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The corporate connection: financial reporting in a large religious/charitable organization in Australia

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Abstract

Nonprofit organizations operate in an increasingly corporatised, competitive environment. More and more, as institutions with charitable agenda, they need to promote an image that will enhance their ability to attract the funding they require in order to continue their operations. Competition for donations is becoming more intense and society is increasing its expectations about the level of accountability desirable from such organizations. One means by which nonprofit organizations can address this issue of accountability, and present themselves to the public as financially sound and worthy of receiving donations, is through their annual financial statements. As accounting practices have changed over time, it has been essential for religious/charitable and other nonprofit organizations to present a financial image in keeping with that which is valued and esteemed by society. They may have a "sacred" agenda, but in a changing environment where attitudes to religion and religious organizations have changed, where social problems abound and the need for their services is increasing, where philanthropy is rapidly becoming an industry, and government funding is increasingly tied to performance, nonprofit organizations have had to adopt "secular" accounting practices in order to survive. Borrowed from the corporate world, these accounting practices are in the process of being institutionalized into the nonprofit sector, as an aid to ensuring financial survival. This paper has as its focus one of two Australian divisions of an international religious/charitable organization. It was the subject of a twelve month study. The division relies heavily on the general public for donations, works hard to increase corporate sponsorship, and also depends on the government for funding. The organization has responded to society's demands for more financial accountability by presenting financial statements based on accrual accounting and in conformity with generally accepted accounting principles. While the production of an image-enhancing report has been achieved, the cost has been substantial, not just financially, but in organizational, personnel and cultural terms. Given that world-wide, nonprofit organizations are operating in a similar environment, there will be many such organizations undergoing similar changes in their style of financial reporting. Based on this case, these transitions are likely also to be painful, but perceived as necessary, with the benefits being in terms of image rather than technical usefulness.

Keywords

nonprofits, financial reporting, funding

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The corporate connection: financial reporting in a large religious/charitable organization in Australia

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by

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Abstract.

Nonprofit organizations operate in an increasingly corporatised, competitive environment. More and more, as institutions with charitable agenda, they need to promote an image that will enhance their ability to attract the funding they require in order to continue their operations. Competition for donations is becoming more intense and society is increasing its expectations about the level of accountability desirable from such organizations. One means by which nonprofit organizations can address this issue of accountability, and present themselves to the public as financially sound and worthy of receiving donations, is through their annual financial statements. As accounting practices have changed over time, it has been essential for religious/charitable and other nonprofit organizations to present a financial image in keeping with that which is valued and esteemed by society. They may have a “sacred” agenda, but in a changing environment where attitudes to religion and religious organizations have changed, where social problems abound and the need for their services is increasing, where philanthropy is rapidly becoming an industry, and government funding is increasingly tied to performance, nonprofit organizations have had to adopt “secular” accounting practices in order to survive. Borrowed from the corporate world, these accounting practices are in the process of being institutionalized into the nonprofit sector, as an aid to ensuring financial survival.

This paper has as its focus one of two Australian divisions of an international religious/charitable organization. It was the subject of a twelve month study. The division relies heavily on the general public for donations, works hard to increase corporate sponsorship, and also depends on the government for funding. The organization has responded to society’s demands for more financial accountability by presenting financial statements based on accrual accounting and in conformity with generally accepted accounting principles. While the production of an image-enhancing report has been achieved, the cost has been substantial, not just financially, but in organizational, personnel and cultural terms.

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Prologue.

It was early afternoon and the dining room was full. Lunch had been enjoyable, and there was a buzz of relaxed conversation. It appeared to be like any other corporate lunch, except that it was the business launch of Hearts and Hands¹ annual fundraising appeal. Ordained members of Hearts and Hands, clearly identifiable,

¹“Hearts and Hands” is a pseudonym for the international religious/charitable organization that is the subject of this paper.

were dotted around the room. The invited guests relaxed in their seats, ready to hear from the speaker, a well-known Sydney business and legal identity.

The speaker, who had a high profile as part of the team responsible for Sydney's successful Olympic bid, had donated his time to this annual launch. He spoke passionately about Hearts and Hands' social work, and the necessity of having such an organization to pick up the people who "fall through the cracks" in our society. His appeal was to the hearts and the hip pockets of us, the guests, but also to our corporate resources. There was no reason why we had to go out and rescue street people. Hearts and Hands would do it. We did not need to assist drug addicts or alcoholics to reform. That was Hearts and Hands' job. It was not our task to lend assistance to broken families. That too was Hearts and Hands' job, and they were very good at what they did. We needed to allow their dedicated people to do what they did best. But what could we, the lunch guests, do, both as individuals, and as a business community? Give money!

At this point, two glossy booklets were distributed to the guests. One was a summary of Hearts and Hands' charitable work, as seen by six high-profile Australians. The other was a colour-coordinated companion book, designed to slip into the back cover of the first book. It was Hearts and Hands' Consolidated Financial Statements, a corporate-style set of annual accounts, glossy and well presented, complete with notes, a statement by the trustees, and an independent audit report by one of the big international accounting firms. Accounting had been invited to the launch of Hearts and Hands' annual fund raising appeal.

Tucked into the back of the annual report was a sheet of pink paper with the heading "Hearts and Hands Appeal Investment Slip". It invited us, as guests, to "dig deep" by investing in the future of others through the appeal, and gave us the opportunity to donate as an individual or a company, by cheque or credit card. Hearts and Hands people positioned strategically at the tables guided discussion and followed up our queries. The approach was caring yet professional, people-focused yet business-like, mission-oriented yet realistic about the money needed to fund that mission.

Setting the scene.

Hearts and Hands, like most nonprofit organizations, is acutely aware of the image it presents to its public, especially in financial matters. Not only does it need to be seen to be using donated funds responsibly, but its accounting practices must be beyond reproach. Hearts and Hands' accounting has traditionally stressed the accurate recording of funds received, the careful tracking and control of expenditure, and the presentation of financial reports within the guidelines of currently acceptable financial reporting. As accounting practices have changed over time, it has been essential for Hearts and Hands to present a financial image in keeping with that which is valued and esteemed by society. The production of corporate-style financial reports is one means by which it has achieved this.

To use a theatrical metaphor [Morgan et al, 1983; Morgan, 1983; Goffman, 1959; Lovelock, 1991; Dandridge, 1983], presenting such an image is an ongoing and changing performance. Institutional theory recognizes that much organizational behaviour occurs as a result of conformity to institutionalized practices, in order to ensure organizational survival. This is achieved when organizational players, by being highly self-aware, adopt legitimizing behaviour, and attempt to stage-manage their image and actions. What institutional theory does not usually explore is what goes on in an organization behind the scenes, as institutionally desirable practices are adopted.

This paper addresses both issues, by considering not only the obvious, external effects of one organization's response to its changing environment, but also the impact that response has had on its own internal structures. It begins first with a brief introduction to Helping Hands, which is the subject of this study. Institutional theory is then put forward as a means of explaining why accounting practices from the corporate world are being institutionalized into the structures of nonprofit organizations. Next, some reasons why a corporate image is desirable for a religious/charitable organization are examined by considering the changing environment in which Hearts and Hands raises funds and operates. This is followed with a description of Hearts and Hands' new corporate style financial reporting performance. A behind the scenes view of the organization is then presented, which considers the internal impact of these financial reporting changes. Lastly, conclusions are drawn from this single case study that it is believed have relevance to the changing audience world wide before which nonprofit organizations are currently performing.

The performer: Hearts and Hands.

Hearts and Hands is a pseudonym for a large international religious/charitable organization which was the subject of a year long study I conducted from 1996 - 1997. Because of the need to preserve anonymity, this introduction is, by necessity, brief. Hearts and Hands has a high profile within Australian society as a charitable organization and church. In its organizational hierarchy, there is a combination of ordained people and employees, who together provide a variety of welfare services, from drug and alcohol rehabilitation, to homeless shelters, youth hostels and child

care. Funding is received from the general public, from governments, and from corporate donors. Without these contributions, the organization could not continue its charitable works. Possibly for this reason, its dependence on external funding, Hearts and Hands has an attitude of openness to its environment, and historically has relied on the public not only for financial contributions, but also for expertise and advice in the form of boards and advisory groups.

In the course of my study, I interviewed over 100 people, both ordained and employed, in order to assess the impact of accounting, particularly budgeting, in the organization. In addition, I collected various archival records, including reports and the minutes of meetings, and also attended several months of budget meetings. Based initially at the organization's head office, I then moved out into various areas to cover a variety of situations, including area headquarters, social and community centres and churches.

This paper is a condensation of my reflections about the environmental pressures and organizational motivations behind Hearts and Hands' introduction of corporate-style financial statements, the way this new style of reporting was achieved within the existing organizational structures, and the impact of those changes within an organization very conscious of its own unique history, culture and image. That image has been carefully developed in order to satisfy the institutional norms of society.

The script: institutional expectations.

While it is difficult to define explicitly what institutional norms are, and while they may not be "substantive things" at all, since they are intangible, we think and live as though they are real [Allport, 1933, 13]. In some ways they determine the script an organization will follow, since they become institutionalized into organizational structures by providing "blueprints" an organization of a particular type should adopt if it is to be seen as "a member-in-good standing of its class" [Barley and Tolbert, 1997, 93 - 94]. Organizational structures therefore become "reflections of rationalized institutional rules [Meyer and Rowan, 1977, 340], or "shared knowledge and belief systems" [Scott, 1995, 13].

With its roots in economics, political science and sociology studies, institutional theory developed from the middle of last century onwards [Scott, 1995]. The “new institutionalism”, as it is known, began in the 1970s [Meyer and Rowan, 1977; Zucker, 1977], with the notion of “institutional isomorphism” as one of its defining features. This is the process by which organizations are “driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society” [Meyer and Rowan, 1977, 340].

DiMaggio and Powell [1983] identified three mechanisms by which institutional isomorphism occurred within an organizational field. “Coercive” isomorphism is demonstrated in the elaborate rules and regulations which organizations must obey. “Normative” isomorphism is less easily identified, being the societal norms that are taken for granted. The growth of a large, professionally trained labour force is probably the most striking demonstration of normative institutional influences [DiMaggio and Powell, 1983, 152 – 153]. “Mimetic” isomorphism leads organizations to model themselves after other organizations in their field that are perceived to be more legitimate and successful [DiMaggio and Powell, 1983, 152].

Why are institutions significant to organizations? Organizations need to perform in a way that shows them to be competent and acceptable to society, their audience. Through compliance with institutional expectations, they receive the prestige, stability, access to resources, legitimacy and social acceptance they require in order to survive [Oliver, 1991; Ang and Cummings, 1997; Meyer and Rowan, 1977; Oliver, 1997; Meyer et al, 1992; Carruthers, 1995]. Compliance occurs as institutional expectations are incorporated into organizational fabric by means of cultures, structures and routines [Scott, 1995, 52].

Institutional theory offers some interesting perspectives on organizations, particularly in relation to the use of accounting. It highlights the influence of culture on decision making and organizational structures [Barley and Tolbert, 1997, 93], explains the homogeneity of "organizational forms and practices" [DiMaggio and Powell, 1983; Ang and Cummings, 1997, 237; Booth, 1995; Powell, 1985; Covaleski et al, 1993, 66], identifies the sources of influence on organizational structures [DiMaggio and

Powell, 1983], establishes "key constituents" in an institutional environment, including representatives of the state and professions [Oliver, 1997, 101 - 102], exposes the "charade" of rationality in organizations, suggesting a distinction between technical and institutional functions [Meyer et al, 1992; Scott, 1987; Meyer and Rowan, 1977], and proposes accounting as having a symbolic role in organizational structure [Carpenter and Feroz, 1992], challenging the "more conventional interpretations" of accounting offered by the profession, and separating "functional rationality and political reality" for social actors [Fogarty, 1996, 243].

The "building blocks" of institutions, which Meyer and Rowan [1977, 345] described as being "littered around the societal landscape" surely include accounting. Questions about accountability, technological expertise, rational decision making, and scrutiny of performance all find expression in the craft of accounting. If institutional expectations are "powerful elements in the environment (which) can create demand for expanded accounting" [Carpenter and Feroz, 1992, 622, referring to Meyer, 1986], then accounting could be regarded as a powerful "social and institutional practice" [Miller, 1994, 1].

Voluntary organizations are not exempt from these institutional pressures, including the institutionalization of accounting control systems [Booth, 1995, 52]. As nonprofit organizations find themselves performing for a constantly changing audience, these pressures can sometimes lead to a sacred/secular clash. Laughlin's [1988] study of accounting systems in the Church of England revealed that in spite of a massive resource crisis, the concern was to preserve the sacred core of the church. This is not inconsistent with Oliver's [1991, 173] suggestion that an institutional framework could accommodate a variety of responses to institutional pressures, i.e. that organizations were able to exercise a considerable amount of discretion in designing and altering their own structures [Oliver, 1988; Child, 1997].

At the very least, there are likely to be "intrinsic conflicts" between "the goals and managerial cultures of nonprofit and business enterprise" and the corporate influences as demonstrated by the increasing professionalization of nonprofit management [Hall, 1990, 156]. Organizational response to its audience will be worked out in the context

of that organization's history, mission and belief system and structural arrangements. In the case of Hearts and Hands, its historic reliance on the public for both funding and voluntary service, has produced an organization open to the management and accounting techniques of the day. Even though this is the case, there is still a sense that the organization's mission ought not to be compromised, which causes a tension that will be described later in this paper.

Hoskin and Macve [1994, 67] described accounting as “an ancient practice with a distinctive modern power”, “a powerful new way of ‘writing the world’” [Hoskin and Macve, 1994, 91]. That world is constantly changing, and Hearts and Hands and other nonprofit organizations must tailor their image, particularly their financial image, to accommodate the expectations institutionalized within that environment, while at the same time meeting the imperatives of their own mission.

The audience: providing funding in a changing environment.

The societal setting in which organizations exist serves as a backdrop for organizational leaders and followers to construct a charismatic relationship with their audience. This results in a “team performance” directed towards third parties who control vital resources [Gardner and Avolio, 1998, 35 – 36]. Institutional theory would suggest that nonprofits will be concerned about “bolstering their reputations, good standing and desirability as fund recipients in order to enhance and stabilise their resource flows [Bielefeld, 1992, 52 – 53].

Hearts and Hands is held in high regard within Australian society as a result of the genuine work it performs in the community, and by the careful, professional promotion of its work through a sophisticated public relations network. Since its image and fundraising are inextricably linked, in order for it to capitalize on its carefully crafted image, it needs to respond to the norms of society in an appropriate way.

Some of those norms are changing, which means that in an uncertain social climate, such organizations need to work even harder to convince their audience that they are

worthy of receiving funds. Accounting is a powerful means by which that can be accomplished, since accounting information does not merely “neutrally and objectively” record the “facts” about what has happened in an organization, but also, as a socially constructed practice, projects an image [Roberts and Scapens, 1985, 453 – 454]. Organizations can harness this image-creating potential for their own ends, with the profile given to accounting “less likely to reflect intrinsically necessary technical work processes than environmental constraints, resources, or opportunities” [Meyer, 1986, 346]. The growing and increasingly complex relationship between governments and nonprofit organizations, overlaid on general societal uncertainty and changes in religious observance, social problems, religious/charitable organizations and philanthropy, have made pressures for conformity to acceptable financial management practices enforceable and essential.

Religious observance and religious organizations.

Social commentator Hugh Mackay [1993, 17] observed that “the social, cultural, political and economic landmarks which we have traditionally used as reference points for defining the Australian way of life have either vanished, been eroded or shifted”. How have churches coped with these changes? While Christianity is still the major religious influence in Australia, the multi-cultural composition of Australian society has obviously had an impact on religious observance, with many mainstream Christian churches failing to keep up with changes in society [Kaldor et al, 1994, xiv], and struggling, worldwide, to legitimate their existence within an increasingly secular society [Paul, 1973, 209]. While Hearts and Hands is both a Christian church and a charity, it is undoubtedly as a result of its high profile charitable works that it has enjoyed such a good reputation. Its “church” wing makes little contribution to its charitable funding.

Charitable services.

The shifting social environments that Mackay [1993] spoke of have caused “unmanaged, unsupported change” and a consequent increase in social problems².

² A report [Kiely et al, 1994, 9] in the International Year of the Family (1994) described these symptoms as being “family violence, family breakdown, issues of public safety, inequitable geographic and socio-economic distribution of long term unemployment, growing homelessness, a rise in mental illness, the emergence of a “new poor” and generational poverty”.

One researcher [Connors, 1991, 14] urged a complete reappraisal of society's response to public welfare. He suggested that a broader base of stakeholders was required, in order to deal with the "maelstrom" of human needs which would inevitably occur and which it would be increasingly impossible to meet [Connors, 1991, 4; Brennan, 1992, 11]. As the profile of charitable organizations in the community increases, due to political initiatives and agendas³, and their reliance on corporate donors grows, they will be expected to achieve higher levels of efficiency and effectiveness, in order to improve performance and to eliminate organizations which do not maintain acceptable levels of stewardship⁴. Increasingly, charities will be monitored to ensure that they conform to acceptable financial practices.

Philanthropy.

Funding for religious/charitable organizations comes from the government, private donations, and, increasingly, ought to come from the business sector, according to the Australian Prime Minister⁵. He called for a greater commitment by corporate Australia⁶ to developing a "philanthropic tradition", as a recognition of its obligation to contribute to the community [Cleary, 1998, 1]. In spite of some high profile corporate donors, Australia undoubtedly lags behind the USA and Canada in corporate sponsorship [Lamont, 1998a, 4] and the sophistication of the philanthropy "industry". Nevertheless, it appears to be heading in that direction, with "the serious business of fundraising (increasingly) taking place in the glass towers of corporate Australia" [Lamont, 1998b, 4]⁷. With fundraising now more difficult⁸, corporations increasingly have to justify the financial return they obtain through making donations

³ An Industry Commission [1995] Report emphasized quality of service provided by charitable organizations, together with increasing emphasis on fundraising, a "professional" relationship with governments, and greater management and financial accountability.

⁴ This is illustrated by the English example, where one of the roles of the Charity Commission is to investigate claims of fraud and mismanagement in charities. Many charity managers displayed a "lack of experience and suitable skills for running a charity" [Francis, 1996, 18 – 19], or worse, were guilty of maladministration and malpractice. The workload involved in monitoring the performance and management of organizations which go to the public for funds is huge and growing.

⁵ Prime Minister John Howard made this clear in a speech to the Australian Council of Social Service on Thursday 5 November 1998 [Cleary, 1998, 1].

⁶ It appears that as governments cut back on spending on social programmes, the burdens being borne by nonprofit charity groups are increasing. They are now seeking corporate donations "to ensure the books remain balanced and the services continue" [Chulov, 1996, 7].

⁷ It is estimated that of \$5 billion given in Australia to charities, \$2 billion is from individuals and \$3 billion from corporations [Lamont, 1998b, 4].

⁸ A Red Cross representative complained about having to work harder, and spend more, in order to receive the same amount [Lamont, 1998a, 4].

to charitable groups [Lamont, 1998a, 4]. The movement, worldwide, seems to be from patronage to partnership, a mutual exchange as corporations share knowledge and skills⁹, and charitable organizations share their culture, values and experience [Community Business, 1998, 3].

Government funding and public sector reform.

The call for greater accountability in public sector management gained impetus during the 1980s, as expectations changed, and the role of public sector managers became more concerned with proactive management, rather than “passive stewardship” [Guthrie et al, 1990, 5]. The result has been the adoption, by the public sector, of a managerialist approach to public management [Broadbent, 1992], and an incorporation of many of the tools of the corporate sector¹⁰.

With these reforms, the emphasis has been increasingly on accounting as a highly professionalized activity. The accounting profession and the major accountancy firms have helped to develop the “climate of commercialization” within the public sector [Cooper, 1997, 30], with a growing emphasis on professional accounting standards. Their adoption has raised the profile of accounting, encouraged the recruitment of more managers to handle the “ever burgeoning accounting and performance evaluation tasks” [Guthrie and Humphrey, 1996, 295, 297] and lent legitimacy to the new reforms. Because of their reliance on funding provided by governments, religious/charitable organizations such as Hearts and Hands are profoundly affected by this new managerialism in the public sector, particularly by the adoption of accrual accounting, as those practices become institutional expectations which they must fulfil¹¹. With the shift in focus from cash budgets, compliance and expenditure control to accrual accounting, performance indicators, and performance auditing, public

⁹ Examples of innovative corporate giving include the “matching gifts program” at Bankers Trust and the National Australia Bank’s initiative in lending an executive to The Salvation Army [Lamont, 1998b, 4].

¹⁰ These include “performance measurement, performance auditing, program budgeting, improved annual reporting, responsibility accounting, and a commitment to the pursuit of the principles of economy, efficiency and effectiveness” [Guthrie et al, 1990, 5].

¹¹ Accounting, and the major accountancy firms, according to this perception, have helped to develop “the climate of commercialization” within public sector culture, i.e. have aided in the changing of the agenda of government. Miller [1994, 24] made a similar observation about changes in UK’s public sector. Certainly, accounting seems to have become a preeminent tool of governments in pushing economic reforms in recent years.

service providers have been increasingly exposed to accounting technologies [Guthrie and Humphrey, 1996, 294], and accounting professionals have become indispensable members of corporate management teams in public sector organizations [Shand, 1990, 89].

The reliance by nonprofit organizations on government funding has made them very much conscious of the insecurity of the new funding arrangements. On a practical level, nonprofit organizations are now faced with the necessity of providing increasingly complex documentation of financial and non-financial information, which places substantial burdens on organizations where administrative resources are usually already “stretched” [O’Neill, 1997, 130; Ryan, 1997, 33]¹². The potential loss of autonomy of nonprofit organizations that rely on government funding is another major concern to many organizations, in some cases providing a challenge to the fulfilment of their mission. As service agreements change the relationship between governments and nonprofits from “patronage to incorporation” [Ryan, 1997, 33], it is feared that they could result in greater control over both the “strategic direction and international operations” of nonprofit organizations without “imposing greater demands on the performance of funding agencies” [Ryan, 1997, 33]. The catchcry of the 1990s was for greater accountability of all organizations, including nonprofits.

Accountability and nonprofit organizations.

One result of a demand for assurance regarding accountability has been a reliance on expert auditing. Power [1994, 299] proposed that the notion of audit has become so institutionalized within the social world, that it has gained the status of a “cultural logic”, deeply embedded in what has become an “audit society”. The very fact that an audit is done is often more important than the manner and expertise with which it is done [Power, 1994, 304].

This demand for accountability has had a major impact on the management and accounting practices employed by nonprofit organizations. Government expectations,

¹² Changes to funding arrangements for out of school hours child care illustrate this. Organizations seeking funding for such programmes must develop a Business and Marketing Plan. Its complexity, for organizations which have not traditionally operated in a business-like manner, will pose a significant challenge [Commonwealth Department of Health and Family Services, 1997].

in terms of funding requirements and the imposition of accounting practices, can be identified as coercive or mimetic¹³ institutional elements. The more subtle, yet highly influential and significant influences that come from the business sector¹⁴ represent a normative or mimetic force, resulting in the practices employed in the commercial sector being adopted by nonprofit organizations.

In 1974 Moonitz [1974, 146] suggested that the accounting profession should stay out of the nonprofit field for a long time, as far as accounting principles were concerned. He drew a distinction between the nonprofit sector and the profit-seeking sector on the grounds of their interest in the concept of net income: it was of little importance to nonprofit organizations, but was “crucial and critical” to profit-oriented organizations. Fifteen years later, Mautz [1989, 66] claimed that the nature and importance of differences between the two sectors had not been acknowledged, with the result that inadequate attention had been given to accounting for nonprofit organizations. He argued that nonprofits were so significantly different from business entities that they required additional elements and “quite a different reporting system”, and that it was possible to carry accruals “too far”, resulting in confusion [Mautz, 1989, 66].

In spite of these differences, the need for adequate financial reporting by nonprofits must be acknowledged, if only to counter negative publicity from nonprofit disasters [Herzlinger, 1996]. Another argument stressed the similarities between business and nonprofit accounting, claiming that people interested in nonprofit organizations had no indicator such as stock prices, and therefore had a greater need for “reliable, clear accounting information as a basis for making judgements about financial performance” [Anthony, 1995, 44]. Accounting increasingly is being appealed to as an indicator of good management, providing value and legitimacy by its very presence, whether or not it is coupled with the “detailed processes of organisational functioning” [Hopwood, 1990, 405]. Since the prevailing political discourse favours

¹³ Sometimes the government enforces certain accounting practices, and sometimes organizations model themselves on the organizations from which they receive funding, even though there may be no prescription on the kind of practices required.

¹⁴ This can happen in a variety of ways, including the senior executives of commercial organizations serving on the boards of nonprofits, or professional accountants being employed by nonprofit organizations.

the adoption of accrual accounting and other accounting technologies from the private sector¹⁵, it is these techniques which provide value.

Figure 1 below, “Institutional influences on accounting practice in the nonprofit sector” illustrates the influences of societal expectations that have already been described.

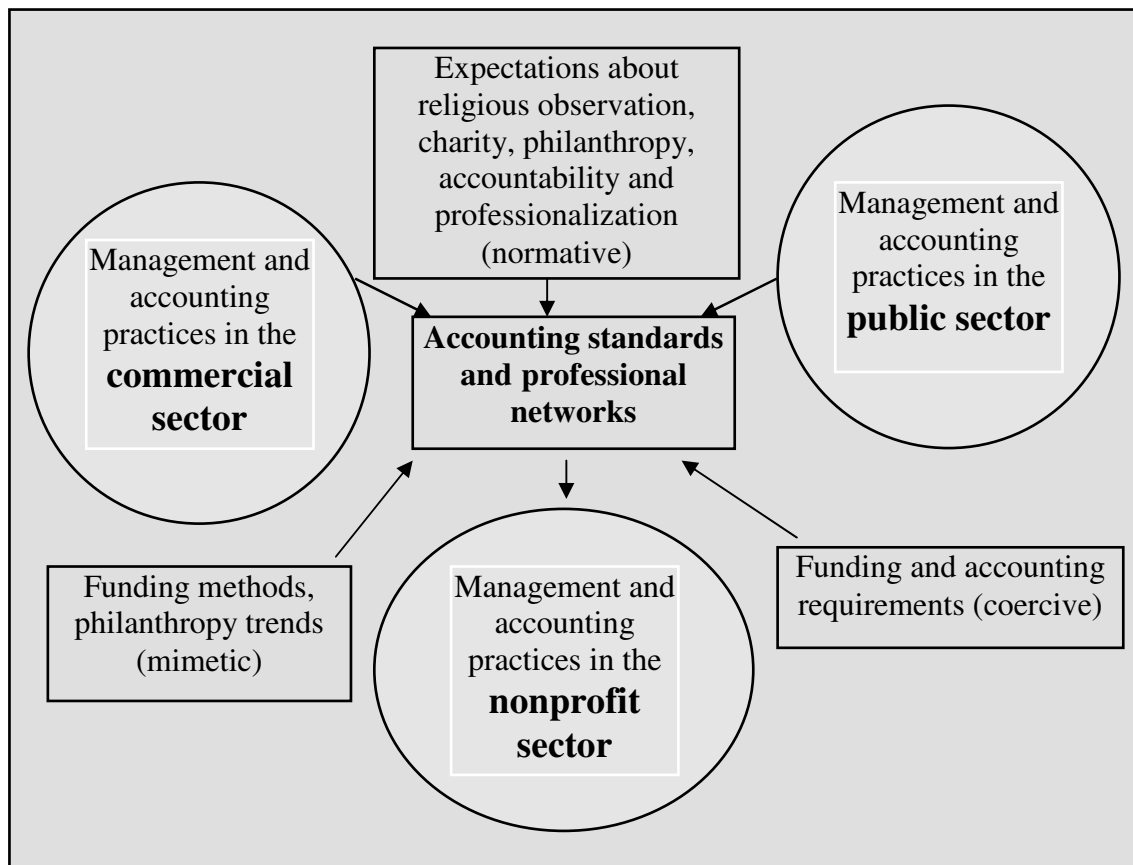


Figure 1. Institutional influences on accounting practice in the nonprofit sector

Management and accounting practices from the commercial and public sectors, in the uncertain climate of societal expectations about religious observation, charity, philanthropy and accountability have led to the increasing professionalization of accounting. This in turn has led to pressure on nonprofit organizations to embrace the accounting technologies practised by their audience, their major funders, and expected by society. These societal pressures could be categorized as coercive (funding and accounting requirements), normative (expectations about religious observation,

¹⁵ Hopwood [1990, 405] described as a “perplexing question”, the observation that techniques borrowed from the private sector could provide legitimacy for the public sector, when the private sector

charity, philanthropy, professionalization and accountability) and mimetic (funding methods and philanthropy trends).

Can it be assumed that these accounting practices are adopted by nonprofit organizations as a matter of course, i.e. automatically and easily? The embedding of institutionally expected practices into any organization will be a process fraught with the difficulties change inevitably brings, and this is especially so in the case of religious/charitable organizations.

Special challenges for religious/charitable organizations.

Religious/charitable organizations represent a substantial subset of the nonprofit community¹⁶. If their “religious” side is facing threats and uncertainty, then the “charitable” side of such organizations is powering ahead, according to studies of the nonprofit world. Forced to take their place alongside and to compete with, secular charities, they have had to embrace modern management techniques, as business and professional groups and governments exercise influence over their practices, and demand certain levels of performance. In spite of this, they have their own unique set of parameters, including a primary purpose of achieving “social and spiritual aims”, a relationship with other nonprofit organizations which is more cooperative than competitive, a greater use of volunteers, and a spiritual dimension which distinguishes them from secular enterprise [La Barbera, 1991, 217].

That they play a major role in society is undisputed [Jeavons, 1994, xiii; La Barbera, 1991], and they are particularly vulnerable to the need to promote an image which appeals to members or donors. Their challenge is to set a balance between efficiency and effectiveness objectives, striving towards achieving their mission by means of operational objectives that are supported by financial procedures, rather than allowing the financial objectives to drive the organization [Parker, 1998, 50, 52]. Given the pervasive occurrence of accounting, organizations which adopt “rational” accounting

itself had an “equivocal record of economic performance”.

¹⁶ Some interesting statistics [Lyons and Hocking, 1998] reveal that in 1997, Australians gave almost \$2.8 billion to the nonprofit sector, with 36.8% of this going to religious organizations; in 1995/96 religious organizations accounted for operating expenditure of \$1,000 million out of total expenditure for the nonprofit sector of \$27,000 million.

and management practices are more likely to be rewarded, and since organizations require funds in order to continue, this is the kind of legitimacy they seek [Dent, 1991, 707].

Sometimes public expectations may contradict the mission of religious/charitable organizations, especially in an age of accountability, with increasing sophistication in philanthropic practices. A sacred/secular tension may exist between adopting management and financial techniques from business, and yet maintaining actions that are appropriate for a caring, religious/charitable organization, whose concern is not primarily profit and financial considerations. “Adaptation through assimilation” has been highlighted [Jeavons, 1994, 74 – 77] as an issue of growing significance for Christian service organizations in particular, one which threatens to undermine the distinctive character of their work. Such pressures emanate from the need to compete with “secular” organizations, the presence of business people on the boards of religious/charitable organizations, and the tendency for such organizations to become secularized, resulting in confusion about their role and mission. While the adoption of modern management practices may be crucial to an organization’s legitimacy, there may be a resultant threat to the very nature of the organization’s mission.

Given these challenges, the implementation of corporate-style management and accounting practices in the nonprofit sector, as portrayed in Figure 1 above, is, therefore, unlikely to be a smooth and straightforward transition. It is likely that there will be conflicts and tensions as the need to present an acceptable image to society comes face to face with strong cultural practices, mission imperatives and organizational structures. This was certainly the case with Hearts and Hands. The next two sections will focus on the new financial image that has been promoted and give a behind the scenes view of the difficulties in implementing accounting standards and practices.

The performance: corporate style financial reporting.

A new image.

Up until, and including, the year ended 30 June 1994, the annual financial reports of Helping Hands included a Balance Sheet, Income and Expenditure Statement, and a Statement of the Movement in Reserves for each of three funds, a Social Trust, Property Fund and General Fund. In addition, there was included a summary statement of the income, expenditure and deficit or surplus for every social centre within the territory, a report of the income and distribution of the annual fundraising appeal, and two other smaller subsidiary statements. The financial statements were edited by a “Big Six” accounting firm, and were produced, according to the Audit Report, for distribution within Helping Hands. The report was not to be relied on by any person other than those with Helping Hands or “for any purpose other than for which it was prepared”.

Accounting policies on which the reports were based were outlined in a note to the accounts. The note stated that Helping Hands was not a “reporting entity” as defined by Australian Accounting Standards, and hence compliance with those standards was not mandatory. While some standards were followed, there were some notable exceptions¹⁷, with a primarily cash basis of accounting employed. The audit report was qualified because of the impracticability of maintaining an effective internal control system over donations until their initial entry in the accounting records.

This had been the pattern of the organization’s annual financial accounts for several years until those produced for the year ended 30th June 1995. In that year, as part of the financial statements, a letter from the organization’s highest office bearer was included, addressed to “Friends and Supporters” of Helping Hands. It was a letter that highlighted the social needs Helping Hands was meeting, thanked friends for their support, and included an appeal for more friends to help raise the funds to continue its

¹⁷ Depreciation on buildings and improvements was not included (AAS 4); AAS 1 (Profit and Loss Accounts) was not complied with regarding the recording of income and expenditure; operating revenue was not disclosed (AAS 15); segment information was not prepared (AAS 16); related party disclosures were not made (AAS 22); financial reports were not consolidated (AAS 24) and a Statement of Cash Flows was not prepared (AAS 28).

work. The letter was dated 29 April 1996, ten months after the year end to which the accounts related. There was a clearly stated connection between the financial statements and fundraising.

A much more streamlined set of accounts followed, including a consolidated Income and Expenditure Statement, Balance Sheet and Statement of Cash Flows. Note 1, Statement of Significant Accounting Policies, highlighted the major change as being the presentation of general purpose statements for the first time and the implementation of a number of accounting standards, with comparative figures provided for the Balance Sheet only. For the first time, depreciation on additions to freehold buildings¹⁸ was adopted as a policy. The move towards accrual accounting had begun for Helping Hands. By 30 June 1997, the collectibility of trade and sundry debtors was assessed at year end, and provision was made for doubtful debts.

Where earlier sets of accounts had included a statement by Helping Hands' Chief Financial Officer, the new style accounts included a statement by the trustees, signed by two of the organization's highest office bearers, stating that the financial statements presented a "true and fair view" of the results and cash flows for the year, and that they had been drawn up "in accordance with applicable Australian Accounting Standards". The Independent Audit Report was qualified as it had been in earlier years, but in a departure from previous years, this time the audit opinion highlighted the preparation of the statements "in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements".

They were financial statements much more overtly designed for distribution to the general public, and to prompt a response in the form of donations: the cover featured a well known Australian film star, and some business identities; a letter from the head of Helping Hands asked for donations; the accounts were in a format consistent with

¹⁸ Additions to motor vehicles, furniture, fixtures and equipment for Helping Hands' main headquarters and staff accommodation had previously been capitalized, and depreciation applied using the straight line method. Costs of those items for social centres were expended in the year of purchase. From the year ended 30 June 1995, all additions for furnishings and equipment were capitalized and depreciated, except for items under \$500. By the year ended 30 June 1997, the depreciation policy had been extended to include social centres.

those produced by corporations; and Australian Accounting Standards had been adopted. In addition, the last page provided a confidential response slip to be forwarded to the Director for Wills & Bequests, outlining various means by which a bequest could be made to Helping Hands. As a final reminder of the fine work the organization did in the community, the back page included a list of all social and community service centres.

This trend towards using the financial statements as a fund-raising aid has continued, as evidenced by their distribution at the business launch of the annual fundraising appeal described at the beginning of this paper. A Helping Hands Finance employee [Travis Greig] revealed that there were 5,000 copies produced by Helping Hands' Public Relations Department in that year, as compared with the 500 copies which had been published the year before. It was, he acknowledged, an exercise designed to attract corporate sponsorship. Apart from this aspect, the other parties interested in the annual accounts had traditionally been the government¹⁹ and a limited number of members of the public. One employee [Len Aldrich] expressed the opinion that as long as there was no scandal, the general public were not particularly interested in Helping Hands' published financial statements.

While this may be the case, Helping Hands has not been taking for granted public acceptance and its lack of financial scandal. Instead, as an organization, it has been creating a certain visibility for itself in recent years, in the corporate arena, with the publication of its annual financial statements. These reports are not just prepared to fulfill the strict letter of the law (Helping Hands' trust deeds and government requirements), or to deflect any criticism of their financial practices, but to proactively create an image of an up-to-date, financially responsible organization conforming with generally accepted accounting principles. This image has been overlaid on an excellent existing reputation for social action, and has been overtly linked with requests for donations.

¹⁹ Helping Hands was supposed to submit a copy of their annual financial statements up to 30 June in any year with their audit certificates for government funded entities, by September of the same year. They had always failed to meet this deadline, without any penalties.

Why change?

The audience for which Helping Hands performs has already been described. The influence of the corporate world on nonprofit organizations, as well as the significant changes which have occurred in government in terms of accounting and financial reporting, have led to pressures on nonprofits to adopt forms of accounting which have previously been limited to the for-profit sector, but which are in the process of becoming institutionalized within all organizations. Accrual accounting is one aspect of these changes, and the reasons why it was introduced into Helping Hands illustrate these pressures.

The introduction of accrual accounting into Helping Hands' accounting system from 1 July, 1995 appeared to be a response to pressure from various sources. According to one social employee [George Dickson], accrual accounting "just appeared" in government contracts, not across the board, but here and there. In the audited returns the government required from aged care centres, for example, salaries and wages had to be shown for 365 days, so accruals had to be calculated. Thus while there appeared, initially, to be no overall government policy, it became obvious that accrual accounting was highly likely to become a general requirement. In addition, it was recognized that the accounting profession was already foreshadowing the mandatory adoption of accrual accounting, and so it was in Helping Hands' interests to adopt it [Bert Grosse, employee].

Another factor instrumental in Helping Hands' initial adoption of recording depreciation was attributed to the government's cutback in the funding of capital works programmes for charitable organizations [George Dickson, social employee]. Where once the government could be relied on to provide funds for the replacement of buildings, this was no longer the case, and there was a need for Helping Hands to set aside its own funds for building replacement²⁰. Depreciation was the means by which such an amount was calculated. The Chief Accountant stated at a training day for social centre finance staff that over the next few years, \$200 million of assets would need to be replaced, hence the establishment of Asset Replacement trusts was

vital to Helping Hands' continuation of its mission. This was linked to the adoption of accrual accounting.

The Chief of Business Administration, an ordained organizational member with experience of accrual accounting within Helping Hands in the USA, described how nonprofit organizations there were being dragged, "kicking and screaming" into the accrual accounting arena. The "fairly simple" cash based system Helping Hands once used belonged to an earlier era, he said, where government regulations were simple, unlike the complex arrangements that had now been introduced. It was acknowledged that accrual accounting was the "trend", with most similar organizations moving in that direction [Tom Evans, social employee].

Similarly, the production of consolidated accounts that were consistent with accounting standards, was another response to a growing trend within society for non-corporate organizations to adopt corporate-style accounts. The government, as a major funder of Helping Hands, had already moved in that direction, and within Helping Hands, the presence of a Consultancy Board with members drawn from the corporate world, reinforced this influence. The appointment of a Chief Accountant who was a professional accountant, rather than an ordained member of the church, committed Helping Hands further to moving in that direction. Auditing, while it had been a feature of Helping Hands' financial statements since its inception, now took on a more complex role, as cracks in the accounting system showed up under the increased pressure that accrual accounting and the consolidation process imposed.

This new image was one Helping Hands wanted to project, but it came at a cost. The next section looks behind the performance to detail the special challenges imposed by the introduction of the new style of financial reporting.

²⁰ Helping Hands has adopted a system where depreciation is not only charged, but the various centres are required to set aside cash funds equal to the amount of the depreciation charge, in order to provide a fund for building replacement. These funds are lodged with the organization's head office.
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Behind the scenes: making the new accounting system work.

The new glossy corporate style reports represented three fundamental changes within Hearts and Hands' accounting system: the adoption of accrual accounting, the consolidation of various funds that previously had been reported separately, and the higher profile given to professional accounting and auditing standards. Each of these necessitated major upheavals within the organization. That it took a considerable time for new accounting technologies to be introduced, and that it caused considerable disruption to existing practices and personnel is hardly surprising, given the strength of Hearts and Hands' entrenched procedures and cultures. This was particularly obvious because of the "sink or swim" system of personnel appointments that tended to ignore the need for staff training, the lack of professional accountants within the organization and the consequent challenges the introduction of a professional culture caused.

A sink or swim culture.

Hearts and Hands is an organization that traditionally has placed ordained members in accounting positions, whether or not they have accounting training or expertise. In addition, employees also have been relatively untrained in accounting matters. Consequently, there has been a huge disparity in the financial understanding of those who hold accounting responsibilities²¹. Most people within the organizational hierarchy had little knowledge of accounting practice, relying on what they had learned on the job during their careers. Their experience in Hearts and Hands was likely to include church work, social work or administrative responsibilities.

In spite of these deficiencies in the financial and accounting expertise demonstrated by personnel, the organizational policy continued to be to place ordained members in responsible financial positions. It was their duty, given their new position, to find out how to fulfill their duties²². An elaborate system of rules and regulations was expected

²¹ At the time of my study, the chief finance person in the organization was a former chartered accountant who had gone into the ministry. He had a certain amount of expertise, but was the exception rather than the rule.

²² One senior ordained member told me of the instruction he was given when he took up a new high level administrative position, one that required some accounting expertise. The outgoing person led

to be followed, which would keep the system moving smoothly. Even with the relatively simple cash-based system that used to be practised, not everybody managed to achieve competence in their assigned tasks.

These problems were exacerbated by the introduction of accrual accounting and the more sophisticated system of consolidating the accounts. The lack of expertise of personnel meant that there was confusion about the relationship between accrual and cash-based figures, for example:

... it's hard for a person like me, who doesn't have an accounting or financial background, to understand accrual accounting anyway ... so I come out to (assistant) every so often and say how much money have we got in the bank? [Bernard Jeffreys, social employee].

While there has been an acknowledgment amongst personnel who understand government funding requirements and accounting, that the introduction of accrual accounting is a necessary undertaking, response within Hearts and Hands to its implementation has been mixed. Positive responses seemed to be almost entirely from those who had some sort of financial expertise or accounting training, and yet even these were able to recognize the difficulty that many ordained members and employees had with the adoption of the new system, due to their lack of qualifications and training, either formal or informal [Garry Thurlow, employee].

Training, however, was not extensive or effective, especially in the initial stages of the implementation of accrual accounting. A review of the computerized accounting system, prepared by a leading chartered accounting firm, stated that “most centre and (head office) staff can not cope with the accrual accounting system and the accounting issues surrounding the transactions being processed”. The result was poor quality financial information. This occurred because of a lack of understanding of the accounting issues and changes required, a lack of developed accounting policies and procedures and practically useful accounting instructions from the head office, and a lack of adequate and extensive training. One ordained member [Benjamin Rowen] was also critical of the way the head office had introduced the new system. According

him into the office, showed him the computer, told him where the “on” switch was and said “best of luck, mate”.

to him, they failed to “read” the organization correctly, expecting much more of both ordained members and employees than they were capable of achieving:

You can’t introduce accrual accounting a fortnight before the year end, and bring it into line. So there was insufficient time to train not only the managers, but the bookkeepers, in accrual accounting ... we’ve also got a problem in that most of the managers are basically there because of their people skills, not because of their accounting skills.

One of the difficulties for Hearts and Hands has been that with its budgetary constraints, it has tended to employ people “at the bottom end of the market” [Susan Carmody, employee]. This has meant that with the introduction of accrual accounting, even the bookkeepers have been unable to cope with the new system without additional training or resources. Where they had been able to cope with a cash system, which was based on common sense and concrete concepts, they have struggled with the accrual system. At some centres, some employees “panicked and left because they couldn’t cope with accrual accounting” [Benjamin Rowen, ordained member].

When training was eventually commenced, the lack of accounting expertise was startlingly evident. There was a distinct time lag between the production of corporate style accounts and the ability of the organization to maintain a system that could produce such reports smoothly and efficiently. Yet it had been announced, and it had to be achieved. At a training workshop I attended, the Chief Accountant explained the necessity of capitalizing assets rather than expensing them, as had often occurred in earlier times. It was now “morally and ethically wrong” to expense them in this way, he explained, since the accounts were now presented as annual reports, and the auditors had to sign to say they gave a “true and fair” view. At the same training session, participants displayed a lack of understanding of even the simplest accounting procedures, and I wondered again how those at head office could have assumed that the new accounting system could be adopted with little or no training, fuss or bother. Once again, the strong “sink or swim” culture was in evidence.

Accounting professionals.

The new corporate style financial statements were prepared at the instigation of senior ordained organization members, but were carried out primarily by a handful of professional accountants, employed at the head office. Without their expertise, the new system could not have been introduced. As it was, its introduction was not simply a procedural or technical task, but rather a cultural readjustment as the “old” personnel came face to face with the new breed of trained, professional accountants. The juxtaposition of these two cultures, so different, caused some tensions and difficulties, as would be imagined. At every level of the organization, the gap between accountants and non-accountants was evident.

Hearts and Hands had a dilemma with some of its bookkeepers, who had limited expertise: while, as a charitable organization, they did not want to dismiss their employees, there was no doubt they were not performing their duties in a satisfactory manner. Added to this was the financial reality that the organization simply could not afford to pay the salaries necessary to attract employees with the requisite skills for the new, more sophisticated accounting system. This led to considerable frustration on the part of the Chief Accountant in particular, who held the opinion that the payment of higher salaries and the increased expertise that would result would be small in comparison with the cost, in economic terms, of the current inaccuracies and inefficiencies.

Accountants at the head office experienced considerable frustration with the slow and unwieldy nature of the consolidation process. There were over 250 ledgers to be consolidated, and because of the lack of expertise demonstrated by employees and ordained members, figures presented to the head office were unreliable, inaccurate and late. The fund accountants found this a frustration, and the Chief Accountant also felt the pressure of these inaccuracies and the slow system, seeing them as a reflection on his professional reputation. He had been an accountant for a large international company, and knew that there were systems where fully audited accounts could be prepared three weeks after the year end. He estimated that errors in the consolidation and audit processes which required adjustments at head office, cost the organization at

least \$120,000. A memo he sent to his superior indicated that “switching from cash books to accrual accounting was a bigger step than had been envisaged by all involved”.

Government audit certificate requirements, the staffing requirements and schedules of the external auditors, and the publication of the public relations department’s annual report in November²³, all provided strong reasons why pressure had to be applied to employees to achieve almost impossible deadlines. The identification of these external audit issues by an external consultant came as a relief to staff in the head office’s finance department, who, as professional accountants, saw the problems very clearly. They were not merely the complaints of a few professional accountants, but genuine problems that Hearts and Hands had to address if it was going to survive financially in the current environment.

The working out of solutions to some of these problems caused tension between the professional accountants and the non-accountants (ordained members and employees), and was evident at every level of the organization, from the centre staff who carried out day to day accounting functions, to ordained members at the highest level of the organization. Hearts and Hands’ internal audit department had a professional accountant as its head, and this raised some problems for ordained members and employees, who stressed that the mission and cultural traditions of the organization ought to be maintained. One employee [Wilson Robbins] summed up his concerns about Hearts and Hands’ non-ordained internal audit staff as being a clash between professional expertise and an affinity with the cause of Hearts and Hands.

At least two external reports commented unfavourably on the quality and scope of Hearts and Hands’ internal audit work, with external auditors no longer prepared to rely on the work of the internal audit department. One consultant suggested that Hearts and Hands should outsource the internal audit function, querying the experience of the internal auditors and their ability to review computer systems. The increasing use of professionals in this role has been promoted by the top ordained

²³ The annual financial statements were to be included in the Public Relations department’s annual report.

hierarchy of Hearts and Hands, as an acknowledgment that more expertise is required than is currently available within the organization. In speaking of his desire to see the level of competency in both the finance and internal audit departments raised, one ordained member [Lee Pierce] observed that the world is now “too commercial”, requiring the “right sort of people”.

This recognition, while sensible from a business point of view, brought tensions within the organization, with Hearts and Hands’ strong ordained culture evident in perceptions about who ought to be doing the financial and accounting work of the organization. The increasing use of professionals in an auditing and advisory financial role was a concern to one ordained member [Hugh Richards], who expressed caution at the perceived benefits of using the external auditors for advice on financial matters:

I just hope the Hearts and Hands’ leaders are wise enough to take advice in the context of our spiritual mission, and not allow the business side of things to dominate.

The implications of failing to attain the levels of competence required in accounting were significant from a financial point of view. Bert Grosse, from Hearts and Hands’ finance department, spoke of “tremendous problems” with government audit certificates for one particular centre. Another employee [Bernard Jeffreys] complained that problems with Hearts and Hands’ computer system had held up his audited returns to the government, which were at that time two months late. He predicted a cash flow problem for his centre if they were not able to complete the audit certificate and release the next instalment of government funding. Hearts and Hands’ rarely, if ever, had achieved the deadlines set by government departments. While one ordained member [Simon Kiely] was confident that the government was “at least sympathetic” to Hearts and Hands, a professional accountant, employed in the finance department [Travis Greig] was not as confident of the government’s acceptance of tardiness. He was concerned that the government, which had been “slack” in its insistence on rigour in auditing, was tightening up and that competition between service providers necessitated higher levels of efficiency.

The Chief Accountant expressed similar concerns at Hearts and Hands' failure to meet its government auditing requirements, indicating a shift to a more professional approach, both from the government, and from the professionals employed within Hearts and Hands:

The government funding that we currently enjoy represents over one quarter of our total income. With the tightening up of government funding, if we continue to treat the government's criteria of accountability with disrespect by continually failing to meet our deadlines, then this funding is in jeopardy.

The negative comments by one external consultant about inaccuracies in accounting information from various regions, as well as the dissatisfaction of finance department members, particularly the Chief Accountant, with the standard of accounting work performed at lower levels of the hierarchy, precipitated an interesting clash between the old culture and the new professional culture. In May 1997, a decision was made at the head office that the top regional financial function would be split into two parts, one to concentrate on churches and general administration responsibilities, with the other focusing on the accounting aspects of the role. The intention was that those ordained members then working in those financial roles would take on the general responsibilities, with professional accountants being employed to focus on the accounting aspects. Response to this proposal was mixed, with at least one ordained member expressing a sense of betrayal, disappointment and anger. The regional financial officers were products of the old system, and they were perceived, under the new system, to be outdated and incompetent, when faced with the increasing demands being placed on accounting personnel within Hearts and Hands. In this case, the professional culture prevailed.

Future performances: other nonprofit organizations.

A growing body of research has highlighted the unique set of parameters in which nonprofit organizations operate [La Barbera, 1991; Jeavons, 1994]. Organizations within this sector in the past have done things differently from those within the for-profit sector, although it could be demonstrated that in many cases, in terms of

financial management, the gap is closing rapidly [Parker, 1998, 50]. The increasing sophistication of fundraising strategies, and the increasing pressures and restrictions placed on government funding have huge implications for religious/charitable organizations in terms of financial reporting and accountability. These organizations are being shifted forcibly from the practices of the pure nonprofit sector into the world of corporate high finance, and are being required more and more to compete in that arena, and to conform with corporate and government expectations. Whether or not it is appropriate or desirable simply to copy strategic management practices from the commercial sector is problematic for all nonprofit organizations. Consideration needs to be given to the nature and unique characteristics of these organizations, and the potential stress that will occur with the imposition of business-oriented accounting practices. Certainly, they need funds if they are to continue, but increasingly their ability to generate those funds is tied to their image, not only of caring, but of responsible financial management.

The current economic reality is that the increasing involvement of business and business methods in nonprofits, as portrayed by Hearts and Hands' corporate style financial reports, represents a "fundamental shift in our institutional arrangements" [Hall, 1990, 161]. With government spending cutbacks and increasing emphasis on financial accountability, corporations are being sought as donors of funds and expertise for the benefit of nonprofits, and thus for the alleviation of social problems. Religious and charitable organizations are often the means by which this is accomplished, but the adoption by these organizations of management and financial techniques from the world of business can result in considerable organizational and cultural changes to structures and routines that traditionally have been observed, and also to possible pressure on nonprofit organizations to compromise their mission and religious orientation by their greater use of accounting professionals and business practices²⁴.

²⁴ The privatisation of the Australian Commonwealth Employment Service is a good example of this. The "business" of finding jobs for Australia's unemployed is now a competitive one, with nonprofit organizations, government agencies (Employment National) and private enterprises vying with each other for a share of what is a \$3 billion market. Not only has the "chain of responsibility for taxpayers' money" disappeared, but the process has highlighted the different cultures and mission imperatives of nonprofit and for-profit organizations [Ramsey, 1999, 35; Tingle, 2000, 49].

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Accounting and financial image, while offering legitimation to organizations [Fligstein, 1987, 44], has been demonstrated not to be “some technical, context-free phenomenon” [Laughlin, 1995, 82], but rather, a “social symbol”, a form of invented language that aids in the spread and enforcement of values, within an organization, and the wider society [Dirsmith, 1986, 358]. Accounting could be argued to offer more than legitimacy. It offers economic explanations of organizations and their activities, and has become “centrally implicated in the modern form of organizing” [Hopwood, 1983, 287], determining the way organizations are viewed. Accounting has enabled money to shape the reality of organizations, through the routine, seemingly technical operation of ubiquitous financial information systems, which give accounting a quiet unexpected influence. Morgan [1986, 132] observed that accountants

... can shape the reality of an organization by persuading others that the interpretive lens provided by the dollar should be given priority in determining the way that organization is to be run.

This has implications for the imposition of “secular” values onto “sacred” agenda within religious/charitable organizations. In the case of Hearts and Hands, the presentation of corporate style financial reports necessitated underlying changes to organizational structures, cultures and routines which put the organization under great strain and threw into sharp relief the differences between the traditional “sacred” values of the organization and the agendas and practices of professional accountants. While Hearts and Hands is a unique organization in one sense, in another sense, it is typical of what is happening to many organizations within the nonprofit sector, as they adapt their financial reporting performance to a changing institutional environment.

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