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Annual reporting by social enterprise organizations: 'legitimacy surplus' or reporting deficit?

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Annual reporting by social enterprise organizations: ‘legitimacy surplus’ or reporting deficit?

Abstract:

Purpose- Drawing on an accountability framework developed for social enterprise organizations (SEOs), this paper examines the annual report disclosure practices of SEOs in the United Kingdom in order to investigate the types of accountability disclosed by SEOs.

Design/methodology/approach- After developing a SEO database, and utilizing a bespoke document coding checklist, the annual reports of 129 SEOs were examined.

Findings- The results indicate that while SEOs would be expected to account in line with normative stakeholder theory, many do not provide constructive and voluntary accountability information to their stakeholders, at least through the annual report, and that their focus is on satisfying legal obligations.

Originality/value- In response to calls for research to better understand accountability in new organizational contexts, this paper makes two contributions: firstly, by extending prior accountability research in the NFP sector to consider organizational hybrids, it raises questions about organizational accountability and how it is discharged in situations where an organization operates as a business and yet is accountable for its social mission; secondly, assuming these organizations are driven by their business and social logics, the findings suggest that SEO accountability disclosure practices are inconsistent with the social objectives on which they are based.

Key words: Accountability, annual report, legitimacy, social enterprise organizations (SEOs), stakeholder theory

Article Classification: Research paper

1. Introduction

The social enterprise phenomenon has attracted the attention of academics, policy-makers and practitioners around the world, with the term ‘social enterprise’ arising from recognition that organizations are employing the power of business to enable social and environmental change (Teasdale, 2012). Social enterprise organizations (SEOs) are considered the fastest growing category of organizations in Europe and the United States (US) (Hulgård, 2010), with their increased prominence resulting in greater attention being given to how they report on their performance (Luke, 2016; Mäkelä *et al.*, 2017).

While there are similarities, the social enterprise sectors of different countries remain distinctive, with their development reflecting the respective roles of their private, public and third sectors (Young, 2012). In the United Kingdom (UK), SEOs have become an important part of the economy, as evidenced by their increased profile and participation in the delivery of services traditionally undertaken by the public sector (e.g. leisure, health and social care) (Villeneuve-Smith, 2011). This growth has been attributed to the influence of new public management (NPM) and its advocacy for ‘contracting out’, together with pressures to contain costs and the capacity of SEOs to build social capital (Tenbensen *et al.*, 2014). Elsewhere in (western) Europe, the social enterprise concept implies an extension of the social economy sector to the non-trading side of the not-for-profit (NFP) sector, with SEOs having potentially significant roles in the restructuring of public services across different sectors, including

criminal justice, education and healthcare (Ebrahim *et al.*, 2014). In the US, the concept has a greater enterprise focus as US not-for-profit organizations (NFPOs) are more likely to adopt private sector approaches and operate hospitals, schools and universities than their European counterparts (Defourney and Nyssens, 2012).

There is a growing demand for NFPOs to become more accountable (Gray *et al.*, 2006; Conway *et al.*, 2015; O'Dwyer and Boomsma, 2015) and, while Grant and Keohane (2005, p. 42) posit that such organizations must become "increasingly transparent if they are to remain credible", being business-like might impose practices that threaten the distinctiveness of the NFP sector (Eikenberry and Kluver, 2009). This highlights the dilemma of how SEOs can simultaneously fulfil their social mission, imitate private enterprise and be accountable. While SEO objectives can be a source of legitimacy (Dart, 2004), given that they combine commercial and social activities, this may lead to mission drift as, in a desire to be financially viable, they may lose sight of their social mission (Pache and Santos, 2010; Doherty *et al.*, 2014; Battilana *et al.*, 2015). It is suggested that social-purpose organizations may have a legitimacy 'surplus', which refers to the situation where important stakeholders judge an organization's (or sector's) current state of functioning to be appropriate (Nicholls, 2009). This may occur when the organization (or sector) is seen as the flagship for social responsibility. In these situations, the organization (or sector) may have less demanding reporting expectations than would be the case for commercial organizations that lack such a surplus (Sales, 2019).

The growth of SEOs has sparked the interest not only of researchers (e.g. Battilana and Lee, 2014; Battilana *et al.*, 2017), but also of government, funders and the public. Some of these stakeholders see SEOs as a promising alternative for contributing to the creation of social and economic value, at a time when social and environmental degradations epitomize the capitalist system. Moreover, given SEOs represent an emerging field (Nicholls, 2009), where understandings and accepted standards are still evolving (Bradford *et al.*, 2018), more research is needed to better understand accountability in new organizational contexts (Tregidga *et al.*, 2012; Ebrahim and Rangan, 2014; Luke, 2016; O'Dwyer and Unerman, 2016).

Therefore, based upon an analysis of SEO annual reports, and utilizing an accountability framework developed specifically for the social enterprise context, our research investigates the types of accountability (legal, constructive and voluntary – see Table I) disclosed by SEOs and considers the extent to which they discharge accountability through the annual reporting process. In doing so, the paper makes two contributions. Firstly, accepting that significant work has been completed in relation to sustainability reporting within the for-profit, public and NFP sectors (e.g. Diouf and Boiral, 2017; Busco *et al.*, 2018), our study extends accountability research in the NFP sector to consider organizational hybrids. Whilst acknowledging Bradford *et al.* (2018) examine potential differences in SEO accountability, our research focuses on the disclosure of accountability types. Secondly, assuming these organizations are driven by their business and social logics, the findings suggest that SEO accountability disclosure practices are inconsistent with the social objectives on which they are based. In terms of structure, the next section defines the term social enterprise and provides an overview of the sector. After discussing the concept of legitimacy and accountability (Section 3), the ways in which accountability may be operationalized within an SEO context are considered (Section 4). The research method is then outlined (Section 5) and the results presented and discussed (Section 6). Finally, in Section 7, some conclusions and reflections for SEO accountability are advanced.

2. Defining social enterprise organizations

It is generally accepted that SEOs are distinguished from other organizations because: of the primacy of their social or environmental aims; they trade in goods and services; they generate the majority of their income through trade; and they reinvest their profits in furtherance of their objectives (Dart, 2004; Peattie and Morley, 2008). These attributes are evident in the definitions adopted by the Social Enterprise UK (2012), the UK's membership body for social enterprise, and government (Department of Trade and Industry, 2002). However, increasingly, particularly given changes in public-service delivery, questions are being asked about whether the boundaries between the for-profit, NFP and public sectors are becoming blurred, with the consequence that it is acknowledged that the definition of social enterprise is debatable (Peattie and Morley, 2008; Defourny and Nyssens, 2012). Whilst recognizing the definitional issues, Social Enterprise UK (2018) estimates that there are approximately 100,000 SEOs in the UK contributing at least £60 billion to the economy and employing approximately 2,000,000 people.

Although some argue that SEOs are positioned firmly within the NFP sector, others contend they are businesses whose social objectives are central to their activities and therefore they occupy a hinterland between the for-profit, NFP and public sectors (Powell and Osborne, 2014). One way of presenting SEOs is to consider them on a continuum with for-profit and NFP organizations at opposite ends (Dees, 1998), with SEOs being more aligned to NFP values. Thus, SEOs may be distinguished from for-profit and NFP organizations as trading is not usually a primary objective of NFPOs and, unlike for-profit organizations, SEOs do not pay dividends to shareholders, retaining them to fund social objectives. Alternatively, cross-sector theorists (Pharoah *et al.*, 2004) regard SEOs as existing across sectors in different legal forms (e.g. companies limited by guarantee, community interest companies (CICs), charitable incorporated organizations or trusts). Ridley-Duff and Bull (2011) argue that a different type of SEO exists at each cross section. For example, those operating at the boundary between the public and NFP sectors share a public interest approach and normally obtain grants/contracts from public sector bodies.

3. Legitimacy and accountability

3.1 Legitimacy

Given the emergent nature of SEOs, organizational legitimacy, the perception that an entity's actions are appropriate, is important (Suchman, 1995) because, as Andrews (2014) posits, unlike for-profit organizations, they do not measure their success primarily in economic terms. While, from an institutional perspective, legitimacy can create pressures regarding expected behaviour (Dowling and Pfeffer, 1975; Luke *et al.*, 2013), at the organizational level, it can be considered a resource that is required to ensure an organization's continued existence (Kaplan and Ruland, 1991; Suchman, 1995). Accountability disclosures make organizational language understandable and clarify results, thus increasing the readers' knowledge (Schlierer *et al.*, 2012). More specifically, Monfardinia *et al.* (2013) contend that the disclosure of social information is an important legitimizing tool, primarily because it educates the concept of accountability which is generally considered as good. In order to generate legitimacy, information disclosures should be addressed to a wide audience as legitimacy is a status conferred by outside groups (Milne and Patton, 2002). Likewise, accountability is a key component in the construction and contestation of legitimacy claims by stakeholders (Deegan, 2002; Deegan and Unerman, 2011) as it is the means by which stakeholders seek to ensure that their legitimacy claims are met and that their evaluations of organizational legitimacy are valid.

Within the NFP sector, the increased focus on accountability reflects the changing institutional environment within which organizational legitimacy is constructed. On one hand, in order to increase stakeholder accountability and thereby enhance performance legitimacy, there is a trend towards adopting business models and reporting practices. On the other, there is greater awareness of the need to facilitate wider stakeholder engagement by designing reporting practices that acknowledge downward stakeholders (e.g. beneficiaries) (Nicholls, 2009). Thus, on this basis, if SEOs engage with stakeholders through accountability disclosures, they will build legitimacy and reputation that can result in competitive advantage (Brown, 2008).

3.2 Accountability

Various conceptualizations and measures of NFP accountability are offered in the literature (Roberts, 1991; Connolly *et al.*, 2013), and it has been studied from different perspectives and in different contexts. Bovens (2006, p. 5) defines accountability as “a relationship between an actor and a forum, in which the actor has an obligation to explain and justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences”. This highlights that accountability is relational. Previous research has considered accountability in the context of: principal-agent theory (Laughlin, 1990; Edwards and Hulme, 1995); stakeholder theory (Gray *et al.*, 1995; Mäkelä and Näsi, 2010); and legitimacy theory (Deegan, 2002; Tilling and Tilt, 2010). The concept has also been examined in terms of the role and value of the different mechanisms of accountability (O’Dwyer and Boomsma, 2015) and the play-out of accountability in organizations (Ezzamel *et al.*, 2007). An important way that SEOs can give account is through their annual reports.

Donaldson and Preston (1995) describe two distinct motivations (instrumental and normative) for why organizations do or do not take account of stakeholder needs in their decision making. Their instrumental view contends that organizations prioritize between constituents and put first the interests of those who hold the greatest economic power and influence to ensure their own success and survival. In contrast, their normative perspective supposes that individuals have a moral duty to take account of each other’s needs and opinions. This implies that organizations should honour all stakeholders equitably and encourage participation. As agents seeking a more equitable society, we suggest that SEOs can legitimately be expected to orient themselves with the normative model. The ethical standards advocated by SEOs should apply not only to the causes that they work towards but also to how they conduct their activities. In this sense, accountability should be intrinsic and its characteristics should parallel those advanced by the normative perspective of stakeholder theory (Ebrahim, 2003). To the extent that SEO accountability practices are aligned with the normative model, discourse in annual reports should be characterized by openness (Fry, 1995).

Accountability is complex and problematic, with multiple dimensions and accountability relationships (O’Dwyer and Unerman, 2008; Conway *et al.*, 2015). SEOs have to mobilize legitimacy in the for-profit and NFP domains and this requires them to produce accounts (be accountable) that can be justified to parties operating in each domain (McInerney, 2008; Stark, 2009). Accountability relationships are central to ensuring that stakeholders’ legitimacy claims are met and that their assessment of organizational legitimacy is justified (Deegan, 2002). As SEOs transverse the for-profit, NFP and public sectors and, in order to understand how they discharge accountability through disclosures in their annual reports, we postulate that it is necessary to consider and integrate key elements of the accountability literature across the three sectors. By doing so, this reveals a gap in the academic accountability literature in relation to how SEOs discharge accountability and, consistent with the research

question outlined earlier, enables us to better understand to whom, for what and how are SEOs accountable? Thus, and whilst acknowledging that accountability is value-laden and that different stakeholders may have varied accountability needs, it is possible to present an accountability framework (Table I), specifically relevant to SEOs, which can subsequently be applied in analyzing SEO disclosure practices.

3.3 The legitimacy and accountability relationship

Tangible bases of legitimacy include organizational knowledge, performance and support while intangible ones are generated from organizational credibility, integrity and trust (Slim, 2002; Black, 2008; Islam *et al.*, 2017). Indeed, it is asserted that intangible sources thrive more on perception than fact and can influence an organization's 'aura' or 'kudos'.

Legitimacy claims do not have to be connected or mutually supporting for them to be met by an organization simultaneously (Black, 2008; Sillince and Brown, 2009). They simply have to be compatible. The development of management models such as balanced scorecards are attempts to provide a reporting framework for the organization's responsiveness to different aspects of its environment. However, the demands of legitimacy communities may be directly opposed, such as to satisfy one may lead to the dissatisfaction of another. Even if this is not the case, if an organization seeks to respond to multiple accountability demands being made upon it, it can have a deleterious effect. Thus, the organization may suffer 'multiple accountability disorder' (Koppell, 2005) and attempts to respond to the multiple demands may diminish its chances of survival. While different legitimacy communities within and outside the organizational field may make various legitimacy claims which they seek to validate through developing varying accountability relationships, the issue is what will be the response of those SEOs on whom the claims are made (Black, 2008).

In summary, as hybrid value-based organizations that combine aspects of for-profit (trading) and NFP (pursuing a social mission) organizations, SEOs have to account for their societal impact and demonstrate legitimacy in multiple institutional domains. They assemble values from these sectors, each of which have different evaluative characteristics as to what constitutes legitimacy, and must find ways to be accountable to each. As such, they offer a space for theoretical and empirical investigation in a situation where traditional financial disclosures fail to capture the unique setting of these organizations. We posit that, for accountability purposes, there is an opportunity for SEOs to be publicly accountable to a wide range of stakeholders/legitimacy communities through external annual reporting. In so doing, SEOs can enhance their legitimacy, promoting increased awareness, acceptance and support. Moreover, as the accounting and accountability relationship is critical in influencing the organizational field in which it is operated, there is an urgent need to broaden our knowledge of organizational accountability in this emerging and important area of social enterprise. A core contribution of our study is that it reinforces and extends scholarship that has explored the discharge of accountability and legitimation within the for-profit and NFP sectors. In the next section, drawing on the extant literature, we consider to whom, for what and how SEOs are accountable.

4. Accountability in social enterprise organizations

As SEOs operate in the wider interests of society, an understanding of how they discharge accountability is important (Social Enterprise UK, 2012). However, as noted above, since SEOs transverse the NFP and business domains, they must be cognisant of commercial sensitivities. While SEOs can enhance their mission in different ways, comprehensive and open reporting is essential for stakeholders to assess an organization's social credentials (Social Enterprise UK, 2012). In this regard, three questions are useful in contextualizing the

discussion (Valentinov, 2011; Connolly *et al.*, 2013; Cordery and Sim, 2018): firstly, to whom is the organization accountable?; secondly, for what is it accountable?; and finally, how is that accountability discharged? Extending Connolly and Kelly's (2011) SEO accountability framework, the key literature referred to below is referenced in Table I so that it can be mapped against the discussion presented in this section and the results reported later in the paper (Section 6).

4.1 To whom is the organization accountable?

Within the stakeholder theory framework, accountability is frequently discussed in terms of upward and downward accountability (O'Dwyer and Boomsma, 2015; van Zyl and Claeyé, 2019). For SEOs, this approach facilitates a broader perspective by emphasizing the importance of accounting to and for all organizational constituents, not just those in a position of authority. Upward accountability is linked to the stewardship function and incorporates accounting to funders and donors (Irvine *et al.*, 2009; Knutsen and Brower, 2010). Consistent with the first rung of Stewart's (1984) ladder (see Section 4.2 below), Slim (2002) acknowledges that SEOs can gain legitimacy and trust from their upward stakeholders by conveying to (potential) funders and supporters, the financial probity and efficiency with which they operate and their impact on those they serve.

The discharge of accountability also enables SEOs to achieve legitimacy from their downward stakeholders (i.e. beneficiary groups and service users), who may lack sufficient power or urgency to accrue accountability (Mitchell *et al.*, 1997; Cordery and Porter, 2011; Connolly *et al.*, 2013). However, while there is a disparity in the power between SEOs and their downward stakeholders (compared to the situation with upward stakeholders), this should not be exercised to avoid accounting to these stakeholders (O'Dwyer and Boomsma, 2015). Rather, recognizing their weaker position, SEOs, as value-driven organizations, should choose to account to them, possibly through voluntary accountability mechanisms (Table I). Such activities can enhance other organizational credentials such as reputation, trust and integrity, which will in turn engender beneficiary support and add legitimacy to their activities (Slim, 2002). SEOs should therefore produce (annual) reports that meet the needs of parties on both sides of an ostensibly intractable chasm (McInerney, 2008).

Accountability claims often compete, with upward accountability (to donors) frequently prevailing over downward accountability (to beneficiaries). Edwards and Hulme (1995, p. 9) highlight the problem of multiple accountabilities, and the possibility of 'over accounting' because of multiple demands, or 'under accounting' as each stakeholder assumes that another is monitoring actions and results. While categorical distinctions between the for-profit and NFP sectors enable stakeholders to set clearly defined performance criteria, these distinctions can become blurred; as is the case with SEOs, with the consequence being a reduced ability to evaluate these organizations and hold them accountable. However, regardless of the difficulties in discharging accountability, it remains an important means through which SEOs can achieve legitimacy for their activities and the sector.

Overall, SEO accountability lines run in four directions: upwards to donors and government; downwards to their primary constituents; inwards to the organization's staff; and horizontally to peers and partners (Kovach *et al.*, 2003).

4.2 For what is the organization accountable?

Stewart (1984) proposes a 'ladder' of accountability, distinguishing between different rungs: (i) accountability for probity and legality; (ii) process accountability; (iii) performance accountability; (iv) programme accountability; and (v) policy accountability. Kearns (1994) specifically addresses NFPOs, suggesting that a system of accountability should contain: a set

of performance standards (negotiated and professional/discretionary – implicit; or compliance and anticipatory/positioning – explicit) generated by the organization’s strategic environment that satisfy regulatory and non-regulatory requirements; and an internal response (reactive or proactive) from the organization to satisfy its reporting responsibilities. Ebrahim (2003) focuses on five categories of accountability mechanisms: reports and disclosure statements; performance assessments and evaluations; participation; self-regulation; and social audits. The first is consistent with Stewart’s first three rungs and Kearns’ compliance accountability; while the last three correspond to Kearns’ concepts of negotiated and professional accountability, together with Stewart’s final two rungs.

Taylor and Rosair (2000), Brody (2002) and Goodin (2003) distinguish between different foci for which an organization may be responsible and in turn account for. Goodin’s include: (i) intentions, which for SEOs translate into their mission and objectives; (ii) actions, that is, the activities and programmes undertaken by SEOs to fulfil their mission and objectives; and (iii) results, that is the extent to which the SEOs have achieved their mission and objectives. Brody and Taylor and Rosair add that organizations can discharge fiduciary accountability by implementing appropriate systems to ensure financial probity (i.e. analogous to the stewardship function), with Bambagiotti-Alberti *et al.* (2016) contending that non-disclosure makes it more difficult for NFPOs to justify their actions. Although, Najam (2002) warns that reducing accountability to financial numbers is degenerative. Focus is instead required on why the organization exists (e.g. providing training to facilitate the unemployed to return to work) and whether their operational methods personify their core values (e.g. ethical trading and procurement; and consideration for the environment).

4.3 *How is that accountability discharged?*

Organizational communication, in particular of accounting information, taps into issues such as the mode and contribution of communication to organizational image and reputation (Craig and Brennan, 2012) and broader issues of organizational accountability (Tregidga *et al.*, 2012). NFPOs are accountable for their performance and have a duty to communicate with stakeholders through voluntary disclosures (Khanna and Irvine, 2017). Various performance measures have been introduced in the NFP sector since the mid-1990s (e.g. social return on investment, balanced scorecard). Symbolically, these represent an attempt to evaluate performance through the calculation of a quantitative measure. However, concerns have been expressed about their decision-usefulness and relevance (Nicholls, 2009; Arvidon *et al.*, 2010; Gibbon and Dey, 2011).

Public discourse mechanisms include the statutory annual report¹ and voluntary documents published for stakeholder consumption (e.g. environmental and sustainability reports). Other accountability mechanisms include performance assessment, participation and self evaluation (see Table I, constructive and voluntary information). Performance assessment systems enable organizations to monitor progress and success, with performance reporting systems being recognized as key legitimating features of successfully functioning organizations (Nicholls, 2009). Participation involves organizations engaging with (downward) constituents to take account of their needs and involving them in decision making to achieve desired societal changes. Jayasinghe and Wickramasinghe (2011) and Coyte *et al.* (2013) warn of limited participatory mechanisms for downward stakeholders, with some not being involved in certain key decisions (Botetzagias and Koutiva, 2014). Moreover, beneficiaries may not wish to engage, are hard to identify and require specialized reporting (Connolly *et al.*, 2013). Self evaluation, for example through social auditing,

¹ The term annual report here refers to documents which comprise an organization’s annual financial statements as well as the accompanying narrative report by management (e.g. directors or trustees).

facilitates organizations in assessing whether their social and ethical performance meets their values through regular monitoring and stakeholder dialogue. In practice, these mechanisms operate collectively and connectedly.

Notwithstanding the arguments for SEOs to discharge accountability, it is acknowledged that the economic cost of preparing annual reports could act as a barrier to the provision of such information. In an analysis of voluntary environmental and social disclosures by New Zealand companies, Hackston and Milne (1996) found that organizational size is significantly associated with the volume of disclosure. Relatedly, Cordery and Baskerville (2007) highlight the need to remove onerous reporting requirements from NFPOs, especially smaller ones who are more likely to lack the resources to provide such information. Whilst the dissemination of information is desirable, it does have a cost and a ‘one size fits all’ approach is likely to impact more on smaller organizations. Unless the perceived benefits outweigh the propriety costs (Cho and Patten, 2007), SEOs will be reluctant to disclose information.

Table I distinguishes between legal, constructive and voluntary accountability, with the former being primarily upwards, involving implementing appropriate internal controls (to mitigate risks) and complying with contractual, regulatory and statutory obligations, including the presentation of financial information to key stakeholders. However, it is acknowledged that these obligations could be downward (e.g. compliance with members’ rules in the case of cooperatives). In contrast, constructive accountability represents accountability driven by moral, competitive or market expectations rather than legal obligations on the basis that accountability cannot be achieved simply through contractual, regulatory and/or statutory compliance. It is reactive and driven by desires to create a particular impression or obtain legitimacy. Such accountability is normally downwards and is relevant for SEOs given their NFP-focused objectives. In contrast to legal accountability which focuses on processes, constructive accountability incorporates performance reporting and involves implementing ‘best’ practices arising from shifting societal values or political trends not yet codified in law, albeit in response to external pressures and/or in anticipation of future regulation. This information is essential if SEOs are to compete for funding and engender legitimacy with their upward and downward stakeholders. SEOs can also instigate voluntary accountability, which is not driven by legal or constructive obligations. Such higher-level accountability might set standards for the sector and become a ‘constructive’ (or ‘legal’) obligation for others. Voluntary accountability is proactive (not reactive as is the case with constructive accountability) and is discharged because it is believed to be the right thing to do, regardless of the consequences; albeit it may create a positive impression or bring monetary gains. It can involve mechanisms to enable continuous improvement through training, self-evaluation and learning, perhaps arising from social audits and impact metrics such as social return on investment (Table I). However, it is acknowledged that aspects of constructive and voluntary accountability (as defined above) may be contractual under certain funding structures. For example, an organization using social impact bonds (SIBs) may be required to report to investors on its social impact (Cooper *et al.*, 2016; Tse and Warner, 2018; Morley, 2019). Thus, while, as mentioned in Section 2, SEOs do not pay dividends to shareholders, it could be argued that returns to SIB investors represent a *de facto* distribution of funds.

Insert Table I here

5. Research method

Our research investigates the types of accountability (legal, constructive and voluntary – see Table I) disclosed by SEOs and considers the extent to which they discharge accountability through their annual report. However, it is acknowledged that the annual report represents

only one form of communication available to organizations to provide accountability information to stakeholders. Whilst annual reports are often available on organizational websites, the provision of additional accountability information online and via other social media platforms on a more regular basis to organizational stakeholders is now more widespread (Connolly and Dhanani, 2013; Dunne *et al.*, 2013). For example, in a NFP context, studies have assessed the extent of accountability of NFPOs on their websites (e.g. Dumont, 2013; Tremblay-Boire and Prakash, 2014).

Notwithstanding the above, the annual report still represents a verifiable mode of reporting which reflects attitudes and events when it was published (Coy *et al.*, 2001; Ryan *et al.*, 2002). Specifically, for NFPOs, it is viewed as an important aspect of stewardship (Gray *et al.*, 2006; Phillips, 2013), which attracts a degree of authenticity not associated with other such organizational outputs (Boyne and Law, 1991; Samkin and Schneider, 2010). In addition, the annual report is perceived as the principal, formal means through which management communicates with its stakeholders about the organization's activities, successes and failures (Yuthas *et al.*, 2002; Kilcullen *et al.*, 2007). Moreover, Beattie *et al.* (2008) contend that it has changed from having a primarily fiduciary function to being a broader accountability document, with a high-quality report contributing to greater confidence in the organization (Steccolini, 2004). Hence, annual reports are an important means of communicating information about the organization to third parties and so are fundamental to discharging accountability (Mack and Ryan, 2006). Although, while financial statements can provide important information to users, they are unlikely to meet all their needs and further financial and non-financial performance information will be required (Laughlin, 1990; Steccolini, 2004). Thus, this research focuses on information, which is typically narrative, other than the financial statements that is contained in the annual report. However, whilst not forming part of this research, it is acknowledged that annual reports also employ graphs and pictures to convey a range of messages to different audiences (e.g. Campbell *et al.*, 2009; Davison, 2015).

Each of the annual reports used in this research was audited by an independent third party, providing an element of assurance regarding the validity (authenticity) of the information disclosed. It is acknowledged however, that while an unqualified audit report validates the financial statements, it has less significance for information presented outside the financial statements². None of the organizations included in this research received a qualified audit report nor did the auditor indicate that there was a material misstatement of the other information.

Whilst it is 'purpose' that defines SEOs rather than 'legal form' (Shaw and Carter, 2007), within the UK the majority of SEOs choose to set up as companies limited by guarantee. Whatever their legal form, these organizations will have similar legal accountability requirements. Currently, there is no single regulator for SEOs, nor is there a single source of data containing details of UK SEOs. Therefore, drawing on the membership lists of two recognized social enterprise membership associations whose objectives are to build the capabilities of SEOs as competitive and sustainable business, Social Enterprise UK and Social Enterprise Mark CIC, a database of UK SEOs was developed. As key lobbyists for SEOs, it is

² In accordance with international auditing standards (Financial Reporting Council, 2016), an auditor's opinion on the financial statements does not cover the other information (i.e. financial or non-financial information other than the financial statements) included in an organization's annual report. However, with respect to this information, an auditor is required to consider whether a material inconsistency exists between it and the financial statements, and the auditor's knowledge obtained in the audit. An inconsistency would exist when the other information: (i) contains information that is incorrect, unreasonable or inappropriate; and/or (ii) is presented in a way that omits or obscures information that is necessary to properly understand the matter being addressed. For example, if financial summaries or selected data are inconsistent with the financial statements.

reasonable to assume that organizations which voluntarily register with either of these associations consider themselves SEOs. However, it is accepted that organizations may have different reasons for wishing to be categorised as SEOs (e.g. to attract funding from social investors). Consequently, the correlation between organizational categorization and reporting format may not be as a consequence of organizational categorization but by a desire to signal to be seen as such to particular stakeholders. The final version of the database comprised 402 SEOs, each of which was contacted (via email on several occasions) with a request to supply their current annual report. One hundred and twenty-nine SEOs responded with this information, giving a response rate of 32.1%. Although, as we relied on organizations that responded to our email requests, this may skew the results towards those organizations that believe they report in an appropriate manner or have staff available to respond to our request.

Content analysis has been used widely in social and environmental and NFP accounting and reporting (Parker, 2005; Guthrie and Abeysekera, 2006; Dhanani and Connolly, 2014; Yasmin *et al.*, 2014). It is a ‘research technique for making replicable and valid inferences from texts’ which involves classification, tabulation and evaluation of key symbols and themes from communicated material to understand their meaning and probable effects (Krippendorff, 2013, p. 24). He argues that the main advantage of content analysis is that it provides the researcher with a structured approach for quantifying qualitative or interpretative text, and does so in a simple, clear and easily repeatable format. Whilst acknowledging the practical challenges of using content analysis as a research method (Steenkamp and Northcott, 2007), it has been applied in a similar manner in previous accounting research to examine, for example, social or environmental reporting (e.g. Parker, 2005; Beck *et al.*, 2010), together with the discharge of accountability in the NFP sector via annual reports (Dhanani and Connolly, 2012, 2014; Yasmin *et al.*, 2014) and web sites (Saxton and Guo, 2011; Connolly and Dhanni, 2013).

Drawing on the discussion in Sections 3 and 4, together with the framework presented in Table I, a document coding checklist was developed to investigate the ‘types’ of accountability (legal, constructive and voluntary – see Table I) embraced by SEOs and consider whether they discharge accountability through the annual reporting process in a manner that their *raison d’être* might imply (a copy of the coding checklist is available from the authors upon request). Specifically, to whom, for what and how do SEOs account (see Section 4). The reliability and validity of the final coding instrument were enhanced by developing a set of definitions and decision rules for classifying the information in order to reduce subjectivity when completing the content analysis³. For example, a hierarchical approach was adopted (i.e. when information was given more than once at different levels of detail, it was analyzed only once in its most detailed form). Thus, efficiency and effectiveness supersede results and results supersede outputs⁴. By independently applying the definitions and rules on a sample of 20 annual reports on a number of occasions, they were refined by the two authors jointly to enable them to arrive at the same coding outcome. Subsequently each of the researchers analyzed the remaining annual reports independently. When completed, the results were compared, with any differences being discussed and resolved. The main difference related to applying the hierarchical approach (see above), and to a lesser extent the

³ The definitions and decision rules, which form part of the coding checklist, are available from the authors upon request.

⁴ For example: ‘We conducted this research’ (output) and ‘It led to the government approaching us to develop policy to’ (result) is treated as a result because the former was simply the precursor/background to the actual results information.

appropriate classification of ‘future information’⁵. All information in the annual reports, with the exception of the statutory financial statements, formed part of the content analysis, with the checklist being divided into four sections: (a) basic background information (see Section 6.1); (b) legal accountability information (see Section 6.2); (c) constructive accountability information (see Section 6.3); and (d) voluntary accountability information (see Section 6.4).

The respondents were stratified by primary activity and size (see Table II, Panels (a) and (b)). Their average income was £7.7m, with incomes ranging £0.6m to £107m. The results from the analysis of the annual reports were entered into SPSS and a variety of descriptive statistics produced. Non-parametric tests (Mann-Whitney and Kruskal-Wallis⁶) were conducted in order to test for differences in disclosures on the basis of primary activity and size⁷. After undertaking the quantitative analysis, the researchers revisited the data in order to determine whether there were underlying patterns or themes with respect to the constructive and voluntary accountability disclosures. In Sections 6.3 and 6.4, we provide examples of constructive and voluntary accountability disclosures.

Insert Table II here

6. Results and discussion

After presenting some contextual findings (Section 6.1), consistent with Table I, the results are presented under the headings of legal (Section 6.2), constructive (Section 6.3) and voluntary (Section 6.4) accountability. In addition, in contrast to legal information, given organizations have autonomy over the content of their constructive and voluntary accountability disclosures, consideration is also given to whether the information comprises underlying disclosure patterns.

6.1 Background information

As indicated previously, as a single register of UK SEOs is not available, our database of such organizations was developed using the Social Enterprise UK and Social Enterprise Mark CIC membership lists. However, despite defining themselves as SEOs, only 17 (13.2%) and three (2%) reported having the Social Enterprise Charter Mark CIC or being a member of Social Enterprise UK respectively in their annual report. In contrast, 44 (34.1%) organizations made reference to other kite marks such as Investors in People and Total Quality Management. Of these, 52% were large, 35% were medium and 13% were small. This reveals that many SEOs may not perceive disclosing membership of a social enterprise body as important. This may be influenced by the fact that, unlike the Charity Commission for example, Social Enterprise UK or Social Enterprise Mark CIC are not statutory bodies and membership is not required. Alternatively, the annual report may not be considered an appropriate forum, with membership being disclosed elsewhere, perhaps via web-based technologies (Saxton and Guo, 2011).

⁵ Future information is that which indicates something in the future (e.g. ‘we expect to have 100 places available, treat 200 patients’). It should be quantitative and time-bound, and does not have to be specific to inputs/outputs/results.

⁶ The Kruskal-Wallis and Mann-Whitney U tests are both non-parametric analysis of variance (Anova) tests which examine whether samples are drawn from the same/identical or different/non-identical populations (for a detailed explanation, see Siegel, 1956).

⁷ As there were no significant differences relating to primary activity, these results are not reported. As noted above, given there is no single source of data containing details of UK SEOs, it is not possible to state whether our sample is representative of the whole population.

6.2 Legal accountability

Referring to Table I, legal accountability involves meeting regulatory and statutory standards (e.g. Stewart, 1984; Ebrahim, 2003; Goodin, 2003), including filing annual accounts, and fulfilling contractual obligations associated with grants and service contracts. Such accountability is reactive (e.g. Kearns, 1994) and typically involves: (i) following externally set rules; (ii) identifying key organizational members; (iii) providing governance information⁸; and (iv) describing activities.

Table III indicates that 123 (95%) organizations disclosed details of their activities (Information type (i)). In addition, 126 (98%) organizations provided information on their key members (Information type (ii)), with 120 (93%) organizations presenting governance data (Information type (iii)). Such information would be a minimum requirement by any oversight agency or other interested party. However, while 104 (81%) SEOs provided details on trustee selection and appointment (Table III(iv)), only 82 (64%) (Table III(v)) provided information on induction and training despite it being expected that organizations adopting the social enterprise business model would wish to disclose that staff had the appropriate skill set. Furthermore, only 67 (52%) (Table III(ix)) organizations discussed the key risks facing the organization: given the threat of fraud and insolvency, this, together with the controls in place to mitigate them, would be expected to be discussed within the annual report.

Insert Table III here

Using the Mann-Whitney U nonparametric test to identify pair-wise differences for each of the information disclosures, there were significant differences, at the 1% level, in information disclosures between large and small SEOs only; with large SEOs disclosing more information than their smaller counterparts in the following areas (Table III): (iii) governance; (iv) trustee selection and appointment; (v) trustee induction and training; (vii) investment policy; and (viii) approach to risk management. The following disclosures were significant at the 5% level (Table III): (vi) reserves policy; and (ix) identification of risks. This is not unexpected given that larger SEOs are more likely to have the resources to spend on governance systems and the selection and induction of trustees (Saxton and Guo, 2011; Saxton *et al.*, 2011). They will have a higher profile and, therefore, to secure legitimacy from resource providers may wish to disclose such information. As shown in Table III, the results of the Kruskal-Wallis test⁹ mirror those of the Mann-Whitney U test.

6.3 Constructive accountability

As previously discussed, ‘constructive’ accountability is deemed to be driven by moral, competitive or market expectations rather than legal compliance (e.g. Stewart, 1984; Fry, 1995; O’Dwyer and Boomsma, 2015). It includes performance reporting which, as discussed in Section 4, is considered important for generating legitimacy and building confidence within the organization and sector, together with being an important element of the discharge of accountability. Without the discipline of providing performance information, there is a risk of mission drift (Nicholls, 2009). One way for SEOs to develop such legitimacy is to evaluate their performance in terms of efficiency and effectiveness (e.g. Ebrahim, 2003; Khanna and Irvine, 2017). Table IV shows that the predominant type of performance information

⁸ The annual reports were examined for statements on governance policies. For example, information relating to the governing instrument may outline the broad objects of a SEO, how it relates to its external environment and how it is governed internally.

⁹ Using the Kruskal-Wallis non-parametric test to identify differences in disclosure, the differences were significant between large SEOs and the other two groups only.

disclosed in the annual report was output, with there being a paucity of efficiency¹⁰ and effectiveness¹¹ information.

Insert Table IV here

Input and output disclosures were mainly non-monetary in nature (not shown in Table IV), with the former often emphasizing the contribution of volunteers and the latter concentrating on the number of people assisted. The focus of input and output disclosures are indicative of the importance of volunteers to these organizations, with the annual report offering an opportunity to acknowledge their contribution, and the output disclosures being seen as a proxy measure of impact (given difficulties in measuring this). A typical input disclosure is:

Our base of 22 volunteers work various hours carrying out numerous activities within the facility. Volunteers contribute their time in a wide range of activities from general park supervision, event management to medial graphics activities. During the financial year 22 volunteers have contributed in excess of 1,500 hours, an average of 28 hours per week (Adrenaline Alley, Annual Report, 2015).

A representative output example is:

GLL provides extensive support to encourage increased use by nationally under-represented groups. This includes promoting sport and physical activity to women & girls, disabled people and older generations. Activity by GLL in 2015 has included, 11,000 “For the Girls” sessions, 7,000 Disability Sport Sessions and Better Club Hubs in all GLL Regions for people aged 60+ (Greenwich Leisure London, Annual Report, 2015).

Those organizations providing results information¹² usually included a general discussion of financial outcomes on an activity or programme basis. As noted above, we defined efficiency as the relationship between inputs and outputs and, where actual output was compared to a target or plan, this was classified as an effectiveness measure. In contrast to those providing input, output and results information, only one (0.8%) and seven (5.4%) SEOs disclosed efficiency and effectiveness information respectively (Table IV). The organization furnishing efficiency information compared its staff costs per person assisted with the previous year. In each of the seven cases of effectiveness information being provided, the disclosure narrative was positive. For example:

We have been successful in achieving all of our strategic objectives over the year. The objectives are translated into smart targets, which in turn are measured by performance indicators and monitored using a traffic light system. By 31st March 2015 we have achieved 38 out of 41 of our Corporate Plan and Delivery Plan targets (Alliance Homes, Annual Report, 2015).

Similarly, an organization involved in supporting the elderly stated:

¹⁰ The relationship between inputs and outputs: e.g. cost per person assisted, number of cases handled per employee.

¹¹ The relationship between outputs and objectives: e.g. actual number of children assisted versus planned.

¹² The short-term difference an activity makes to those the organization is trying to help e.g. change in level of awareness/education, user/customer satisfaction, personal stories.

Through the provision of support and Home from Hospital Services. The project has been a great success in the 6 areas where we were the lead organisation; we have reached 121% of our 14-week target for supporting older people and have supported 3,300 older people (Royal Voluntary Service, Annual Report, 2015).

Analyzing the performance information disclosures in Table IV by SEO size reveals a balance of input and output disclosures across each size category; however, those SEOs, albeit very few in number, providing efficiency and effectiveness¹³ information were large. While these results are in line with studies in the NFP sector (e.g. Connolly and Hyndman, 2003; Dhanani and Connolly, 2012), given implicit SEO values and that traditional business organizations report on their performance, it would be expected that more SEOs would do likewise. As reflected in Table IV, the information tended to be positive, with comparative or target data that would facilitate placing it in context not always being provided. Thirty-six (28%) SEOs, including the seven providing information on effectiveness, included future information¹⁴ (not shown in Table IV), with the majority of disclosures again being affirmative. For example:

The establishment of our Eden Apprenticeship programme in 2014 was a major milestone, which will be followed by three new university programmes in 2015, when we open our doors to undergraduates for the first time. We are aiming for 60 students in the first year, rising to 250 by year three (Eden, Annual Report, 2015).

Comparing the provision of legal and constructive accountability information, these results reveal that SEOs are predisposed to presenting legal information, particularly in relation to activities and governance (Table III), rather than risk scrutiny by providing constructive-type performance information including details of future targets (Table IV). Moreover, by tending to accentuate the positive, rather than offering a balanced reflection, this potentially dilutes organizational accountability.

6.4 Voluntary accountability

As discussed in Section 4, the disclosure of accountability information allows organizations to obtain legitimacy from their stakeholders. In this regard, it can be expected that SEOs will communicate through their annual reports how they are connecting with stakeholders and creating social value (e.g. Coyte *et al.*, 2013; Botetzagias and Koutiva, 2014). Overall, the level of voluntary accountability disclosure was limited, with Tables V and VI presenting the findings in relation to stakeholder engagement and environmental and social value disclosures respectively.

Insert Table V here

Only 18 (14%) (Table V(a)) SEOs indicated the participation of beneficiaries on the board. Whilst accepting the possibility of non-disclosure, this appears low given that SEOs

¹³ Using the Mann-Whitney U test, effectiveness information disclosures between large and small SEOs are statistically significant at 5%. The Kruskal-Wallis test indicated statistical significance at the 1% level for differences between large versus small SEOs.

¹⁴ Future information is important as it indicates management's perspective of the organization's future direction, including its aims and objectives and how it intends to achieve. Furthermore, it facilitates an assessment of effectiveness by enabling the comparison of actual outputs with targets.

are often primarily driven by their social objectives. Notwithstanding, there were examples of informative disclosures, with evidence (albeit very limited) of beneficiary engagement going beyond board representation. For example, as illustrated below, seeking volunteers to join the board and inviting feedback from beneficiaries (clients).

In exercising its powers to nominate, appoint, reappoint, elect, re-elect, approve and dismiss Members, the Society Members seek to ensure that the Board is representative of the local community and also comprises persons with a broad range of skills who are likely to contribute to the Society's success. All eligible staff in GLL are encouraged to join the Society as voting members. This leads to a high level of commitment, empowerment and motivation resulting in an improved quality of service to the community (Greenwich Leisure London, Annual Report, 2015).

And:

Mungo's Broadway works with MPs, London Assembly Members and local councillors from across the main political parties. We involve, directly, the people who use our services in this work as much as possible. Often our clients want to share their experiences, discuss the causes and consequences of their homelessness and give a view on what more can be done to help people who are homeless, or at risk of homelessness (St. Mungo's Broadway, Annual Report, 2015)

Social audits are an important accountability mechanism through which SEOs can evidence engagement with wider stakeholders; however, only two SEOs disclosed the use of this mechanism (Table V(b)). Such voluntary accountability mechanisms allow participation and learning opportunities which can, if disseminated, become more widely established across the sector. While 32 (25%) (Table V(d)) SEOs signalled some form of stakeholder dialogue, only 16 (12%) (Table V(c)) reported seeking stakeholder input in the organization's decision-making processes (other than through the involvement of beneficiaries on the board (Table V(a)). Information disclosures on involvement in decisions (Table V(c)) and stakeholder dialogue (Table V(d)) were each statistically significant, with the majority of statements on stakeholder dialogue being relatively bland. While there were generic statements around social activities and outputs, there was a lack of demonstrable evidence of explicit dialogue with one or more stakeholder group. For example:

Pentreath prides itself on its extensive programme of engaging stakeholders and clients to seek their feedback and integrates this into our working practice in the Voluntary, Community and Social Enterprise (VCSE) Sector. Honesty and transparency encourage advancement, both for the organisation and for our clients and stakeholders (Pentreath, Annual Report, 2015).

Although, a minority did report the results of satisfaction surveys with beneficiaries and service users; again, the reported information was typically positive. For example:

In order to ensure we are meeting people's needs and maintaining the high quality of the service, we actively seek feedback from clients on a monthly basis, but we also frequently receive unsolicited feedback. In the year 2014-15, 69% of survey respondents reported that the service had made a difference to their lives through receiving more money as a result of their contact with us (Staywell, Annual Report, 2015).

It may be the case that other mediums such as websites, annual reviews and newsletters are being used to communicate with stakeholders.

Given that SEOs have aims and objectives that focus on environmental and social activities, they might be expected to have ethical policies covering issues such as investment, procurement and the environment. Table VI indicates that only three (2%) SEOs disclosed an ethical investment policy (item (a)) which, for the purposes of this research, represents a statement indicating that funds are invested in a manner that demonstrates a morally positive and sustainable approach to the environment and society. A consistent element of each of these statements was a reference to sustainability. For example, one SEO sought to:

Enable individuals, institutions and businesses to use money more consciously in ways that benefit people and the environment, and promote sustainable development (Tridos, Annual Report, 2015).

Insert Table VI here

With respect to Table VI (item (b)), 16 (12%) SEOs disclosed an ethical trading policy, with these typically being couched in terms of the SEO's aims and objectives and beneficiaries. For example:

The objects of HCT Group are to provide community transport services for people who are in need of such services because of age, sickness, disability (mental or physical) or poverty or because of a lack of availability of adequate and safe public transport (HCT, Annual Report, 2015).

Three of those providing an ethical trading policy (Table VI, item (b)) also referred to the manner in which their products and services were procured (Table VI, item (c)). For example:

In 2015, our approach to ethical sourcing has been guided by our Sound Sourcing Code of Conduct, Sustainable Procurement and Supplier Policy, and our Human Rights and Trade Policy. We source own-brand products for sale in our Food stores from 1,700 sites around the world that employ half a million workers, an indication of the scale of our potential supply chain impact (The Cooperative, Annual Report, 2015).

Assuming the organizations do have such policies, they may be relying on the existence of a legitimacy surplus and not disclosing this information in the annual report.

As a feature of SEOs is the primacy of their environmental aims, it is noteworthy that only 16 (12%) provided such information (Table VI, item (d)). Those SEOs providing an environmental policy referred, in general terms, to the importance of reducing their environmental footprint. Of the 20 organizations whose primary activity was 'renewables, recycling and environment' (Table II), only six disclosed a separate environmental policy. It may be that because this area is an explicit feature of what SEOs do, they believe there is no need to disclose this separately. Eight of the 16 SEOs providing environmental information made specific reference to external benchmarks or award schemes. Of these, three indicated that they had achieved ISO14001 and one stated that it had complied with the Global Reporting Initiative guidelines. Within their specific environmental policy, six (30%) SEOs referred to reducing carbon/greenhouse gas emissions. For example, a SEO operating in sport and leisure stated:

GLL takes responsibility about the environment seriously. To this aim, each year we strive to reduce energy consumption and our impact on the environment through investment into proven and new technologies and the adoption of best practices. In 2015 GLL continued our work on key environmental objectives through the delivery of our Strategic Action Plan as well as the corporate plan. The key principles of reducing carbon emissions and energy use remain core agenda items (Greenwich Leisure London, Annual Report, 2015).

In contrast, albeit still relatively low, 63 (49%) SEOs included policies on employment (Table VI(e)), covering areas such as disability, diversity, training and the use of volunteers. Of these organizations, 20 (32%) made specific reference to disability (not shown in Table VI). For example, a SEO, whose aims and objectives are to deliver programmes for disabled people to obtain and retain work, stated:

Papworth Trust has a Diversity and Equality policy regarding the employment of staff, including disabled employees, and gives full consideration to applications for employment from disabled people. Currently 19% of Papworth Trust's employees have declared a disability. Where existing employees acquire a disability, it is Papworth Trust's policy wherever possible to provide continuing employment and to provide training and career development to employees wherever appropriate (Papworth Development Trust, Annual Report, 2015).

Twelve (19%) SEOs made reference to the use of volunteers, with only eight of the 63 SEOs disclosing an employment policy referring to a relevant external accreditation such as Investors in People. With respect to environmental and social value disclosures (see Table VI), the only statistically significant differences (at the 1% level) were in relation to size for environmental and employment policies (Table VI(d) and (e) respectively).

Overall, with respect to the provision of constructive (Table IV) and voluntary (Tables V and VI) accountability types, those SEOs providing voluntary information also typically provided constructive disclosures, albeit with the exception of constructive efficiency and effectiveness information which had very low levels of disclosure (Table IV).

7. Conclusions and Reflections

The framework presented and empirically applied in this paper provides a template for SEOs, academics and policymakers to better understand and engage with the complexity of accountability within socially-driven organizations. Given the different ways that SEOs seek to enhance societal development, accountability documents (of which the annual report is an important example) need to explain the organization's ethical and value-driven objectives, how it works towards achieving them and the extent to which they have been achieved. The annual report offers SEOs an accepted means of presenting their values and achievements to stakeholders (Kilcullen *et al.*, 2007; Samkin and Schneider, 2010). On the basis that what SEOs choose to include in (or omit from) their annual reports is a conscious action that communicates a significant message to stakeholders (Guthrie and Abeysekera, 2006), the findings suggest a predilection for legal accountability (Table III), with constructive (Table IV) and voluntary (Tables V and VI) information being disclosed to a lesser extent.

In this regard, as there is a need to comply with legal disclosures to maintain legitimacy, SEOs adhere to regulatory requirements in order to, for example, gain credibility with key resource providers. Messages with respect to constructive and voluntary accountability are limited and typically positive. Hence, at least through the annual report, the sample

organizations may have missed an opportunity to strengthen communication and bonds with their stakeholders. However, given the tendency for positive information disclosures, the paucity of performance information and the reluctance to discuss unsatisfactory performance may be due to the potential negative publicity associated with not fulfilling (social) objectives and the subsequent detrimental effect on funding (Tregidga *et al.*, 2012). In addition, any attempt to accurately measure performance could be hampered by institutional complexity (e.g. dual logics and diverse aims and objectives) (Battilana *et al.*, 2015), together with the complexities and costs associated with measuring impact (Cordery and Sinclair, 2013). The consequences of this are potentially reduced public accountability whereby reporting entities may be deciding not to report so that their stakeholders maintain confidence in the entity and continue their support.

Our findings demonstrate that SEOs place more importance on discharging legal, as opposed to constructive and voluntary, accountability types via the annual report. Specifically, the emphasis is on disclosing information on aims and objectives, activities and governance practices. However, as indicated in Table III, the disclosure of information on trustee induction and training, investment policies and risk identification is less prevalent. With respect to this latter item in particular, especially given growing concerns about corruption and fraud (Islam *et al.*, 2017), information on risks, together with the controls in place to mitigate them, would be expected to be discussed within the annual report. While highlighting such matters would demonstrate a commitment to financial probity (e.g. Taylor and Rosair, 2000; Brody, 2001; Bambagiotti-Alberti *et al.*, 2016), the lower levels of disclosure may reflect organizations being mindful that bringing such matters to the fore could have a detrimental impact on funding.

Given the lack of performance disclosures (Table IV), those relying on the annual report may have insufficient information to make informed decisions or judgements about the extent to which SEOs have achieved their aims. Moreover, the lack of disclosure of information externally raises concerns as to whether it is available internally. As social organizations, the importance of mechanisms which involve open dialogue cannot be underestimated (Ebrahim, 2003; van Zyl and Claeyé, 2019). Disclosure is a powerful legitimating tool, primarily because disclosure recalls the idea of accountability, which is commonly considered to be good (Monfardini *et al.*, 2013). Informal and ‘holistic’ (or what Roberts (1991) refers to as social accountability) mechanisms are essential for developing and maintaining credibility and confidence in the sector. On this basis, new ideas (and conversations) regarding constructive (and voluntary) accountability mechanisms could be debated and become established across the sector.

There is a movement towards adopting business models and reporting practices in the social sector based on the assumption that they enhance stakeholder accountability and therefore improve performance legitimacy (Nichols, 2009). We contend that current regulations governing annual reporting draw on the accounting models of for-profit entities and do not sufficiently represent the operation of socially-oriented organizations. The research that concentrates on external disclosure, however, is still incomplete in critiquing the role that annual reports can perform in civil society and its public spheres (Summers-Effler and Kwak, 2015). As SEOs have goals and objectives that focus primarily on social benefit provision, wider social performance information, related to the quality of service provision and as a basis for judging organizational efficiency and effectiveness, is required. Although SEOs are viewed as promising vehicles for the creation of both commercial and social value (Sabeti, 2011), there is a risk that, in an effort to be financially sustainable, they may lose sight of their social missions (Considine *et al.*, 2014; Ebrahim *et al.*, 2014). Indeed, the absence of accountability, and in particular performance accountability, “begins to make the likelihood of

ineffective or illegitimate actions by an organization much more probable” (Edwards and Hulme, 1995, p. 9).

In this study, any obvious tension between business logics and social logics was obscured by the absence of constructive and voluntary accountability disclosures. For those few organizations that did report wider social performance information, we found no specific evidence of any tension. Based on the SEOs included in this research, the results indicate that such organizations are failing to provide disclosures in their annual reports to demonstrate how they have performed. This may be because SEOs have what Nicholls (2009, p. 758) refers to as a “legitimacy surplus” whereby they have less onerous reporting expectations than their for-profit counterparts (which do not have such a surplus). Alternatively, SEOs may be providing constructive and voluntary disclosures through mechanisms other than the annual report via their website and other social media platforms. Essentially, SEOs’ activities are considered legitimate because it is accepted or taken for granted that their aims and objectives are noble. However, that surplus could be easily lost if SEOs fail to demonstrate the social benefits of their business model. Moreover, over the longer term, it is highly probable that this legitimacy surplus will be eroded and various stakeholders will demand information disclosures that support an organization’s claims regarding social outcomes.

The Social Value Act (2012) has increased the urgency for universally accepted metrics to ensure social returns can be measured and accepted as relevant outcomes for stakeholders. The potential worth of reliable impact metrics for SEOs is considerable. Firstly, they provide a measure of mission success or failure and, thus, help decision-making in relation to future resource allocations. Although, as SEOs are characterized by their diverse activities, it is possible that a variety of performance indicators are required. Secondly, credible metrics can contribute to SEO legitimation (Dart, 2004; Nicholls, 2009) and inform stakeholders of progress towards achieving goals and objectives. However, SEOs lack an agreed system for measuring impact and, as a consequence, it is extremely difficult to develop reliable performance metrics.

SEOs face multiple, and sometimes competing, accountability demands: from numerous actors (e.g. upward, downward and internal); for varying purposes (e.g. finances, governance, performance and mission); and requiring differing levels of organizational response (e.g. legal, constructive and voluntary). These expectations cannot be handled separately, but require integration and alignment throughout the organization. From an external reporting perspective at least, the emphasis on legal, rather than constructive or voluntary, accountability is problematic as it skews organizational attention towards the interests of those who control critical resources and potentially rewards SEOs for short-term responses with quick and tangible impacts, while neglecting longer-term strategic responses or riskier innovations that address more systemic issues of social change.

The critical challenge for SEOs lies in balancing upward accountability with remaining true to their mission. Accountability is not simply about legal compliance, rather, it is more deeply connected to organizational purpose and public trust. Indeed, O’Neill (2002) argues that an audit/regulatory culture, aimed at restoring trust in institutions, can both distort the proper aim of professional practice and damage professional integrity. Arvidon *et al.* (2010) describe how social organizations, under pressure to produce performance information, attempt to balance the need to comply in order to gain legitimacy against a need to resist the power and control exercised by outsiders from undermining their independence. Moreover, there may be too much emphasis on improving compliance and regulation rather than on improving the standard of reporting.

While annual reports have traditionally been seen as the primary means by which management is able to fulfil its reporting responsibility and provide visibility to its resources,

such documents have become lengthy, complex and unhelpful to many users (Connolly *et al.*, 2013). Cordery and Baskerville (2007) suggest that little attention has been paid to the need to save NFPOs from onerous reporting requirements on the grounds of alleviating them from the costly burden of financial reporting. This would be particularly relevant to SEOs who lack the financial resources to provide more detailed and sophisticated reports. Increasing the quantity of information disclosures generates costs of implementation, whether we consider legal, constructive or voluntary disclosures. The very cost of producing and disseminating information, including social impact reporting/auditing, cannot be ignored (Hackston and Milne, 1996; Cordery and Sinclair, 2013). Even if the permanency of the legal obligation allows annual reporting procedures to be standardized, costs of preparation remains an issue. Furthermore, costs of disclosure are also unequally distributed because the smallest SEOs will potentially carry the costs more heavily (Saxton and Guo, 2011; Saxton *et al.*, 2011). For smaller SEOs, cost, rather than a legitimacy surplus, could be the determining factor for lack of disclosure. The lack of a connection between the structure of constructive and voluntary disclosures and its audience can negatively impact its ability to address the legitimizing community's needs and thus its capacity for legitimation. A dedicated SEO regulatory body would be well-placed to undertake such a review. Furthermore, accountants could play an active role in educating key stakeholders and providing information in a more understandable and structured format. Moreover, this could facilitate SEOs to collectively engage in a wider debate around social issues prevalent within civil society.

From our study, SEOs are avoiding using the annual report to communicate (or account for) their social and environmental impacts to their wider stakeholders; rather it appears to be employed as a device to ensure that legal obligations are met. It may be the case that those SEOs that provide information, through a medium other than the annual report, will be the forerunners in the new paradigm of social enterprise. Future research could compare the environmental/social disclosures by for-profit organizations and mission-specific performance disclosures by SEOs and/or the mission-specific reporting by for-profits and NFPOs. Furthermore, it could assess the discharge of accountability by SEOs through their websites and other social media platforms, including informal ways of conveying accountability to stakeholders on a regular basis and the use of visual materials in complementing financial and narrative information. In addition, semi-structured interviews with SEO representatives, funders and policy makers could be undertaken, thus raising the possibility of a more nuanced understanding of the motivations for, and manifestations of, SEO accountability. We believe such studies would be helpful in illuminating any specific tensions between the business and social logics or evidence of mission drift. This has the potential to offer new insights into whether current practices are meeting stakeholders' needs and how SEO accountability can be shaped and implemented.

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