Voluntary Financial Reporting Strategies of South Australian Independent Schools

Nicole D. Moschakis, Cate Jerram and Janice Loftus,
The University of Adelaide Business School,
The University of Adelaide

Abstract

This paper reports on the voluntary financial reporting strategies and practices of three independent schools in South Australia, examined through agency theory, stakeholder theory and signalling theory, and informed by Argyris and Schön's theories of action. Insights are gained through the analysis of schools' financial information, interviews and direct observation of meetings. While key finance personnel espouse accountability, compliance and self-promotion as motivations for financial reporting to parents, only the latter two are reflected in the schools' reporting practices. The study develops a model that relates perceptions of parents (as members, owners/stakeholders and customers) to the school's financial reporting strategies.

Keywords

Agency theory; stakeholder theory; signalling theory; theories of action.

Introduction

Activity pertaining to reporting obligations and regulatory reforms in the third sector has increased in recent years (Murray 2014). The regulation of financial reporting in the third sector, including in independent schools, is the subject of ongoing debate.

Australian primary and secondary schooling is provided through government (public) schools, Catholic schools and independent schools. Independent schools represent approximately 10% of all schools operating in Australia (Australian Bureau of Statistics 2014). In aggregate, they receive significant levels of recurrent funding from federal and state governments, totaling $3.8 billion in 2011–12 (ISCA 2014).

The financial affairs and academic performance of the primary and secondary education sector have come under increased scrutiny with the establishment of the *My School* website by the Australian government in 2010.[1] The website publishes information about the financial and academic performance of individual schools. The financial accountability mechanisms for independent schools reflect the view of the Australian Curriculum Assessment and Reporting Authority (ACARA) that these schools are autonomous and exercise a high level of direct accountability to parents and their communities (ACARA 2011). However, little is known about the financial reporting strategies and practices of independent schools to parents.

Accordingly, the objective of this study is to develop an understanding of the financial reporting strategies and practices of independent schools of South Australia (through an analysis of what, how and why financial information is provided to one of their largest stakeholder groups, the fee-paying parents). The research is undertaken through a case study (Yin 2009).

The voluntary disclosure literature draws on several theories to explain various forms of corporate voluntary reporting (e.g. Chow & Wong-Boren 1987; Eng & Mak 2003). Three theoretical perspectives – agency theory, stakeholder theory and signalling theory – offer potential explanations of voluntary reporting practices of independent schools.

Agency theory, which is often used to explain corporate financial reporting practices, focuses on the separation of ownership and control in large corporations. An agency relationship arises when a person, or group of persons, referred to as the principal, employs the services of another, the agent, to perform some activity on their behalf, thus delegating some decision-making authority to the agent. Agency theory assumes that both parties are utility maximisers, implying that the agent will not always act in the interests of the principal (Jensen & Meckling 1976). The principal and agent have incentives to incur monitoring costs and bonding costs, which include the production of accounting reports, in order to increase the value of the firm.

While independent schools of South Australia, like most third sector entities, do not have shareholders seeking returns on their investment, agency relationships are present. Through the incorporated association (the school), fee-paying parents (the principals) engage others to use financial and other resources to provide academic education and pastoral care to their children. Agency theory implies that the school's capacity to raise funds, through fees, is reduced by agency costs, which arise from the assumed utility maximisation and the inability of the parents to fully monitor the activities of the school. Accordingly, the school has an incentive to incur bonding costs, such as agreeing to provide financial reports. From an agency theory perspective, we would expect to observe minimal financial reporting to parents undertaken to satisfy contractual obligations.

Second, stakeholder theory is used to explain voluntary reporting, particularly in the social and environmental accounting literature (cf. Roberts 1992; Gray et al. 1995; McMurtrie 2005). The positive, or managerial, strand of stakeholder theory posits that organisations react to the demands of powerful stakeholder groups, who control resources that are essential to the organisation's operations (Freeman & Reed 1983). Stakeholder theory recognises that organisations have more extensive duties of accountability than those strictly required by law (Coule 2015).

From the perspective of stakeholder theory, fee-paying parents may be viewed as powerful stakeholders to whom the school has a duty of accountability. They have the capacity to exert pressure for voluntary financial reporting through their choice over where their children attend the school, and the implication of enrolments for the school's access to funding, both directly (through school fees) and indirectly (as a factor in determining the level of government funding). Stakeholder theory thus provides a potential explanation for financial reporting that goes beyond legal compliance, and provides a complete and unbiased account of the school's financial performance and position.

Finally, voluntary disclosure theory is applied to explain voluntary reporting of financial information, as well as social and environmental reporting in the for-profit sector (cf. Verrecchia 1983; Dye 1985; Clarkson et al. 2011; He & Loftus 2014). The theory draws on the major tenets of signalling theory to suggest that firms are more likely to disclose 'good news' and withhold 'bad news'. Signalling theory has been used to explain engagement in quality certification and accreditation programs in the third sector (Gugerty 2009: 264). The use of financial reporting for self-promotion by charities (Dhanani & Connolly 2012; Ryan & Irvine 2012) is also consistent with signalling theory.

Signalling theory suggests that sellers of higher-quality products have incentives to provide information to distinguish themselves from sellers of lower-quality products (Akerlof 1970). Although originally developed in the context of labour markets, signalling theory is a general phenomenon applicable in markets characterised by information asymmetry (Morris 1987: 48). The theory suggests that entities disclose good news to be seen more favourably than their competitors. Inferior firms provide less information or remain silent, with the 'partial disclosure equilibrium' maintained by proprietary costs (Verrecchia 1983).

The independent schools of South Australia compete in the market for enrolment of pupils and students. From the perspective of signalling theory, parents could be viewed as customers and schools may face incentives to provide good news and withhold information that may be viewed unfavourably by parents. The self-promotion objective suggests the selective inclusion or exclusion of information in financial reports, rather than merely complying with contractual commitments, or providing a complete and unbiased account.

As noted by Baulderstone (2007), differences may arise between the rhetoric espoused by third sector entities and the reality reflected in the observation of their practices. This suggests that it may be necessary to consider both the espoused reasons for voluntary financial reporting practices and the potentially conflicting rationale that might be inferred from observed behaviours. Accordingly, this study adopts Argyris and Schön's theories of action framework, comprising two types of theories of action, espoused theory and theory-in-use. Espoused theories are those that individuals or organisations claim to follow when they use words to explain their actions, while theories-in-use are inferred from actual behaviours (Argyris & Schön 1974). In applying the theories of action framework, we consider agency theory, stakeholder theory and signalling theory as potentially reflected in the espoused theories and inferred theories-in-use that explain the voluntary reporting practices of each of the three schools.

This study informs the debate about financial reporting regulation in the third sector by providing insights from the perspective of the preparers of financial reports. The analysis reveals differences between the espoused theories and theories-in-use. Drawing on agency theory, stakeholder theory and signalling theory, the study develops a model of the relationship between perceptions of parents, as members, owners/stakeholders and customers, and the schools' motivations for, and strategies employed in, voluntary financial reporting. Notwithstanding the diversity within the third sector, the findings are potentially relevant to other entities that engage in complex relationships with other parties, who may simultaneously be viewed in multiple roles, such as members, owners/stakeholders and customers or beneficiaries.

The next section describes the regulatory background, and this is followed by a review of empirical literature on financial reporting practices of schools and the broader third sector. The fourth section introduces the case and method. The results of the analysis are discussed in the penultimate section, which is followed by concluding comments.

Regulatory Background

Most independent schools in South Australia are incorporated associations. The *Associations Incorporation Act 1985 of SA* (the Act) (s36(1) Regulation 9) requires incorporated associations to lodge an annual return with Consumer and Business Services (CBS). The annual return is available to the public upon request, and includes the annual financial accounts. However, many independent schools in South Australia are exempt from the requirement to provide a financial report in their annual return, following a precedent established when an independent school was granted an exemption (Minter Ellison 1996: 1). Thus, at the time of the study, independent schools in South Australia were not required to make financial reports available to the public or to parents.

Although the Act includes audit requirements, it does not prescribe the application of Australian Accounting Standards in the preparation of financial reports (CPA Australia 2013). However, an entity will be required to apply Australian Accounting Standards if it classifies itself as a 'reporting entity' (*SAC 1*, para. 40), or holds out its financial statements (reports), even if voluntary, to be 'general purpose financial statements' (GPFS) (*SAC 1*, para. 6). Walker (2007) observes that financial accountability within the Australian charity sector is reduced by the practice of self-classification as a non-reporting entity to avoid the application of Australian Accounting Standards.

Literature Review

The only investigation of financial reporting practices of schools in Australia or New Zealand is that by Tooley & Hooks (2010), who find that statutory annual reports of public schools in New Zealand are used for various purposes, including assessing the financial accountability and performance of the school. However, their study does not consider what, how or why financial information is provided. Accordingly, this literature review extends to research that investigates financial reporting practices of the broader third sector.

While mandatory annual reports serve as a formal accountability document, voluntary annual reviews are prepared primarily for publicity purposes by large charities in the United Kingdom (Dhanani & Connolly 2012). Similarly, the financial reporting on expenditures of Australian charitable entities is indicative of self-promotion reporting strategies, rather than of transparency and accountability (Ryan & Irvine 2012: 364).

The financial reporting practices of charities and non-government organisations (NGOs) have been explained as a response to stakeholder pressures. For instance, Dhanani & Connolly (2012) interpret charities' use of the annual review to portray themselves favourably as reflecting a legitimisation strategy with regard to key stakeholders, such as donors.

The managerial stakeholder perspective can manifest in different reporting strategies, reflecting conflicting demands for accountability from different stakeholders. Assad & Goddard (2010) observe that the accounting practices and processes of Tanzanian NGOs are a response to stakeholder salience, driven by the legitimacy and urgency of their claims.

Alternatively, voluntary financial reporting in the third sector may be explained by economic theory, in terms of agency problems and information asymmetry (Behn et al. 2010). Large third sector entities that allowed the researchers access to their financial statements had more debt and higher contribution ratios (reflecting greater dependence on creditors and donors) and higher expense ratios (indicative of agency costs) than those that declined or did not respond (Behn et al. 2010). However, the distinction is difficult to interpret as the disclosure was upon request from the researchers, rather than reporting to stakeholders or the public.

Case and Method

The research involves a case study (Yin 2009) of three independent South Australian schools. As the collection of case study data is time-consuming and often yields too much data for easy analysis (Hodkinson & Hodkinson 2001), this study focuses on three participating schools to facilitate in-depth analysis of data from multiple sources for each school. While we may not be able to generalise from a case study, it can bring existing theories together with realities, generating 'new thinking and new ideas' (Hodkinson & Hodkinson 2001: 7).

The data collection was undertaken in 2009, prior to the introduction of public access to certain financial information reported by schools to the ACARA. Invitations to participate were sent to 76 member schools of the Association of Independent Schools of South Australia. Thirteen schools responded, consistent with the response rate among schools observed in previous research (Lyons 2001: 47). The three schools that agreed to participate provide diversity in terms of size, age, religious affiliation and the extent of reliance on parents' fees (either high-fee or low-fee schools). Government funding varies considerably between schools because it is based on schools' socio-economic status scores, derived by linking students' residential addresses to national census data.

The participating schools' characteristics are provided in aggregate, with some characteristics suppressed to maintain confidentiality. The three schools are registered as incorporated associations and are recognised as prescribed associations. Each is located in metropolitan Adelaide, and offers education from Reception (Kindergarten) to Year 12 to more than 600 students. They are a mix of low-fee and high-fee, systemic[2] and non-systemic schools, with different denominational and religious affiliations. The schools are referred to as School 1, School 2 and School 3.

Data were collected by interviews, documentation and direct observation. Two face-to-face semi-structured interviews were held over one year with the key member of staff responsible for the preparation and dissemination of financial information at each school. Interviewees 1, 2 and 3 held senior accounting positions at Schools 1, 2 and 3, respectively. Each interviewee was a member of a professional body with at least nine years of experience in his/her current role. Open-ended questions were used to elicit participants' perceptions of what financial information was provided to parents, how it was disclosed and why, with specific questions pertaining to each school's financial reporting strategies and practices. Documentation was primarily provided by the schools and included financial reports, constitutions, prospectuses, newsletters and the reports provided at the previous annual general meetings (AGM). The AGMs of two schools were directly observed by one of the researchers.

Data analysis was iterative and followed the analytic approach as described by Miles & Huberman (1994). Data collected from interviews, documentation and direct observation was reduced into summaries and themes, filtered through theoretical lenses (discussed in the next section), and organised using tables and figures to facilitate validation of the qualitative analysis. Conclusions were drawn and their validity assessed.

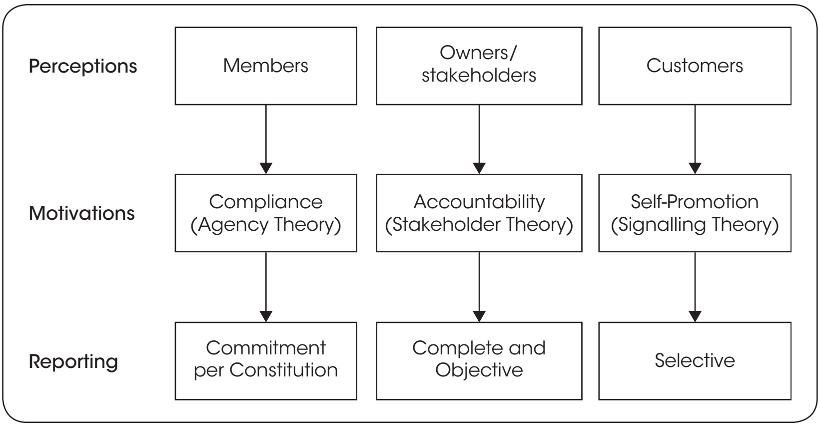
Results and Discussion

Insights into the schools' espoused reasons for providing financial information to parents were obtained from interviews, and theories-in-use were inferred from analysis of what and how financial information was provided to parents. The espoused theories were compared and contrasted with the inferred theories-in-use for each school.

Espoused Theories for Voluntarily Reporting to Parents

The interviewees at each school identified multiple objectives of reporting financial information to parents. Three common motivations emerged, each linked to whether the parents were perceived as members, owner/stakeholders or customers. The model of the relationship between perceptions, motivations and reporting strategy is depicted in Figure 1.

Figure 1 PMR Model: Relationships between the perceptions, motivations and financial reporting



Members

Parents were described as 'members' under the constitutions of the three schools. This is not mandatory, and not all independent schools in South Australia consider parents members. For example, another South Australian school confined membership to school councillors.

Each school's constitution delegated decision-making powers to the school's management. The interviewee at each school believed their school's constitution obligated the school to provide financial reports to parents. The constitution of School 2 explicitly required the presentation of financial reports to members at the AGM. School 3's constitution provided for the school's accounts to be subject to the scrutiny of the finance committee and the board, but was silent on whether they should be presented at the AGM or distributed to parents. The only requirement under School 1's constitution was to hold an AGM, which Interviewee 1 interpreted as inclusive of a requirement to provide a financial report.

Owners/stakeholders

To varying degrees, the respondents for each school also viewed parents as powerful stakeholders who had a vested interest in the school and a capacity to influence its survival. Consistent with a stakeholder perspective, Interviewee 1 described the school as 'effectively owned by parents', emphasising that parents and the government were 'the only people who we really are accountable to', and acknowledging the school's dependency on parents and the government for its survival. Interviewee 3 identified parents as the most important stakeholder group: 'I think, physically, on a day-to-day basis, the parents are the ones.' Similarly, Interviewee 2 stated: '[Parents] are entitled to hear the reports from the Chairman and the [principal] . . . about what has happened during the last year,' reflecting a sense of accountability independent of contractual obligations.

Customers

The third motivation for financial disclosures to fee-paying parents was self-promotion, emanating from the perception of parents as customers by two of the three schools. The interviewees at these two schools explicitly indicated that the financial reports were used as a means of self-promotion or signalling good news to fee-paying parents. Interviewee 3 explained that School 3 'has nothing to hide, and . . . [is] probably quite happy to share it really because they are quite strong figures'. Similarly, Interviewee 1 stated: 'We don't have anything to hide – I mean, there's nothing wrong with the accounts.'

Theories-in-use for Voluntarily Reporting to Parents

The observed reporting practices form the basis of inferred theories-in-use. Table 1 lists the reports provided to parents by each school, while Table 2 shows the information included in the AGM reports.

Schools 1 and 3 presented annual financial reports at their AGMs; these comprised the income statement, balance sheet, cash flow statement, statement of changes in equity, notes to the financial statements,[3] a detailed statement of income and expenditure, a narrative report from the school council and an auditor's report. The same annual financial report was included in their respective annual returns submitted to CBS, which are available to the public.

In contrast, School 2 presented an abridged annual financial report, excluding notes to the financial statements, at its AGM, with a full annual financial report available to parents upon request. Neither the full nor the abridged financial report was included in the annual return submitted to CBS.

The Reporting Entity Concept and General Purpose Financial Statements

While the constitutions of the three schools included the requirement to appoint an auditor, they neither specified the scope of the explicit or implicit requirement to prepare a financial report, nor stated any

Table 1 Reports provided to parents

Format	School 1	School 2	School 3
Consumer & Business Services (CBS) periodic return (available upon request)	18-page financial report + Audit Report	Audit report only (No financial report)	23-page financial report + Audit report
AGM report	26 pages	29 pages	60 pages
Comprehensive financial report	18 pages	None (5-page abridged financial report previously mailed out)	23 pages
Treasurer's Report	1 page	Oral presentation only	1 page
Graphs	4 graphs on 1 page	5 graphs presented on overhead projections only	None
Annual report	Academic, sporting, cultural and social achievements only	Academic, sporting, cultural and social achievements only	Academic, sporting, cultural and social achievements only
Parents' info kit	No financial information	School fees and uniform price list	No financial information
School foundation report	Financial members (donors) only	Financial members (donors) only	Not applicable
Yearbook	Fundraising targets	Fundraising targets	No financial information
Weekly newsletters	Fundraising targets	Fundraising targets	Fundraising targets
Quarterly newsletters	No financial information	No financial information	No financial information
Letters to parents	School fees	School fees and capital projects and capital government grants	School fees and capital projects and capital government grants
Prospectus	School fees	School fees and uniform price list	School fees

Table 2 Financial disclosures provided within the AGM report

Item	School 1	School 2	School 3
Special purpose financial report	✓	Unable to ascertain	✓
Income statement	✓	✓	✓
Balance sheet	✓	✓	✓
Cash flow statement	✓	✓	✓
Statement of recognised income and expense	✓	✓	✓
Notes to the financial statements	✓	✗ Only upon request	✓
Capital expenditure statement	✗	✓	✗
Statement of changes in equity	✓	✗	✓
Council's report	✓	✓	✓
Council chair's report	✓	✗	✓
Finance committee/treasurer's report	✓	✓	✓
Principal's report	✓	✓	✓
Secretary's report	✗	✗	✓
Auditor's report	✓	✓	✓
Graphs	✓	✓	✗

requirement to apply accounting standards. As shown in Table 2, the financial reports of both Schools 1 and 3 included an explicit statement that the school was not a reporting entity, and that the report was a special purpose financial statement (SPFS), as opposed to a GPFS. The classification of School 2 and the type of report it presented could not be confirmed because the researchers were denied access to the full financial report.

Both Schools 1 and 3 avoided classification as a reporting entity. Interviewee 1 explained that School 1 did so to avoid having to comply with all Australian Accounting Standards, stating that School 1 did not wish to disclose remuneration paid to key management personnel, which would have been required under AASB 124 *Related Party Disclosures*. Interviewee 3 stated that School 3 preferred more discretion over which standards were applied in its financial statements. Thus, Schools 1 and 3 used classification as a non-reporting entity and declarations that their reports were not GPFS to maintain more control over the extent of financial information disclosed in the reports that were made available to parents.

Accessibility

Parents are able to access the annual return lodged with CBS, unless the school has exercised the exemption. Interviewee 2 stated that School 2 is one of many independent schools that take advantage of the exemption, and that the school has not provided a financial report in its annual return since being granted the exemption. Interviewee 2 explained that the school exercised the exemption to avoid making the financial report publicly available, rather than to deny parents access to financial information, exclaiming there were 'more copies of our accounts floating around in different government bodies than you could shake a stick at . . . but what's the value in having our accounts accessible to the public?' The decision to provide an abridged report to parents for the AGM was made jointly by Interviewee 2 and the principal of School 2. However, no explanation was offered for the limited level of financial disclosure to parents.

Neither School 1 nor School 3 applied the exemption. Both schools included a financial report in their annual return to CBS, and provided the same financial report to parents. Interviewee 1 was unaware of the exemption and stated: 'We do report to the [Consumer and Business Services] . . . because we're a prescribed organisation.' Interviewee 3 was aware of the exemption but was unsure whether School 3 was exempt. The exemption was not seen as an issue because the school intended to disclose financial information as it had always done. Interviewees 1 and 3 seemed satisfied that the provision of special purpose financial reports discharged the school's accountability to parents, notwithstanding the limited scope and detail of the financial information contained therein.

Distribution of Financial Information to Parents

The communication strategies adopted by each school played an important role in facilitating or inhibiting parents' access to financial information. School 2 provided more access to an abridged four-page financial report by mailing it to all members of the school, prior to the AGM. Interviewee 2 stated that the full report was available to members only upon request. However, the communication to parents about the AGM made no mention of the full report. Observation of the AGM revealed that only a small number of copies of the full report were brought to the meeting, and no announcement was made about its availability. Thus, the parents attending the AGM were not made aware of the opportunity to access the full financial report.

School 1 had recently replaced its printed weekly newsletter with an electronic newsletter. Parents were informed about the AGM through notices in the weekly newsletter, which also advised that the financial reports were available from the office, upon request, prior to the AGM. The financial reports were also distributed at the AGM. Interviewee 1 explained that the financial report was not mailed out to parents out of concerns that those with limited financial literacy may misinterpret, or be confused by, its contents.

School 3 notified parents about the AGM in its weekly newsletter and also on its website, but did not advise parents that the financial report

Table 3 How the schools distributed financial information to parents

Method	School 1	School 2	School 3
AGM notice and agenda			
By mail	✗	✓	✗
By email	✓ via link to e-newsletter	✗	✗
By weekly newsletter	✓ e-newsletter	✓	✓
School calendar	✓	✓	✓
School website	✗	✓	✓
AGM report (Including financial statements)			
By mail	✗ On request only	✓	✗ On request only
By email	✓ On request only	✗	✗
School website (public)	✗	✗	✓ Agenda only
Annual general meeting	✓	✗	✓

was available prior to the AGM. The financial report was distributed at the AGM. Interviewee 3 did not explain why the school did not post financial reports to parents, stating only: 'It's not a financial reason; it's just something that was never done.'

In summary, School 2 provided all parents with some financial information by mailing an abridged report to them, but provided no effective access to the full report. While Schools 1 and 3 provided more comprehensive information, parents did not receive it unless they attended the AGM or, in the case of School 1, requested it from the office. While compliant with reporting obligations to members, the limited distribution of the financial reports is not consistent with the objectives of self-promotion to parents as customers espoused by Schools 1 and 3. Similarly, the espoused objective of accountability was not reflected in the limited distribution of financial reports by the three schools.

Comparison of Espoused Theories and Theories-in-use of the Schools

As shown in Table 4, all schools espoused theories of compliance and accountability to explain their motivation for providing financial information to parents. Two schools also espoused self-promotion objectives of providing financial information to parents. Table 4 also shows the theories-in-use inferred from the actions of the schools.

Table 4 Comparison of espoused theories with theories-in-use

	Compliance with obligations to members		Accountability to owners/stakeholders		Self-promotion to customers	
	Espoused theory	**Theory-in-use**	**Espoused theory**	**Theory-in-use**	**Espoused theory**	**Theory-in-use**
School 1	Yes	Yes	Yes	No	Yes	Partly
School 2	Yes	Yes	Yes	No	No	No
School 3	Yes	Yes	Yes	No	Yes	Partly

Agency theory suggests a minimal approach to financial reporting to members, in accordance with their constitutions. This approach is inferred from the actions of all three schools. By exercising the exemption, School 2 avoided making its full financial report publicly available. While the full report was brought to the AGM, in compliance with School 2's constitution, no action was taken to provide it to parents, who received only an abridged report. Although Schools 1 and 3 did not utilise the exemption, their reliance on the non-reporting entity classification and the specification that their financial reports were SPFS for the explicit purposes of limiting or avoiding the application of accounting standards is consistent with a minimal approach to financial reporting to parents. Further, School 3 did not communicate any means of access to the financial report to parents who did not attend the AGM.

Stakeholder theory suggests that the schools may voluntarily provide financial information to discharge their accountability to parents as influential stakeholders. However, the schools' espoused accountability motivations for financial reporting were not reflected in their actions, such as avoiding the disclosure requirements imposed by Australian Accounting Standards (Schools 1 and 3) and not providing access to the full report (School 2).

Signalling theory suggests the selective inclusion or exclusion of financial information in reporting to parents as customers. The actions of Schools 1 and 3 were partially consistent with their espoused theory of self-promotion, in that both schools used classification as a non-reporting entity and SPFS to maintain control over what was disclosed. In particular, School 1 avoided disclosing sensitive information about the remuneration paid to management personnel, which might be viewed unfavourably by parents. However, self-promotion was not reflected in the accessibility of the reports and the method of distribution. School 3 restricted access to the reports to those parents attending the AGM; and the change to electronic communication by School 1 may have reduced awareness of the availability of the report before the AGM.

School 2 did not effectively make its full financial report available to parents, which is inconsistent with its use for self-promotion. Without access to the full financial report, we are unable to ascertain the selectivity of information included in or excluded from the abridged financial report provided to parents. There was no evidence that School 2 espoused self-promotion as a motivation for voluntary financial reporting, nor could this motivation be inferred from its financial reporting practices.

Conclusion

This paper reports on a case study of voluntary financial reporting to parents by three independent schools. Multiple motivations for financial reporting were apparent from discussions with key personnel at each school: compliance with contractual obligations; accountability; and self-promotion. The multiple motivations for financial reporting are attributed to different perceptions of parents, as members, owners and customers. A model is developed that articulates the relationship between perceptions of parents, the motivation for reporting, and the implication of each motivation for the financial reporting strategies.

The compliance approach is based on agency theory, in which the parents are viewed as the principals (members) to whom the school's management is obligated to report by the school's constitution. The perception of the parents as members of the school is linked with the motivation of contractual compliance, which manifests in a minimal approach to financial reporting. The three schools' espoused motivations for reporting included compliance with contractual obligations. The compliance objective was also inferred from the reporting practices of the three schools.

The accountability rationale for voluntary financial reporting is underpinned by the perception of parents as owners – powerful stakeholders on whom the school is dependent for its survival. Complete and unbiased reporting would be consistent with the accountability motivation. The schools' espoused accountability to parents as owners was not apparent from their reporting practices.

The third motivation for providing financial reports is self-promotion (signalling theory), underpinned by the perception of the parents as customers. This motivation manifests in the selective inclusion or exclusion of information in reporting to parents. Respondents for two of the three schools espoused self-promotion as a motivation. However, while promoting the school to parents was reflected in the schools' strategies to maintain control over the scope of information reported, their limited efforts to make their financial reports readily available to parents was inconsistent with self-promotion.

Notwithstanding multiple data sources, we were unable to access the full financial report of one of the schools. Further, there was only one senior member of staff responsible for the preparation and dissemination of financial reports at each school. This potential bias limits the inferences that are made.

The results of this study can inform regulators and other participants in the debate regarding financial reporting regulation in the third sector by providing insights from the preparers' perspective. Through an examination of what, how and why independent schools report in the absence of regulation, we reveal some of the complexity that can surround voluntary financial reporting in the third sector.

We have demonstrated that the theoretical understanding of voluntary reporting practices of third sector entities can be complicated by their tendency to simultaneously adopt multiple perceptions of the parties to whom they report. Different motivations for reporting can lead to different and, in some instances, conflicting reporting strategies, such as selectively reporting for self-promotion, and providing complete and unbiased information for accountability purposes.

We demonstrate the usefulness of Argyris and Schön's theories of action to facilitate a richer understanding of voluntary financial reporting. The apparent limited alignment of the espoused motivations for reporting to parents and observed reporting practices suggests that the independent schools may need to reconsider the effectiveness of their financial reporting choices, and their processes of communication and distribution.

The model of the relationships between perceptions, motivations and financial reporting strategies is developed from a case study of independent schools. Further research is needed to investigate the application of the model to educational and other third sector entities, such as sporting associations, charities and religious organisations.

NOTES

1. While all independent schools are required to provide financial information and to report on academic performance to government bodies (Wilkinson et al. 2007; Gurd 2013), schools' financial information was not released to the public by regulatory authorities prior to the establishment of the *My School* website.
2. A systemic school is one of a group of schools falling under the legal jurisdiction of a church and administered by a central body.
3. As explained below, the extent of detail and disclosure in the notes to the financial statements is significantly less than would have been required had the schools prepared GPFS.

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ABOUT THE AUTHORS

NICOLE D. MOSCHAKIS is an associate lecturer and PhD candidate at the University of Adelaide Business School. She teaches financial accounting and management accounting at both undergraduate and postgraduate levels. She is also a learning facilitator for the New Tutor Induction Workshop for the Business School, and assists the primary educator in the use of NVivo software for the Adelaide Graduate Centre. Her research interests are the accountability and transparency of the third sector. Her PhD research project investigates the impact of the recent Australian regulatory reforms on the reporting practices of charities. Email: nicole.moschakis@adelaide.edu.au.

CATE JERRAM is Director of the Information Systems Research (ISR) team at the University of Adelaide, and co-leader of the research collaboration Human Aspects of Cyber Security (HACS) with co-researchers in the Defence Science and Technology (DST) Group (formerly DSTO). She designed and is Lecturer-in-Charge for the Qualitative Methods course for higher degree research students and the Business Research Methods course for all postgraduate students in the Business School, and is also the primary educator in the use of NVivo to support research for the University of Adelaide and the Adelaide Graduate Centre. Email: cate.jerram@adelaide.edu.au.

JANICE LOFTUS is an associate professor in accounting at the University of Adelaide, where she teaches accounting theory in undergraduate and honours/postgraduate programmes. Janice is also the director of postgraduate programmes in accounting. Her research interests are in financial, social and environmental reporting. Janice has published in numerous academic and professional journals. She has co-authored several textbooks in accounting and an accounting research monograph. Janice is a fellow of CPA Australia. Email: janice.loftus@adelaide.edu.au.