myself and to my Allah.” [SM1]

A strong respect for human dignity was also evident with members expressing a desire to treat beneficiaries as they would expect to be treated themselves if they were faced with such unfortunate circumstances.

“I think if a flood came and all my things were, God forbid, swept away, it doesn't mean I don't have my dignity and respect. I would still expect people to talk to me. I would not expect them to throw a parcel at my feet. I would expect them to ask me first - how I feel, what I need. It's a grassroots approach... I think that is humanity and that's how to treat people” [T1]

Some of those interviewed put a lot of personal money into ensuring the organisation survived and activities/projects were completed.

“because sometimes it comes out of my personal costs or project costs and you constantly pray - please deliver just please deliver. Just do something because I have made promises in my heart. I've seen these people, I've seen their suffering...”. [T1]
“You see my car, it’s a £1000 Peugeot. I could have a BMW for £15,000 and chill but I didn’t. I thought the rest of the money will be better spent on poor orphaned children. So this sacrifice that I have given... I owe it to myself to make sure the money goes to the right place and people”. [T2]

This also extended to a scenario in one of the charities interviewed, where 20% of the business of a trustee was owned by the charity, resulting in profits being directly put into running the organisation. In another instance, one of the charity trustees, despite being recently diagnosed with a serious illness, still continues to devote time to the charity while undergoing treatment. This was all driven by strong Islamic values and beliefs. Many other individuals also commented upon the need to do ‘dua’ or prayer for their deeds to be accepted and for the organisation to make a great impact. This belief was inextricably linked to the concept of being rewarded or punished in the hereafter:

“You know charity is one of those things that will provide you shade on the day of judgement.” [JS3]

8.2.2 Accountability to Allah (amanah and khalifah)

From the organisational perspective, the Islamic faith was a key driver for accountability in all these organisations. The organisations had certain rules and regulations which were derived from faith (i.e. no alcohol or pork on the premises) which reflected Islamic values in the physical sense (jasadiyah), yet they also found there were hardly any activities they couldn’t do because of faith. The importance of being seen to adhere to the faith (jasadiyah) was important to all the charities as they were seen to be faith based by both donors and beneficiaries.

Some organisations were also taking the initiative to design their own Islamically defined accountability. One organisation was in the process of setting up a Shariah
board as a consultancy body for its trustees. While another organisation was working on developing an Islamic accountability framework for all of its members to adhere to. This allowed the organisation to be accountable to Allah in the form of their Islamic values and mission.

“So I think by bringing in an Islamic accountability framework we will be bringing in a very small Islamic chunk of responsibility and saying this is added to the universal principles of accountability and responsibility. We will be calling it practising Muslim ethos and values.” [ED1]

All individuals interviewed expressed a strong belief of their sense of accountability to Allah. This ranged from their conduct at work to the way the organisation handled donor funds. In relation to conduct at work, some individuals were keen to point out how they ensured they did not take liberties with organisational resources:

“The money that we’re handling is an Amanah, it’s a trust and so if you give a pound I need to ensure that what I’m spending is being spent in the right area of how you’ve entrusted the organisation to spend it.” [SM4]

“During my time... we were very, very miserly about the whole thing. Because ultimately you are answerable to Allah, there are no two ways about it.” [EC1]

MCO members had a strong belief that all their actions were being guided by Allah:

“I believe as a Muslim person that Allah has love for me and for His people. Even when we turn away from him and forget everything that we’re blessed with, He still loves us. Look what He does for us... look how many times we turn away from Him and He’s so merciful to us, we’re so blessed. Each time I pray, I pray Allah make me a source to help those in need because I know you haven’t forgotten me then. And as long as He keeps that door open, I know that I have a chance for redemption. I’m not doing it like a trade-off... because it’s just there... If I see human suffering I just can’t turn my back, it’s just the way I am.” [T1]

This also suggests that individuals viewed their actions, within the organisation, as acts of worship (ibadah) as they talked of their activities helping them achieve ‘falah’ (success) in the hereafter.
Individuals were aware of the need to work to the best of their ability as they were using other people’s money to deliver support to beneficiaries and hence they had to do things effectively.

“So for me when there's a big decision or even a small one... I have to really toy with the idea in my head. If I'm honest with you, I have had sleepless nights thinking... if I pull out of that contract, then am I doing the right thing for the organisation or is it because I want to do it.” [SM4]

There was a prevalence of understanding that charity was an important aspect of Islam and its distribution and handling had to be carefully managed. Senior leadership also spoke about the Islamic principle of the re-distribution of wealth (refer to chapter 3) and there was a general understanding that resources being handled, belonged to the poor:

“There is a saying of our Prophet (PBUH): the reason why there are poor is because the rich have not given what is due to them.... Islamically, charity is an important aspect of our way of life and the poor accepting this charity is an honour for us. You have to thank them for accepting it. For many needy people, they won’t ask you – you have to go and look for them.” [EC1]

8.2.3 Accountability to society (masuliyah, istislah)

Individuals working for MCOs expressed a strong motivation to help humanity (istislah) as one of the main reasons for working for a charity. The majority of those interviewed began their association with these organisations as volunteers with all the senior managers and executive interviewed having a lengthy association with the organisation in this regard. Some of these senior staff were trained in a different profession (lawyers, teachers, software engineer etc.) and gave up these jobs to work full-time within the sector, for the reasons associated with istislah (public interest). Employment in the charity sector can therefore be portrayed as a ‘calling, or sense of duty rather than a job (Houston, 2006).
“My job was as a schoolteacher as I always wanted to do something where I was helping others. So I really wanted a job where there was meaning and helping others and not just working in a factory producing widgets and sort of things like that. I genuinely want to make a difference really.” [SM3]

Humanitarian issues such as the tsunami, the Bosnian crisis, the Afghanistan issue etc. encouraged many to offer their services to the charitable sector. Furthermore, there was a feeling amongst interviewees that by working for a MCO, they were not wasting their time and their work had greater impact on humanity (istislah) than if they worked in the corporate sector. This desire to help humanity stemmed from the influence of family and the founder of the organisation and from Islamic belief, where interviewees felt there was ‘barakah’ (blessing) [JS3] in the work they were doing and it would be accepted by Allah (swt). Hence, intrinsic rewards held more importance than the extrinsic rewards of the job role (Frey and Jegen 2001; Houston, 2006).

A few interviewees were also motivated by their desire to help improve the charity itself, by bringing their skills and expertise from other sectors and organisations into running the organisation.

“I was a civil servant before and then I became an international civil servant and then I joined a charity called the Commonwealth Human Rights Initiative and I sat on the board. So I said, let me now try and go into running a charity as the CEO and try and bring my experience of working in different places and different entities, and see if I can contribute something.” [ED1]

There was also a feeling amongst some of the founding trustees that other charities were doing things wrong and the lack of transparency in other organisations became a motivating factor for them to set-up their own charity, in order to enhance masuliyah (social responsibility) and istiqamah (consistency and steadfastness) in the sector.
“...it was a big black hole that the money went into and it was the first time I realised... where is this £100,000 going? The answer was ‘Oh we can’t tell you – it’s going to the UN! ... That was a lot of money raised and we didn’t have any say over where it went. I could understand they may not know exactly, but you still want to know which project it’s gone into but they couldn’t tell me. So that sat a bit uncomfortable with me.” [T1]

8.2.4 Knowledge and experience (tabligh, ri’ayah)

A number of key characteristics helped drive personal responsibility and accountability in individuals. The most important was strong passion and dedication. A commitment to the cause and to the mission and values of the organisations helped feed this passion and dedication. Hence, aspects of ri’ayah (professionalism) and tabligh (ability to deliver) were reflected as important. This passion and dedication was caused by a need to understand suffering and feel the pain (ihsan) of those they were trying to help.

“What you are doing is basically helping them get out of that misery and you have to be able to cope with those kind of situations. You meet people who have walked for days and weeks, barefoot and they haven’t eaten. Mothers, girls, sisters who have been abused... it's very psychological. It is very difficult for the one who is suffering from it, but it is also difficult for the one who is listening, trying to help.” [SM1]

“...all charity work is helping the underprivileged. Until you understand their condition, until you fully understand you can’t really do this work. You can’t force people to do this work, they have to be committed and you can only be committed if you believe in the work they are doing ...” [T2]

“If you ask someone to do some work and that person has never seen hunger and pain then he won’t understand. If someone tries to explain the pain and suffering of the people he is trying to help he won’t understand it. You have to have seen first hand the pain and suffering, until you understand the real situation of the people you are trying to help, you can never be a committed worker in a charity.” [T3]

These findings are consistent to those found in the public sector; i.e. public employees are more likely than private sector employees to possess attitudes of social trust, altruism, equality, tolerance, and humanitarianism (Brewer, 2003; Rainey, 1997).
There were also indications that individuals working for such organisations had to display a high level of integrity (ri'ayah) and honesty (siddique and amanah) in addition to intelligence (fathunah) and a range of practical skills (i.e. leadership qualities, organisational skills etc) which helped enhance personal responsibility and accountability. Furthermore, integrity (ri’ayah) and honesty (siddique and amanah) were linked to the way in which an individual conducted themselves in the organisations. All interviewees discussed trust and honesty as important aspects of internal and external relations (O’Dwyer and Unerman, 2008).

Finally, a crucial characteristic that emerged from all interviewees was having a sound understanding of Islamic principles in relation to charity. There was an intrinsic understanding that Islam (the Quran and Hadith) guides an individual’s actions, with many saying they took their inspiration from the Islamic tradition of giving.

“For example, there was an instance when somebody came to our Prophet (PBUH) for some help. Our Prophet (PBUH) asked him if there was anything he had in his house to sell. The man returned with something which our Prophet (PBUH) asked him to sell in the market, buy an axe and use the axe to cut some wood which he could then sell. So what does this tell us? Our Prophet (PBUH) could have given him so money to satisfy his needs. But he followed this route to teach him how to earn his living on a sustainable basis.” [T2]

8.3 Dynamics of accountability

This section discusses the dynamics that were found to either facilitate accountability (both functional and personal) within MCOs or acted as impediments to accountability, thereby answering research question 2c of the study. Some of these issues may have been addressed in earlier parts of the chapter due to the interconnected nature of different accountabilities.
8.3.1 Facilitators of accountability

The drive to improve accountability in charities began in the 1990’s and has gained momentum over the past decade with the effects now being felt in the religious charity sector. This study found four main drivers that have had a positive effect on increasing accountability in the sector; institutional funding, legislation, Muslim charities forum and donor trust.

8.3.1.1 Institutional funding

Institutional funding has driven accountability to a greater extent than other factors, as this type of funding is directly linked to greater upwards demands for accountability (Ebrahim, 2003). All institutional funders require formal accounts of where their money has been spent and detailed explanation of its impact. This requires an organisation to have clear processes in place that allow it to track funds and activities. There are a number of types of institutional funders that provide monetary aid to charities. These funders are themselves accountable to their respective governments and their respective entities. They have to ensure that those organisations that receive funding have certain measures in place to properly manage these funds. This has significant implications for the forms of accountability promoted and practiced in the sector (Ebrahim, 2005; O'Dwyer and Unerman, 2007).

Institutional funders further realise that overhead costs are a necessary part of strengthening the governance of organisations and hence consider this when providing funds [ED3]. Consequently, those organisations that were more heavily reliant on institutional funding also had better procedures for delivering
accountability. Firstly, they had more freedom in allocating funds to cover their costs and secondly, they were actually encouraged by their funders to spend more on strengthening their internal processes and procedures.

One of the organisations was the only MCO to have a Programme Partnership Arrangement [PPA] funding agreement with the Department for International Development [DFiD], which was aimed at core capacity building and not project related. Interviewees explained how this organisation received grants every year to improve systems and processes and in turn DFiD carried out audits to see if the money provided had actually improved their procedures. With this particular organisation, institutional funding has had a direct positive impact on their level of accountability.

8.3.1.2 Legislation

The charity sector in the UK is relatively unregulated compared to for-profit organisations. Therefore, recent Charity Commission regulations in relation to reporting and accounting and the SORP have had a significant impact on the way charities keep records and prepare their accounts. Fears of compliance checks, as was the case in three of the organisations interviewed, have led to charities ensuring they keep a thorough paper trail over their income and expenditure. In addition to these requirements, three other major Acts were found to significantly affect the accountability of these MCOs: the Counter-Terrorism Act, Anti-Bribery Act and the Anti-Money Laundering Act, even though they are not directly aimed at charities.

“We are now living in a globalised world and having to implement legislation for anti-money-laundering or anti-terrorism in order to identify the end-user. So we have to know how the funds are going to be used at the very end, not just where they are processed and how they are remitted. We also need to know to whom they are remitted and to see actually where and how it has been spent.” [SM5]
The UK has the strictest bribery regulations anywhere in the world. According to the Anti-Bribery Act (2010), if any of the employees of a UK based organisation, in any part of the world, take or give a bribe, then the organisation is liable. The focus of the Act was on commercial organisations but the wording of the Act is quite vague and charities have also fallen into its remits. Many of those organisations interviewed were strengthening their procedures in their field offices in relation to this Act and raising awareness of a zero-tolerance policy.

“An important component of our work is also to make sure that people in the field are aware of it. There are sufficient notices up in the offices to say we don’t give or take bribes. And that people are trained and that any sort of transaction that could be deemed as a bribe is stopped. ... The Act mandates zero tolerance. The amount doesn’t matter. We would have to reconsider working in any country where we are not able to abide by this act” [SM6]

The Counter Terrorism Act put MCOs in the spotlight post 9/11. This Act has had the effect of causing all funds coming in and out of any organisation, Islamic in nature, to face more scrutiny from the banking sector. This added scrutiny has therefore had a direct impact on international fund transfers and ensuring money gets sent for projects in host countries on time.

“There have been instances... where it has taken virtually months. You can imagine if you are trying to send funds for a famine in Somalia and your funds are held for a month... it can quite easily turn into a life or death scenario of the people who have been impacted.” [SM2]

This has prompted some of the larger, established MCOs to lobby both the UK and the US governments and make them understand the impact it has on the work of charities. To counter these issues, interviewees of larger organisations explained how they have had to strengthen their governance processes and have been forced to become more transparent in their operations.
Despite the lack of direct regulation for charities, there have been suggestions that self-regulation is more important for accountability in NFP organisations than imposed mandatory regulation (Lloyd, 2005). The larger organisations may be able to handle this oversight themselves but smaller organisations will not have the internal capacity to adequately monitor themselves. The Muslim Charities Forum may have a role to play in this regard.

8.3.1.3 Muslim charities forum

The Muslim Charities Forum (MCF) is an umbrella organisation whose aim is for Muslim charities to get together to share experiences and to have a unified stance on various issues. It was set up in 2007 by four of the larger Muslim charities in the UK: Islamic Relief, Muslim Hands, Human Relief Foundation and Human Appeal International. It meets every few months, initiates various training and development programmes for its members as well as working closely with the Charity Commission.

Although this forum is at an early stage of development, it can prove to be an effective umbrella organisation to monitor and support its members. This kind of body can be instrumental in helping to strengthen the internal control and governance procedures of MCOs. However, due to the member charities being of different sizes, power has become a problematic issue [ED2]. Nevertheless, it is still a step in the right direction and they have recently set up a transparency and governance initiative to help tackle similar issues within the sector (MCF, 2012).
Some interviewees did express distrust in the remit of the MCF as a representative for all MCOs due to its limited membership.

“What the Muslim charities forum have done is limit their membership to only big charities, instead of having a membership which goes across to the grassroots.” [ED1]

“I think those who talk to the Muslim charities forum are those charities who are capable of looking after themselves, but what about those charities that are not capable. They also need to be made aware of the challenges, the requirements and expectations. Once they know these, then they can ask for support. At the moment they don't even have an idea” [SM2]

However, this distrust stems from a reluctance to share practice with other MCOs (see 8.3.3.4). A process of cultural change within the sector is required to bolster the sharing of best practice and help improve the standing of the MCF.

8.3.1.4 Donor trust
Gaining donor trust was also found to be an important driver for accountability in the sector. MCOs have greater donor trust anyway which stems from the religion itself.

“Because the religion says once you've given your sadaqa you've got your reward then and there. How the sadaqa is dealt with in the charity will not impact the reward that you get.” [EC2]

Interviewees highlighted how their organisations focused considerably on communicating accountability to their donors47 and were keen to show the impact of their activities. The larger organisations spent a considerable amount of time engaging with donors and the community in their projects and providing donor reports on individual projects. The importance of gaining donor trust was exemplified by the importance interviewees placed on educating donors on administrative costs and the operations of the charity48. Furthermore, these organisations have a loyal workforce that has been with the organisation for a

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47 See section 8.1.1.1.
48 See section 8.3.2.3.
number of years. This allows them to understand the organisation, the sector and donor needs to a much greater extent.

8.3.2 Impediments to accountability

In terms of impediments to accountability, the study found internal capacity, the focus of accounting and reporting within the MCOs, the issue of administration costs, trustee issues and a hesitance for sharing practice to be the key factors impeding accountability in MCOs.

8.3.2.1 Lack of internal capacity

A lack of internal capacity was one of the main factors impeding accountability in MCOs. According to Hailey and James (2004), this can have implications for the mission and identity of an organisation thereby affecting what the organisation stands for. Many of the interviewees explained how their organisations had experienced rapid growth over the past few years, spurred on by the number of emergencies. Some organisations were set up less than a decade ago and now generate up to £30million, yet in most cases this had not translated into an improvement of governance processes. Hence, the majority of organisations were currently undergoing some sort of review of their procedures and processes. An important area in this regard was having employees with the right skills and expertise to effectively improve procedures. To improve finance procedures, organisations need to have a qualified finance person, yet out of the eight organisations interviewed only one had a chartered accountant as head of finance. Similar findings were also reported by Smith and Miller (1989) who found in larger organisations that did have
dedicated accounting staff, the individual in charge often lacked skills in internal control design.

“There is an issue of acknowledging that we need a qualified person. There is a lack of knowledge on what they should be doing, what the practitioner should be doing.” [EC2]

However, finding the right person can also be problematic. Salaries in the charity sector are much lower than in the corporate world and the job can be equally demanding. Hence, organisations often have to weigh up the idea of attracting the best person for the job, against the costs of employing such a person. One interviewee also spoke of the lack of expertise available and the need to hire honest people:

“This field is very corrupt. They’ll sit there for 2 months and say I’ve done this and I’ve done that, but when you ask them have you actually submitted any forms... they’ll say no.” [T1]

This lack of expertise also means that many of the organisations interviewed did not have an internal audit function with a functioning audit committee. Even the one organisation that did have an audit committee was having difficulty in finding the right people to sit on its committee. The interviewees from the organisation highlighted how a lack of willingness and experience amongst members of the Muslim community to sit on audit committees and a lack of understanding on how they work was hampering efforts. Although a number of the organisations had some form of internal evaluation, it still fell short of a proper internal audit function due to the absence of the audit committee.

This lack of internal oversight and expertise also had an effect on how these organisations oversee their field offices. Field offices pose greater risk for charities as they are often not directly controlled by head office. They may be run by partner
organisations and the ethos of working in these organisations is often different to the way of working in the UK. Some charities actively monitored their field offices using a risk-based approach whilst others relied on partner organisations to oversee monitoring.

Finally, strategy planning was found to suffer greatly in these organisations due to a lack of capacity. Those organisations that had the required time, expertise and resources could execute, plan and develop an effective strategy which will help sustain the organisation. Strategic planning was especially important for newly formed organisations as it allowed them to plan how to build their infrastructure and how to deliver activities. Yet many of the smaller charities initially neglected this in favour of sending as much money to beneficiaries as possible.

“We could have used some of the funds to strengthen our base here to strengthen our infrastructure and to employ more manpower in order to keep us going properly. But at that time, our thinking was different - we just wanted all the money to go out as soon as possible.” [ED4]

This lack of an infrastructure was now hindering the growth and subsequent accountability of the organisations.

### 8.3.2.2 Focus on communication, reporting and accounting

Another aspect which could help improve accountability in MCOs was for communication, reporting and accounting to be better focused. In terms of communication, it was found that MCOs place too much emphasis on providing information to donors and less so to beneficiaries. The communication process for beneficiaries was much more informal, with head quarters expecting project staff to communicate with them. No type of formal reporting mechanism was used for

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49 See section 8.1.1.1.
beneficiaries although some organisations did express the need to provide detailed information to beneficiaries to help them better understand the resources available to them. Finding this balance requires organisations to move toward more holistic forms of accountability which prioritise learning processes and accountability to mission (Ebrahim, 2005).

There were also indications that the accounting and financial reporting need to be better focused and this could only happen if the respective processes were in place. Many interviewees indicated how their organisation focused all their efforts on fundraising alone so much so that the orientation of the staff was towards raising money and the backup systems to support this were not considered. With limited resources, a few interviewees felt that rather than spending money on administration and record-keeping it is better to use the resources to raise more funds. Hence, more resources need to be spent by these organisations in building infrastructure and developing written policies and procedures on reporting, accounting, budgeting etc. These need to be bespoke policies that are tailored to the organisation rather than copied from another organisation as a one-size fits all approach has been found to be problematic within the NFP sector (Bradshaw et al., 2007, Alexander and Weiner, 1998).

From the Charity Commission’s (2004) point of view, financial reporting is the minimum accountability a charity should provide. However, the quality of reporting is closely linked to the expertise of the account preparers. The larger organisations had an internal person preparing reports, whereas the majority of smaller
organisations hand their records over to an external accountant to prepare the reports.

These external practitioners, in the words of an auditor:

“treat the charity like a limited company and this is why a lot of the accounts are like limited company accounts. They don’t reflect the charity activities. They have a line saying we spent £10,000 on gas, we spent £2000 on insurers and then we spent £1 million on charity activity with no breakdown. That’s not the fault of the charity - that’s the fault of the practitioner.” [EC2]

Therefore, the experience and background of the account preparer also impact on the reporting of an organisation and subsequently its communicated accountability. This issue is discussed in more detail in section 9.1 when discussing how organisations navigate the pragmatic legitimacy of their organisations.

The issue of zakah reporting is also closely linked to this. All the organisations involved in the study handled zakah, yet none specifically provided any breakdown of this in their annual reports. This was probably because they didn’t feel the need for it, or they didn’t actually have the information to provide a detailed breakdown. This required the internal processes of the organisation to be strengthened so organisations were actually able to provide this information. It also requires donors to be more vocal in their demands for accountability.

Donors of MCOs are more trusting that in the non-Muslim sector because of the reward aspect in Islam (chapter 3). According to Islam, you get your reward for the act of giving (Lewis, 2006) and the onus is on the organisation to ensure it is properly distributed. This is one of the reasons why donors are more concerned with the issue of administration costs\(^{50}\), as many donors believe the amount of their reward is linked to the maximum amount being given directly to beneficiaries and

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\(^{50}\) See section 8.3.2.3.
they are not concerned with the infrastructure or management of funds within the organisation. However, there were steps being taken by those working in the sector to help donors demand better accountability:

“I am in discussions with some big donors and some representatives of different charities, via the Muslim charities forum, on how to come up with some specific reporting disclosures. These will be more relevant to donors and I will try to see if I can introduce all charities to sign up to these standards”. [EC2]

8.3.2.3 Public perception over administration costs

A significant concern raised by all interviewees was the perception in the Muslim community that charities should not use any donations to cover their overheads and that they should do the work for as ‘little as possible’ [ED1], yet this was not always practical or necessary. As many interviewees pointed out:

“In the Quran it says the administrators of the zakah can take one eighth, however we are not taking it because of the donors and I think this is wrong.” [EC1]

“It is not only difficult but it is ignorance on the part of donors... I used to say to them to go and ask an Imam whether we can use the money or not and then come to me. How do we pay for the electricity? How do we pay for the rates? ” [ED1]

All charities have overheads and it is inevitable that a percentage of donations will be used to cover these costs. In fact it has been reported that NFPs with fewer administrative costs may be more vulnerable to financial shock than those with higher administrative costs (Greenlee and Trussel, 2000). The amount of this cost varied between different organisations and the type of services they provided. Smaller voluntary set-ups required much less overheads to operate compared to the larger complex charities. However, it is often the amount of spending on infrastructure which allows a charity to work more efficiently and effectively and in turn provide better accountability.

“Which is why I find that those who declare they have virtually zero or very low admin costs, they don’t necessarily deliver better aid and they don’t make a bigger impact.” [SM3]
It was suggested that some donors were basing their opinion of the performance of the organisation solely on this criterion. The concern was greatest in the larger organisations as they inevitably used a greater percentage of donations to cover overheads. Consequently, one organisation had begun a research exercise to understand the extent of public perception on this issue. The feeling was more pronounced as many interviewees felt the public did not fully understand religious edicts on this issue.

“This is wrong... Saying we don't take any money out of this.... this is a problem within the Muslim charities. I don't believe any charity can give 100%. Islam is a reasonable and fair religion. Even when you come to fast, you fast during the day and not the night... If you pray you pray and rest also... you don't have to pray all the time.” [EC2]

All interviewees agreed that education and transparency were two ways in which this issue could be solved. There should be a process of educating organisational staff to handle questions on this issue. There should also be a drive by MCOs to help donors understand what overhead costs actually enable a charity to do. One organisation had produced a 3 minute video on You Tube explaining how they spend every penny of a pound donated to the organisation and what wider impact this has.

8.3.2.4 Trustee issues

Trustees are the governing body of the charity and are responsible for steering the organisation in the right direction (Hyndman and McDonnell, 2009). Therefore issues with the trustee board can have a direct and adverse impact on the charity organisation. To have an effectively running charity, ideally, the trustee board should be made up of individuals with appropriate mix of skills and experience and this is something all leaders interviewed agreed with. Yet, in reality the trustee board
of some of the organisations was based on personal and family relationships and not based on ability. This had the effect of severely restricting the capacity of the organisation.

“When I wanted to register the charity, I just asked these people if they wanted to be my trustees and they said yes. I don't think they realised that I was going to take it global.” [T1]

This issue was further confounded as the founder in a few of the organisations viewed the organisation as a personal endeavour and kept a tight hold on all decision making within the organisation, merely using the board as a ‘rubber-stamp (Tandon, 1995). In those instances where the organisation was making efforts in finding new trustees, they faced considerable obstacles in finding the right person and in publicising both the charity and the requirements for a trustee.

Another cause for concern was the evaluation process of trustees as in many of the smaller charities, no evaluation process was in place for evaluating trustee performance. Some of the more established organisations were only beginning to strengthen their governance in this regard. In the smaller charities, the only active member was often left to run the organisation by themselves and other less active members didn’t question his or her actions in detail for fear of upsetting the status quo.

8.3.2.5 Hesitance of sharing practice

A final factor which was found to impede accountability in MCOs was an unwillingness by larger, better governed organisations to share best practice policies with newer/smaller organisations. One interviewee spoke of getting extensive help from Christian Aid but not from other MCOs. These larger organisations conveyed
suspicions of the way smaller charities were run and viewed them as being archaic and not working in the 21st century [SM6].

“Muslim charities are hesitant to answer a phone call or reply to an e-mail, they operate in a very closed environment, they are sceptical of everyone... they need help to move to the next stage.” [ED3]

The larger organisations were also found to be well connected with each other, with the MCF providing a forum where they would get together and discuss issues relevant to them. This forum is not open to smaller charities, which are more in need of guidance and assistance. Therefore, the lack of support provided by the larger organisations in guiding and assisting smaller MCOs was also impeding accountability in some organisations. In fact, when questioned, the members of smaller charities did not feel like they could approach larger MCOs for help with their governance, as they viewed them as ‘bureaucratic’, ‘arrogant’ and like ‘a state’.

8.4 Summary

This chapter has discussed the findings from the second stage of the research exploring the lived accountability practice of MCOs. The chapter firstly presented the findings in relation to the functional accountability of MCOs in respect to research question 2a. Due to the chameleon nature (Sinclair, 1995) of accountability, different activities were found to strengthen more than one type of accountability. On the whole, it was suggested that the functions of accounting and auditing aid resource and procedural accountability and the functions of governance and oversight aid performance and leadership accountability.

In relation to the function of accounting and auditing, this study found MCOs managed their resource accountability (i.e. using funds and resources in an
authorised way) by having clearly identified roles and responsibilities, having appropriate financial controls, prioritising book-keeping and budgeting, planning effective financial strategies and gaining stakeholder trust. This, in turn, allowed MCOs to manage their structural legitimacy. MCOs also enacted procedural accountability (i.e. activities undertaken met organisational goals) by engaging in socially accepted techniques and procedures, thus allowing them to effectively navigate procedural legitimacy. These techniques and procedures include; having a strong awareness of mission and values, finding suitable sources of funding, strengthening accounting practices, strengthening internal controls, handling religious donations within the spirit of the Shariah and engaging in appropriate activities.

In relation to the function of governance and oversight, this study found MCOs ensured their performance accountability (i.e. that performance met required standards), by linking their strategy to their mission and values, concentrating on governance and their trustee board, being open to external scrutiny, and ensuring the evaluation of both organisational and individual performance, thus gaining them consequential legitimacy.

It has been suggested by prior literature (chapter 2) that the ultimate accountee in any charity is the trustee and senior management and a number of themes emerged directly linked to leadership accountability (i.e. related to how trustees and directors carry out their role to ensure organisational goals were met), and personal legitimacy. These include understanding the importance of correct trustee appointments, having
leadership as effective drivers of strategy and distinguishing between trustee and executive roles and responsibilities.

The chapter then explored different aspects of personal accountability and responsibility, in respect to research question 2b. It was found that Islamic values \{amanah, siddique, falah, ihsan, istiqamah, tabligh, ri‘ayah, masuliyah, and istislah\} based on the notion of accountability to oneself, society and God, combined with the knowledge and experience of individuals, were found to be at the heart of personal responsibility and accountability of individuals working in MCOs. These values helped shape how individuals fulfilled the mission and vision of the organisation and thus, acquired cognitive legitimacy.

Finally, the chapter examined the factors that facilitate or impede accountability in MCOs, in respect of research question 2c. This section found institutional funding, legislation, Muslim charities forum and donor trust to be key facilitators of accountability in the sector. In contrast, a lack of internal capacity, the focus of accounting and reporting within the MCOs, public perception on administration costs, trustee issues and a hesitance for sharing practice were key factors impeding accountability.
9.0 Introduction

The main aim of this chapter is to summarise and conclude the study. Given the mixed methods nature of the study, there is a need to bring together the different stages of the study to provide a reflective overview of the main strands of enquiry and implications of different aspects of the findings. Section 9.1 discusses the findings from the first stage of the study in light of the interview data and outlines the implications this has on the pragmatic legitimacy of MCOs. Section 9.2 provides an overview of the moral and cognitive legitimacy of MCOs. Section 9.3 discusses the implications of the findings in terms of recommendations. Finally, section 9.4 provides reflections on the limitations of the study and considers areas for further research.

9.1 Navigating pragmatic legitimacy

Charities are subject to increasing demands for accountability and the TARs are seen as an important medium to demonstrate this aspect (Steccolini, 2004). Since a large proportion of income of religious charities comes from the public, it is important that they balance between their primary purpose of achieving spiritual aims and at the same time remaining legitimate in the eyes of their donors. Credible disclosure of narrative information helps charities gain and maintain pragmatic legitimacy as evidence that their affairs are run properly (Gambling et al, 1993). For MCOs, the issue of accountability is even more paramount as they have to manage obligatory
religious charity on behalf of the UK’s Muslim community who choose to donate to them. It is therefore important that MCOs are transparent in relation to their activities, which at the bare minimum includes adhering to mandatory disclosure requirements as recommended by the SORP. Yet the findings indicate poor communicated accountability by MCOs compared to CCOs, although improvements are evident in the 2010 reports compared to the 2008 reports.

The lack of compliance accountability could be linked to either inadequacies in the ‘demand of an account’ or inadequacies in the ‘fulfilment’ of these accountability demands. Both these reasons have been discussed extensively in the literature (see for example, Hyndman, 1990, Connolly and Hyndman, 2003; 2004; Lumley et al., 2005; Dhanani, 2009; Morgan, 2009a, Crawford et al., 2009). The former is linked to the work of the Charity Commission in guiding, informing and ensuring compliance to regulatory requirements. Inadequacies in the fulfilment of accountability could be linked to deeper organisational reasons as reporting practice often reflects the internal practices of a charity (Lumley et al., 2005; Dhanani, 2009). These aspects were highlighted in chapter 7, and their implications are explained in more depth below, utilising interviewee responses which were followed up during the second stage of the study.

Although the first stage of the study examined charities with a wide range of income levels, the second stage of the study focused on interviews only with those charities that had an income greater than £500k51 (i.e. those charities considered large or very large – see 6.3.1) due to issues of access. Within these charities selected for

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51 See discussion in section 6.4.1
interview, there were wide variations in the number of personnel employed and income levels (see table 6.5), therefore size, in terms of personnel employed, was a key factor used to explain the findings from this stage.

It was widely accepted by respondent that the TAR was an important statutory document that needed to be produced, with interviewees stating it was ‘fardh’ (compulsory: religious and legal connotations), a core basic principle and the minimal requirement for accountability purposes. Preparers also acknowledged the importance of the document as a representation of the work of trustees as guardians of the organisations.

There was also widespread agreement across interviewees that the annual report was a 'more friendly way of getting the message across’ compared to the financial statements, as some interviewees felt the financial statements were not easily deciphered by donors and “only the qualified professionals who know about bookkeeping or account side will understand the facts and the figures”. Given the importance expressed by interviewees on the need for the preparation of TARs, in-depth questioning lead to a number of possible themes emerging regarding the lack of communicated accountability.

All interviewees viewed accountability as part of their religious duty and mentioned the concepts of vicegerency (khalifah), trust (amanah) and responsibility (mas’uliyah) when discussing their responsibility to their stakeholders. As it is unlikely that those with religious beliefs will justify unethical (un-accountable) behaviour (Parboteeah et al., 2008), the lack of communicated accountability found
within the study could therefore be linked to the inherent trust placed in religious charities by donors. The need to create and maintain a trust bond with donors was discussed in chapter 8. This trust was created through various other communication methods (i.e. face-to-face, TV campaigns, newsletters etc.) and was important in helping donors understand where their funding was being used. The impact of this activity was that donors did not place much importance on demanding to know exactly how funds had been spent post activity as they already had an idea of where they would be spent. This supports the view that people have an innate belief that RCOs are spending wisely and effectively (Opinion Leader Research, 2005). Since the majority of donors are not fully aware on the management, governance and operational side of such organisations, this belief is grounded in faith rather than rational expectations. Consequently, if a faith based charity professes itself to be accountable only to God, then followers of the faith often feel that such accountability is enough, especially within MCOs. As a result, interviewees expressed the need for donors to be pro-active in demanding accountability from MCOs.

Another reason identified from the interviews, and discussed in chapter 8 (section 8.3), was the lack of expertise available within the organisation as well as the cost involved. MCOs are set up by people with the desire, motivation and drive to help those in need and these desires often stem from personally rooted religious beliefs. However, interviewees noted that it can take a long time for the charity to find its feet. A few of the MCOs interviewed began with individuals collecting money for a particular cause but when the income grew they decided to get them registered. Yet, they initially did not have the capacity to fully understand what was required of them
in terms of regulatory demands. This can lead to a period where their reporting requirements suffer.

Furthermore, the findings from the second stage of the study suggest, the majority of MCOs relied on the services of only one or two paid individuals or trustees (see table 6.5). Although this enables administration costs to be kept as low as possible, it also impacts on the ability of the charity to provide the same level of compliance as organisations with a greater number of personnel. A number of interviewees suggested their ultimate accountability was to ensure that funds were spent for the purpose for which they were raised and provide the maximum possible benefits to their beneficiaries. As a consequence, the majority of interviewees did not have an in-house specialist or even external charity specialist preparing the accounts. Information for the TARs was compiled by the trustees and then handed over to an external accountant to put together. The external accountant in all cases was not a charity specialist and was more conversant in preparing business accounts than charity accounts. This also meant this external person did not have sufficient knowledge of the charity to provide a detailed annual report, thus providing further reasons for the lack of detailed performance information found in stage one of the study. The motivation to keep costs low often means smaller MCOs do not have the resources (time and/or money) to invest in the preparation of high quality TARs. Interviewees in the larger MCOs on the other hand, had extra resources and as a result could provide better promotional annual reports at the expense of much higher administration costs. Given their limited resources, interviewees in the smaller MCOs were content with providing *accountability for probity and legality* since judgement based accountability communication required resources they did not have.
These results therefore do not find any evidence that MCOs are viewing accounting and disclosure requirements 'secular' or trying to keep the 'sacred' core activities of the organisation separate from the 'secular' reporting activities (see Laughlin, 1990). On the contrary, Islamic belief was found to be a driver of accountability in all aspects of the organisation. All respondent provided detailed knowledge on the need to distinguish zakah income from other sadaqah and also explained how their internal controls allowed for this to happen (section 8.1.1.3). The issue of a lack of zakah and waqf reporting found in the first stage of the study is therefore more likely to be linked with a lack of internal capacity to collate and present the figures, rather than an unwillingness to disclose. Furthermore, given the lack of demand from donors for this kind of information, MCOs do not seem to think the reporting of such information is paramount, especially when they feel they have enough internal control mechanisms to be handling the donations according to the spirits of the Shariah.

9.2 Navigating moral and cognitive legitimacy

This study found MCOs were focused on communicating functional accountability primarily to donors. Hence, donor trust was procured through activities which would develop moral legitimacy in the organisation. On the other hand, interviewees expressed a preference to communicate personal responsibility and accountability to beneficiaries, hence beneficiary trust was gained through actions which would garner cognitive legitimacy.
9.2.1 Moral legitimacy and accountability of MCOs

Formal accounting and accountability mechanisms are an important factor in developing legitimacy. Goddard and Assad (2006) explain that this legitimacy is not a static phenomenon, but rather something which moves forward and backwards along a continuum, with the direction of travel determined by a variety of factors related to the operational conditions of the charity. These findings were also reflected in the present study. Those organisations with a greater number of personnel working for them and thus greater income levels were found to have greater structural legitimacy, as they were seen to have better financial controls. Smaller charities were therefore trying to ‘copy’ the success of these organisations so they could gain such legitimacy from their stakeholders. These larger organisations were also more active in pursuing formal funding strategies and were acutely aware of the type of funding they need to obtain, to help further strengthen their structural legitimacy. However, those organisations with a lack of awareness of overall strategy planning also lacked the initiative and investment needed for infrastructure building, thereby affecting the level of structural legitimacy they could garner. On the other hand, by engaging stakeholders in their activities, these organisations hope to gain the trust of donors which would help them gain some legitimacy in their processes.

All organisations were actively engaged in looking at new ways to raise funds, with many turning toward institutional funders to provide them with procedural legitimacy in the form of large funding grants. Furthermore, reporting and budgeting practices were seen as important ways in which they could gain such legitimacy. The majority of organisations relied heavily on external practitioners to strengthen their accounting practice. They viewed the external assurance provided by the
accountant as a way of navigating procedural legitimacy they couldn’t otherwise obtain due to lack of resources. In these instances, the external accountant would act as a conduit for information accountability between the charity trustees and the accountor (Ijiri, 1983). Furthermore, a need to provide a ‘paper-trail’ for all transactions, especially in the case of religious donations, meant the organisations were very careful in record-keeping, but disagreement was found on how best to spend zakah funds. Given the sensitive nature of this charity, all organisations sought not to damage their procedural legitimacy and used all such funds in charitable endeavours rather than using a proportion to cover their administration costs.

MCOs were also found to place great emphasis on gaining consequential legitimacy from their stakeholders. They were looking at ways to have their activities externally scrutinised by independent bodies and viewed the TAR as an important medium through which to convey their activities to their stakeholders. However, consequential legitimacy was found to be directly affected by the lack of strategy and foresight shown by smaller organisations, due to their lack of internal capacity. Yet, all interviewees were found to place great importance on performance evaluation related to monitoring budgetary performance and evaluating activities, on an individual level this was linked to employee performance evaluations. This suggests that these organisations were not only concerned with ensuring that the correct activities had been carried out but also wanted to ensure these activities were carried out well, thereby increasing their consequential legitimacy.
Finally, personal legitimacy was found to be of great concern to larger established organisations which had a greater range of stakeholders, especially upward stakeholder pressures. A variety of skills and expertise were required from leadership to effectively execute their role. In particular, leadership was seen as important drivers of strategy. Trustees were seen to provide the direction for the organisation and hence, were expected to be responsible for the activities of the organisation. Management and executive were seen as implementers of this strategy. This division of roles provides clear personal legitimacy for the activities of the leadership. However, in some instances, this was not found to be the case with the roles of trustee and management blurred.

9.2.2 Cognitive legitimacy and accountability of MCOs

Cognitive legitimacy, driven by religious values and beliefs, was found to be important in helping to strengthen the moral legitimacy of MCOs. In particular, it was found that individuals working within MCOs had a profound sense of accountability to oneself, to Allah and to society. Accountability to oneself, or ruhiyah, was particularly strengthened by the Islamic belief that all an individual’s actions were being monitored and that he/she would be called to account for these actions on the day of judgement. This strong religious belief fed into the desire and motivation of employees to work to the best of their ability.

Similarly, accountability to Allah, was strengthened by the Islamic belief that all resources were an amanah (trust) from Allah and that the role of humans was simply to act as a khalifah (steward) over these resources. From this perspective, there was also a belief that charitable donations actually belonged to the poor and the role of
the organisation was merely to facilitate the flow of resources to reach their intended target. In the same vein, the concept of social responsibility (masuliyah) and public interest (istiklah) was found to be a strong driver for those working in MCOs. All respondents expressed their desire to help humanity as a core characteristic for working in an MCO. These religious beliefs were further reinforced by the knowledge and experience of MCO members. In particular, aspects of ri’ayah (professionalism) and tabligh (ability to deliver) were found to be prevalent in the interviewees.

Due to the nature of personal responsibility and accountability (see chapter 5), the hierarchical framework in which organisations operate can have an adverse effect on achieving cognitive legitimacy (O’Dwyer and Unerman, 2008). This adverse effect was found to be more pronounced in the two larger bureaucratic organisations interviewed (see table 6.5), where individual autonomy was found to be constrained to a greater level. This is because functional accountability in complex organisations results in a fragmented way of working. This was evidenced in the way these larger organisations had separate departments for each activity with different people working in each department. Lindkvist and Llewellyn (2003) suggest this means the discharge of functional accountability is also fragmented with each department performing a separate responsibility and hence having a different accountability, hierarchically decided by top leadership. Consequently, the work of the individual is also fragmented and restricted to a particular role. This failure to see the bigger picture can result in a bridge between what the individual feels they should be doing and what they are actually doing. The smaller organisations did not face such restrictions and hence individuals felt greater autonomy in their role.
9.3 Implications of study

The findings of this study offer important implications for both the Charity Commission and MCOs. In respect to the Charity Commission, the findings suggest they need to be more proactive in ensuring compliance. Although it would be impossible to examine the reports of all the charities (Morgan, 2009a), the stricter approach in Scotland as required by the OSCR (Morgan, 2011), should be seriously considered by the Charity Commission in England and Wales. In particular, focus needs to be given to smaller RCOs and places of worship, which the study found were worst in providing disclosure on the SORP framework.

The findings also suggest it may also be necessary for the Charity Commission to reconsider the SORP framework to make it better aligned with the more simplistic requirements of RCOs. Given that RCOs often consist of fairly informal organisations, a less complex disclosure framework and a customised SORP framework, could help achieve better communicated accountability. This could be in the form of a template annual report for smaller RCOs to follow, with examples of best practice aimed specifically at the different types of RCOS, rather than the one size fits all approach currently employed.

In addition, this study found that often reporting issues were linked to deeper organisational reasons. It may therefore be worthwhile for upward stakeholders, such as the Charity Commission, or even governmental organisations like the Department for International Development (DFiD), to provide workshops for weak RCOs to help strengthen their internal governance and strategy planning.
similar vein, the findings also suggest that those MCOs able to effectively communicate with their donors and funders gained greater trust in the form of greater donations. Moreover, the amount and type of institutional funding received, was found to have a direct impact on the upward accountability of MCOs, as it resulted in better infrastructure and greater demands for accountability from the grant givers. Yet, this was only possible for those organisations with greater manpower to write funding grants and greater resources to keep track of institutional funds. It may therefore be worthwhile for the Charity Commission or DFiD to provide workshops or advice to smaller RCOs on how to write and target grant proposals, as this would have the knock on effect of improving their upward accountability and reporting practice.

In respect to MCOs, the findings from part two of the study examining lived accountability point to a number of implications for MCOs gaining and maintaining both moral and cognitive legitimacy. Firstly, the impact of both direct and indirect regulatory changes has meant many organisations are changing and reformulating their accountability practice to align with the ‘shared understanding’ of organisational practice deemed appropriate by legislative authorities. In some cases, this has added an unnecessary bureaucracy on organisations, especially for those MCOS with a limited number of employees. An impetus is needed from within the Muslim Charity sector to help such organisations better navigate their regulatory requirements so smaller organisations are not at a disadvantage over larger organisations. The Muslim Charities Forum (MCF) is one such initiative that could be utilised in this way. Although this body has attempted to improve accountability perception of key stakeholder, an inability to form a grassroots approach with all MCOs and the
reluctance of MCOs to share practice means it is currently unable to fulfil its full potential.

The concept of trust between both upward and downwards stakeholders was found to be an important aspect underlying the moral and cognitive legitimacy gained by MCOs. Consequently, the type of legitimacy garnered from stakeholders was affected by the way the MCOs focused their reporting communication to these different stakeholders. Organisations focused formal reporting towards funders to bolster income, while more informal aspects of personal responsibility and accountability were discussed when discussing accountability to beneficiaries. This 'dysfunctional accountability' (Bebbington and Riddel, 1995), can be overcome if MCOs considered a more social accountability approach to their reporting and accounting practice. Given such an approach entails a consideration of the nature and impact of organisational work to a greater extent (O'Dwyer and Unerman, 2007), it would be appropriate for socially and ethically aware organisations like MCOs.

The leadership of the organisation also affected the moral legitimacy of MCOs, with some MCOs only having one active member undertaking all activities while other organisations have an active board of trustees as well as executive. The findings suggest those MCOs that had a strong organisational framework, with paid individuals and were less reliant on the good will of trustees to run the organisation, were more effective in navigating their moral and cognitive legitimacy. Trustees need to act as overseers or 'guardians' of the organisation (Hyndman and McMahon, 2009) and should be not be too involved in the day to day running of the business. This can be difficult in an MCO where the trustees are usually founding members.
and like to be involved in every aspect of the organisation. As sections 8.1.2 and 8.3.2.4 suggest, trustee ability and responsibility need to be differentiated to effectively run and manage an organisation.

In addition, it has been found to be vitally important that an MCO place early emphasis on building organisational infrastructure, in terms of policies, governance frameworks, accounting and reporting frameworks etc. As has been found, MCOs were struggling to do this later on once spending practice (i.e. how much to give to beneficiaries' and how much to retain for investment) had already been established.

Religious belief was found to be a strong driver of personal accountability and responsibility in MCO organisational members. Consequently, there was no evidence that MCOs are viewing accounting and disclosure requirements 'secular' or trying to keep the ‘sacred’ core activities of the organisation separate from the ‘secular’ reporting activities (see Laughlin, 1990). The issue of a lack of reporting found in the first stage of the study is therefore more linked with a lack of knowledge and expertise to actually present a breakdown of zakah activities. This suggests that educating Muslim charity organisations on the religious merits of reporting zakah activities may help improve disclosure requirements. Such educational initiatives must come from the Muslim charity sector itself.

Closely linked to this was the negative perception of overhead costs in the Muslim community. For many organisations this was a hindrance in gaining and maintaining moral and cognitive legitimacy from their donors. By investing donor funds into the organisation of the charity to cover expenses and help build infrastructure, an
organisation was able to bolster its procedures and governance framework, thereby affecting its procedural and structural legitimacy. However, the perception with some donors was that if all funds weren’t put back into the activities of the organisation then they would withhold consequential legitimacy of the organisation. Therefore, some of the MCOs were attempting to navigate this delicate balance by manipulating the cognitive perception of donors. They did this by trying to educate donors to the impact and necessity of administrative expenses. However, this approach was being taken only by the two largest MCOs that took part in the study. The other MCOs tried to overcome this issue by simply keeping their costs as low as possible. However, given their already limited resources, this was having an effect on their operations.

It would therefore seem more prudent for the Muslim charity sector (perhaps via the MCF), to work together and attempt to educate the community on the necessity of having to cover overhead costs through a proportion of their donations, as well as the religious benefits of providing a breakdown of zakah donations in their annual reports. In order for this education to be effective, it will be important to gain the advice and support of prominent religious scholars to give a fatwa (religious edict) on the permissibility (or not) of utilising a proportion of zakah money to cover these expenses. If the religious consensus allows for zakah to be used in this way then this would be of immediate help to MCOs. If the religious edict goes against the use of zakah funds in this way then at least organisational members will be clear on the outset, rather than having disagreements within the organisation on the issue.
9.4 Limitations, avenues for future research and recommendations

In reflection, this study has a number of limitations which need to be considered. Firstly, the first stage of the study utilised a quantitative methodology therefore limitations in respect of the methodology are applicable. Although, every attempt was made to sample a representative part of the population, sampling error may still exist. In addition, as this stage neglected RCOs registered in Scotland and Ireland, incorporating these in future analysis may yield differing results. However, the differing requirements of the Scottish and Irish Charity Commission requirements would also need to be considered. In addition, the generalisability of the study may not be extendable to organisations beyond the UK, as the UK regulatory framework of the SORP and Charities Act 2006 has been used as a basis of analysis.

Furthermore, it may be interesting for future research to focus specifically on financial disclosure and reporting issues. Give the lack of narrative communicated accountability found in the study, a focus on financial reporting issues as encompassed within the SORP may provide further insight into how regulatory bodies are considering, if at all, the needs of RCOs into regulatory changes. This approach could consider Charity Commission insight (possibly utilising interviews with SORP committee members). The researcher did not consider approaching the Charity Commission to take part in this research due to the original remits of the study. However, future research could build upon the findings of this study by exploring how the Charity Commission view the financial and non-financial practices of the religious charity sector.
The qualitative stage of this study focused specifically on the Muslim international aid charities in the UK which had an income greater than £500,000. Therefore, the findings of the study may not necessarily be applicable to other types and size of MCOs. Further research could help build on this study by utilising other types and sizes of MCOs.

In addition, the qualitative stage of the study examined accountability by solely considering the views of MCO members. Future research could provide insight from a range of stakeholders which directly affect or are affected by the accountability practices of MCOs to better understand how accountability is practiced within such organisations. In particular, it may have been useful to incorporate the views of MCO external accountants into the analysis as well. The main reason for not incorporating them into this study was due to issues with access, as the MCOs interviewed were not comfortable with asking their accountants to participate in the study. Extending the study to also include external account preparers, may provide a more detailed understanding on the background and knowledge of these external accountants in relation to charity reporting and the Islamic religious framework on zakah and waqf disclosure. These interviewees may also be able to provide a more in depth understanding of the information MCOs should be collating to enable a breakdown of zakah reporting to occur.

The focus of this study was exploratory as the initial motivations were broad based and sought to understand the general status quo of MCO accountability practice. Future research to further the understanding of MCO accountability needs to build upon the findings of this study. In particular, focused case study research could help
provide a more detailed understanding of the ‘lived’ practice of accountability within these organisations. Such studies should be undertaken in both the smaller and larger MCOs, as this study has found there to be differences in organisational practice linked to size and organisational resources. These studies could utilise a critical approach to gain a more socially constructed understanding of accountability practice. In particular, future research could utilise perspectives from social justice theory, Foucault, Bourdieu or even utilise insights from social theorists, such as Weber.

It may also be interesting to focus on the actual practice and process of reporting within MCOs. This research approach could focus specifically on the rules and routines embedded within MCOs that are linked to preparing annual reports. As Tregidga et al. (2013) note, such research could focus on choices made when deciding on ‘what is to be said’ and ‘how it is to be said’ and/or, focusing on the use of particular language choices, language tools (i.e., metaphors), and publication style (i.e., layout and use of images). This would require an ethnographic approach to research design or a highly embedded case study approach.

Finally, following the recent findings by Connolly and Dhanani (2009) and Jetty and Beattie (2009), there is also a need to understand if a similar expectations gap in terms of user needs exists within the religious charity sector. This would require future research to undertake a sector wide survey of both users of RCO TARs and RCO account preparers. This research could focus on firstly trying to understand what users are expecting from the reports and if these expectations are being realised in the TARs. The second stage of the research could then focus on the account
preparers and explore how and why they prepare the reports in the way they do and if they are fully aware of user needs in terms of the information being disclosed in the reports.

Given the discussion in this chapter, a number of recommendations can also be made which may help MCOs strengthen their accountability practices further. In terms of charity reporting and SORP compliance, the findings indicate that the Charity Commission needs to be more proactive in ensuring compliance. This could be through extra incentives to encourage timely and accurate submission. There also needs to be a tailored SORP for RCOs which is more sympathetic to their small nature and informal accounting practice.

Reporting could also be strengthened by utilising specialist charity accountants to prepare reports rather than relying on business accountants. However, due to the low number of charity specialist accountants in the sector this may be problematic. This may require a more concentrated effort by professional accountancy bodies to provide greater incentives for specialism in this area.

Furthermore the findings suggest there needs to be additional help provided to RCOs to strengthen internal governance structures and organisational practice, as this has been found to have a direct affect on reporting within MCOs. This help could be in the form of workshops where trustees are invited to attend focusing on good governance practice, importance of strategy planning and helping charities write and target grant proposals to funding bodies.
The findings from the second stage of the study also suggest that although both direct and indirect legislative changes have caused MCOs to reformulate their accountability practice, greater impetus is needed from within the Muslim charity sector to improve accountability practice. In particular, larger charities need to be more approachable for smaller organisations to provide help and advice. The Muslim Charities Forum in particular needs to form a more grass-roots approach and ensure that all MCOs can benefit from its expertise and not just the founding members.

9.5 Contributions of study

This section briefly recaps the important contributions the study makes to literature, theory, research methodology and policy.

Literature

- The study adds to charity disclosure literature by providing an in-depth analysis of ‘communicated accountability’ both in terms of the probity of RCO TARs and the actual content in terms of SORP disclosure. In doing so, it also provides a unique comparative analysis of the communicated accountability practices of two major sub-sectors within the religious charity sector.
- The study also provides some much needed qualitative data as called for by previous disclosure studies of charity disclosure in the charity sector. By utilising both a functional and personal perspective to understand accountability issues at the organisational level, the study provides a holistic analysis of accounting as a social practice within the organisations studied. In addition, the study provides an alternative focus, away from traditional studies on Judeo-Christian organisations to
understand how accountability is practiced in a different setting, i.e. that of MCOs in the UK.

- Finally, by utilising the Islamic theoretical framework to guide the understanding of accountability as practiced by MCOs, the study provides an apt, situated analysis of accountability within the religious context in which it is practiced.

**Theory**

- By linking issues of accountability to legitimacy, the study provides a unique, highly appropriate lens through which both the communicated and ‘lived’ practice of accountability can be understood, in the context of MCO’s operating in a non-Muslim majority country such as the UK.

- Furthermore, by utilising the typology put forward by Suchman (1995) in terms of pragmatic, moral and cognitive legitimacy, the study provides a more focused theoretical understanding of how different accountability issues interplay with different aspects of legitimacy. The perspective of pragmatic legitimacy focuses on accountability communication as the ‘thinnest’ form of accountability. By utilising the SORP framework and different functions of accountability, this perspective provides a baseline analysis of the minimal accountability requirements incumbent upon all charity organisations. It also provides a better understanding of the types of accountability RCOs prefer to disclose.

- The distinction between moral and cognitive legitimacy also allows us to consider the different effects that organisational values (in terms of moral legitimacy) and personal values (in terms of cognitive legitimacy) have on MCO accountability.
Research Method

- The literature review found studies on charity disclosure to be focused on quantitative methods utilising a positive perspective and studies on religious organisations to be focused on qualitative methods utilising a more relativist/interpretive perspective. This study therefore sought to employ a mixed methods approach to gain a more rounded understanding of accountability practice within MCOs. Given the exploratory nature of the study, the first stage of the study sought to gain a generalist understanding of accountability, by examining issues of communicative accounting and reporting through a quantitative research methodology. The second stage of the study then sought to add to this general understanding by undertaking an focused qualitative study which would provide in-depth analysis of ‘lived’ accountability within MCOs. This approach provides both depth and breadth to the research topic, something which prior studies have failed to consider.

Policy

- The findings of the study suggest the Charity Commission needs to take a more pro-active stance in ensuring compliance for RCOs. The findings point to a need for a tailored SORP for RCOs so they are able to provide more constructive communication to their stakeholders.
- In addition, the study identified a number of factors which helped aid or impede accountability in MCOs. By paying attention to these areas both in practice and further research (as outlined in sections 9.3 and 9.4), the accountability of MCOs can be further strengthened.
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Appendix A: Final disclosure checklist based on SORP 2005^52

Theme A: Details of trustees, advisors and administration
1. Registered name of charity (M)
2. Charity registration number/company reg. number (M)
3. Address of principal office/registered office (M)
4. Names of all trustees at date of report (M)
5. Name of chief executive (V)
6. Name and address of auditors/independent examiner (V)
7. Name and address of bankers (V)
8. Name and address of solicitors (V)
9. Name and Address of any other principle advisor (V)
10. Reasons for non-disclosure provided (V)

Theme B: Information of structure, governance and management
1. Nature of governing document (M)
2. How charity is constituted (M)
3. Methods for recruitment and appointment of trustees (M)
4. Details of constitutional provisions relating to appointments (M)
5. Explanation of other bodies authorised to appoint trustees (M)
6. Procedure for induction and training of trustees (V)
7. Organisational structure of charity (V)
8. Relationship with other affiliated charities (V)
9. Relationship between charity and any subsidiaries/ collaborators (V)
10. Statement of risk assessment (V)

Theme C: Outline its objectives and mission
1. Summary of objectives of charity (M)
2. Aims of charity and how it seeks to make a difference (V)
3. Explanation of charities strategies for achieving objectives (V)
4. Explanation of how these activities benefit the public (V)
5. Statement on grant-making policies (if app) (V)
6. Detailed role of volunteers (V)

Theme D: Information on achievements and performance
1. Review of charitable activities undertaken (M)
2. Summary of measures used to assess performance (V)
3. Details of performance against fundraising activities (if app) (V)
4. Explanation of impact on future income generation (V)
5. Details of material investments held (V)

Theme E: The financial review
1. Policy on reserves (M)
2. Details of any deficits (M)
3. Principal funding sources (V)
4. How expenditure has helped charity meet objectives (V)
5. Investment policy and objectives including social, ethical and environmental considerations (if app) (V)

Theme F: Plans for future period
1. Future plans and objectives (V)
2. Details of planned activities (V)

^52 Those items followed by an (M) are mandatory, those items followed by a (V) are voluntary for the 2008 TARs. For 2010 TARs, all items were considered mandatory for large and very large sized charities.
Appendix B – Consent Letter

Dear XXX,

I would like to invite your organisation to take part in a research study being funded by Hull University Business School. The study entitled “Exploring accountability practices within Muslim charity organisations in the UK” is being undertaken by Mrs Sofia Yasmin, who is a PhD student under my supervision.

As part of this research it is necessary for her to conduct a series of interviews within Muslim charity organisations operating in the UK and registered with the Charity Commission. The aim of the study is to seek your opinions and views on the accountability practices within Muslim charity organisations. This is a very significant area of research given the growth of Muslim organisations in the UK and the rich and important work they do.

Consequently, it would be greatly appreciated if you could provide Sofia with permission to conduct those interviews within your organisation. The details of access would obviously be negotiable, and as is common with all research studies of this kind, complete anonymity and confidentiality would be guaranteed. She has my full support and if you require any further information, please do not hesitate to contact myself or Mrs Yasmin directly. Each interview should take no longer than 1 hour and Mrs Yasmin will be happy to conduct the interview at a time and location convenient to the organisation.

A consent form is enclosed for you to complete and return.

I look forward to your response

Yours sincerely,

Professor Ros Haniffa
Professor of Accounting
Room 231 Wharfe Building
Hull University Business School
Cottingham Road, Hull HU6 7RX
http://www2.hull.ac.uk/hubs/about/our-staff/allstaff/h/hanifa-r.aspx

Should you have any concerns about the conduct of this research project, please contact the Secretary, HUBS Research Ethics Committee, University of Hull, Cottingham Rd, Hull, HU6 7RX; Tel No (+44) (0)1482 463646; fax (+44) (0)1482 463689.
HULL UNIVERSITY BUSINESS SCHOOL
CONSENT FORM

I, .................................................................[Print full name]
of ..........................................................................................................................
...................................................................................................................................
...................................................................................................................................
...................................................................................................................................
...................................................................................................................................
...................................................................................................................................

[Print full address]

Hereby give permission for our organisation to be involved in a research study being undertaken by Mrs Sofia Yasmin. I understand that the purpose of the research is to explore the accountability mechanisms and processes within Muslim charity organisations and that involvement by the institution means the following:-

- Agreement for certain members of the organisation [as decided by the organisation] to take part in interviews

I understand that

1. the aims, methods, and anticipated benefits, and possible risks/hazards of the research study, have been explained to me.

2. I voluntarily and freely give my consent for the institution/organisation to participate in the above research study.

3. I am free to withdraw my consent at any time during the study, in which event participation in the research study will immediately cease and any information obtained through this institution/organisation will not be used if I so request.

4. aggregated results will be used for research purposes and may be reported in scientific and academic journals.

I agree that [*Please delete as appropriate]

5. The organisation MAY / MAY NOT* be named in research publications or other publicity without prior agreement.

6. I DO / DO NOT* require an opportunity to check the factual accuracy of the research findings related to the institution/organisation.

7. I EXPECT / DO NOT EXPECT* to receive a copy of the research findings or publications.

Signature:                                                                             Date:
Appendix C - Sample Interview Questions

*These are a selection of the questions asked during the interview stage. Follow on questions are also asked to better understand a given answer.*

1. How long have you been a part of this charity organisation?
2. Describe your current role and responsibilities in the organisation?
3. What role do trustees play in the organisation?
4. How are trustees appointed?
5. What are the important characteristics of a trustee?
6. What role do management play in the organisation?
7. What steps is the organisation taking to meet its vision & objectives?
8. What factors influence financial and non-financial strategies?
9. Are there any other specific issues that are considered when deciding organisational strategy?
10. How often does the organisation review its strategy and the procedures in place to achieve this strategy?
11. Does the organisation ascribe to any national or global standards in relation to transparency/accountability or governance?
12. What policies and procedures are in place for communication?
13. What policies and procedures are in place for reporting?
14. How is the current governance framework useful for:
    (i) Transparent decision making?
    (ii) Sound risk management?
15. What types of Internal controls does the organisation have?
16. What procedures are in place to identify and channel the different forms of religious donations?
17. How does the organisation evaluate budgetary performance?
18. Does the organisation have any form of internal auditing?
19. Who are the organisations stakeholders?
20. How does the organisation communicate with various stakeholders?
21. In your opinion what personal characteristics are required to perform your role well?
Appendix D - Pilot Interview Process

First Stage
- Topics selected from theoretical framework and semi-structured questions designed to best answer each aspect of framework
- Questions re-defined after extensive discussion with supervisor

Second Stage
- Each of the questionnaires pre-tested/checkered with appropriate person.
  - Trustee/management questionnaire checked by same person who is:
    - Manager in a public sector organisation
    - Trustee of a non-profit organisation.
  - Donor/User questionnaire piloted on
    - A donor to MCO’s
    - A person who takes free educational classes provided by a local Muslim charity organisation
    - Someone who has conducted fundraising for a local charity
  - Employee questionnaire checked by a teacher of a local Muslim girls school
  - Preparer questionnaire checked by someone who has worked as in-house accountant for a large advocacy charity organisation
  - Auditor questionnaire checked by same person as above who has regular dealings with auditors and has also worked as a trainee auditor in a large firm of accountants.
  - 8 interviews with 5 people - This stage of pilot/pre-testing was undertaken to ensure questions being asked were correct and appropriate, that no important questions had been missed and that the flow of the questions was appropriate.

Third Stage
- Final interview schedules drafted. It was decided not interview donors and users due to the lack of substantive data received from these responses. The three final interview schedules were each used as a dry run on members of a local small MCO.
  - This stage of the pilot-test allowed the researcher to understand:
    - The internal environment of a Muslim charity organisation and subsequently the appropriateness of the interview design and procedure.
    - If the interview questions were appropriate for a Muslim charity organisation and if the corresponding answers were what the researcher was expecting.
  - The subsequent transcription and analysis of the interviews enabled the researcher to gain an understanding of how best to analyse the data for the main case studies.