Chapter 2
Accountability via Financial Disclosures: An Exploration of the Public’s Perceptions

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ABSTRACT
Social economy sector (SES) organizations are dependent on their funders and, similar to non-profit organizations, are vulnerable to the risk of mission drift as well as to concerns about the extent to which they are accountable for their fund flows. This chapter explores the general public’s perceptions of the relative importance of specific financial disclosures which the public believes SES organizations should publish as part of their provision of accountability. Using a survey questionnaire administered to a sample of 400 Australian individuals, the chapter observes that the public perceives financial disclosures relating to sources of funds, mission-related expenses, and the financial sustainability of SES organizations as important. It is recommended that SES organizations cater to the general public’s information needs as a way of improving their accountability, reducing information asymmetry, and eventually increasing general trust and confidence in their operations.

INTRODUCTION
Social economy sector (SES) organisations are primarily set up with the objective of promoting social welfare. These organisations operate following a business model to achieve their social or environment objectives, such as those related to the alleviation of poverty, wealth inequality and environmental damage. More specifically, SES organisations generate surpluses from their commercial activities and reinvest these funds into their social activities to increase welfare (Austin, Stenvenson & Wei-Skillern, 2012). SES organisations are neither pure commercial nor pure non-profit organisations, but are instead a combination of both (Ebrahim, Battilana & Mair, 2014). As such, SES organisations have dual objectives; namely, social welfare and profit maximisation (Santos, Pache & Birkholz, 2015). The fundamental purpose of SES organisations remains to pursue their social and/or environmental missions which

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contribute to the social welfare of their beneficiaries (Barraket, Mason & Blain, 2016) and eventually, of the general public (Justice Connect, 2017a).

To carry out their activities, SES organisations receive support from their external environment in the form of funds from investors, government subsidies, charitable funds, donations (Bugg-Levine, Kogut & Kulatilaka, 2012), fundraising income, membership fees and government grants (Prakash & Gugerty, 2010; Zainon, Atan & Bee Wah, 2014). SES organisations are resource dependent on external funders, including the public at large. This dependence implies that SES organisations, similar to non-profit organisations, have a responsibility to spend their funds on the social causes which they promote to support (Dhanani & Connolly, 2012). SES organisations operate in an environment where trust and confidence are fundamental elements for their fund inflows (Hyndman & McConville, 2018) and ultimately, for the survival of individual organisations (Hyndman, 2017). Given the nature of SES organisations, there is a reasonable expectation that they can be trusted to use funds to maximise their social mission (Arshad, Bakar, Thani & Omar, 2013).

It can be challenging for SES organisations to manage their dual objectives (Canales, 2013) and satisfy all stakeholders’ expectations. Within the SES context, stakeholders have different needs and expectations. For instance, investors, customers and commercial partners have expectations which are more focused on the financial performance and profit maximisation objectives of the organisation, as compared to donors, volunteers and social partners who are mainly interested in the social outcomes of the organisation. Though the dual objectives of SES organisations should complement rather than compete with each other (Ebrahim et al., 2014), this is not always the case. There have been concerns about the risk of mission drift within the sector, where an SES organisation moves its focus away from social outcomes to profit maximisation (Mair, Battilana & Cardenas, 2012). In the past, SES organisations have faced the problem of mission drifts where organisations have focused on their financial performance to the detriment of their social mission (Strom, 2010). An example of such mission drift is the commercialisation of the microfinance sector (Banerjee, Duflo, Glennerster & Kinnan, 2013).

The non-profit sector frequently deals with unfavourable media attention and given the close link between the non-profit and SES sectors, the latter sector is likely to be adversely impacted by spill-over effects from unfavourable media coverage. Well-known brands such as United Way in the United States (Handy & Russell, 2018), Oxfam in England (Crack, 2018) and the Returned and Services League (RSL) in Australia (Morris, 2018) have all experienced such effects. Coverage has included questions around the disproportionate amount of resources being allocated to non-mission activities (such as costs associated with administration and fundraising), allegations of fund misappropriation, and concerns about mission drift. As a result, the general public’s level of trust and confidence in non-profit organisations has further declined and has fuelled their concerns about the extent to which these organisations discharge accountability (Dhanani & Connolly, 2012). SES organisations, being dependent on external funds to achieve their social missions (Ebrahim et al., 2014), also run the risk of making headlines about their allocation of funds.

Another problem the sector faces is the existence of information asymmetry between SES organisations and their different stakeholder groups, ranging from donors (individual and institutional), members and government agencies to the general public. Such asymmetry adds to concerns about the extent to which organisations misappropriate funds (Cordery & Baskerville, 2011), and in turn threatens the overall credibility and sustainability of these organisations (Yang, Northcott & Sinclair, 2017). As a result, SES organisations, similar to what is reported about non-profit organisations, face increasing