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## **HOW DO CHARITY REGULATORS BUILD PUBLIC TRUST?**

Cherrie Yang and Deryl Northcott

## **Abstract**

Public trust serves as an important foundation for the charity sector, but has been diminishing in many countries. Charity regulation exists to promote public trust in charities, but we know little about how it is implemented by regulators to build public trust. This research examines regulators' efforts to build public trust in charities by promoting and implementing regulation that increases accountability and transparency requirements. A legal perspective on regulation and trust (Colombo, 2010) is combined with institutional work theory (Lawrence & Suddaby, 2006) to analyse interviews with New Zealand charity regulators and standard-setters. The findings detail regulators' reflexive trust-building processes and practices and reveal a complex and challenging trust-building dynamic among regulators, charities and the general public. Regulators' efforts are revealed to demonstrate a 'hybrid' approach to regulation as they expand beyond policing charities' regulatory compliance, educating charities on how to improve their public accountability, and investigating public concerns about charity wrongdoing to also engage in proactive modes of trust-building that directly target the public. Based on these findings, implications are suggested for regulators in other jurisdictions who seek to build public trust in charities.

**Keywords:** public trust, charity regulation, charity accountability, institutional work, hybrid regulatory approach

# HOW DO CHARITY REGULATORS BUILD PUBLIC TRUST?

## 1. Introduction

Charities provide public benefits and in turn rely on public trust to maintain their charitable status and accomplish their missions. However, instances of misconduct and mismanagement by charities have undermined this trust (Hind, 2017; Populus, 2018; Rutley & Stephens, 2017) and, hence, threatened charities' sustainability (Populus, 2018).

It is thought that regulation can help rebuild public trust in charities by promoting improved accountability (Cordery & Baskerville, 2011; Cordery & Deguchi, 2018) although the prior literature is at odds as to how regulators can achieve this aim. As outlined later, some studies favour a 'light-touch' approach whereby regulators encourage charities to improve their accountability practices rather than sanctioning them for non-compliance (Hind, 2011, 2018). Others note that light-touch regulation has, particularly for small charities, led to poor transparency, weak accountability and significant information asymmetry in the sector and instead propose a 'deterrence' approach to enforcing regulatory requirements (Cordery, 2013). This unresolved tension in the literature is exacerbated by the lack of research into how regulators perceive their role in fostering public trust in charities and how they work to pursue this aim. This paper addresses this lacuna by investigating the research question: how do charity regulators build public trust?

This research is located in New Zealand, where recent regulatory changes have sought to enhance public trust in charities by improving their accountability and transparency. Key recent developments in New Zealand's regulatory context began with the *Charities Act 2005*, which imposed the first requirement for all registered charities to submit annual returns, which included financial accounts (Cordery & Baskerville, 2007)<sup>1</sup>. Next followed the 2007 establishment of a charity regulator, the Charities Commission. However, the 'light-touch' approach adopted by the Charities Commission was perceived as failing to improve accountability and public trust (Cordery, 2013) and in 2012 a new regulator, Charities Services, was established under the umbrella of a government department and invested with the power to monitor, deregister or prosecute charities for breaches of the *Charities Act 2005*, including failing to file annual returns (Charities Services, 2019a & 2019b). Soon afterwards, the 2015

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<sup>1</sup> Previously, New Zealand charities were governed only by the *Charitable Trusts Act 1957*, which imposed no financial reporting requirements. Only the approximately one-third (Poirier, 2013, p. 68) of charities formed under the *Incorporated Societies Act 1908* and relevant Companies Acts were required to file financial accounts prior to 2005, therefore.

introduction of the *Public Benefit Entity Simple Format Reporting* standards by New Zealand's XRB (External Reporting Board) further signalled an intended move towards a 'deterrence' approach by imposing sector-specific, mandatory financial reporting standards that were to be implemented and enforced by the new charity regulator<sup>2</sup>. This shift in New Zealand's regulatory focus from a 'light-touch' approach towards a 'deterrence' approach presents a useful context in which to explore unresolved tensions in the literature on charity regulation.

The findings presented in this paper draw on interview and documentary data that is analysed using a legal perspective on regulation and trust (Colombo, 2010) combined with institutional work theory (Lawrence and Suddaby, 2006). Institutional work theory offers a useful framing for this study because it focuses on skilled actors' purposive, day-to-day agency aimed at shaping institutions (Lawrence, Suddaby, & Leca, 2009), where institutions are "enduring social patterns" (Hughes, 1936) such as, here, public trust. This theoretical lens facilitates a close examination of the trust-building practices engaged in by one party (*regulators*) with an intention to build public trust in another party (*charities*). It also points to practical implications by surfacing the multiple forms of work regulators engage in to build public trust.

The remainder of this paper first reviews the literature on accountability and regulation that connects with the issue of public trust in the charity sector. It then outlines the theoretical perspectives and research methods, presents and discusses the empirical findings, and identifies the theoretical and practical contributions of this study.

## **2. Literature Review**

### **2.1. Public trust and accountability in the charity sector**

Charities rely on public trust for legitimacy and resources to fulfil their missions (Bryce, 2016; Hind, 2011). Trust, defined as "a belief in the reliability, truth or ability of something or someone" (Hyndman & McKillop, 2018, p.7), can operate at individual, group and system levels (Getha-Taylor et al., 2019). A relationship of trust implies that individuals and groups are willing to "accept uncertainty while maintaining positive expectations of others" (Getha-Taylor et al., 2019, p. 57). However, uncertainty about the future behaviour of others creates vulnerability: hence, vulnerability and positive expectations are the two key characteristics of trust (Klijn et al., 2010).

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<sup>2</sup> The majority (96%) of New Zealand charities are subject to the *Public Benefit Entity Simple Format Reporting* standards (Yang et al., 2017).

The public includes donors, volunteers and taxpayers, all of whom provide resources to the charity sector based on positive expectations that charities will behave ethically, manage resources responsibly, accomplish their missions, and report on the outcomes they achieve (Furneaux & Wymer, 2015; Populus, 2018). Maintaining this trust requires that charities make accountability disclosures that demonstrate they have met the public's expectations and not exploited its vulnerability (Hyndman & McConville, 2018; Rutley & Stephens, 2017; Yang & Northcott, 2019). Further, since the existence of public trust can in turn encourage charities to disclose more information to the public, accountability and trust can be seen as underpinning each other within a "virtuous circle" (Hyndman & McConville, 2018).

However, charities face difficulties in engaging directly with the public and understanding whether their accountability disclosures meet its needs (Hyndman & McConville, 2018). Consequently charities - particularly small charities, which make up most of the sector - are often perceived as lacking accountability, under-regulated, and at high risk of misconduct (Cordery, 2013; McDonnell & Rutherford, 2019). While charity regulation (e.g. the UK Charities Act 2011 and NZ Charities Act 2005<sup>3</sup>) aims to address these concerns and promote trust in the sector (Cordery & Deguchi, 2018; Populus, 2018), we know little about regulators' day-to-day work to achieve this aim.

## **2.2. Charity regulators, regulation and public trust**

Building public trust lies at the heart of any charity regulator's role (Cordery & Deguchi, 2018). To that end, registered charities are required to comply with relevant reporting regulations (Hyndman, 2018; Yang & Northcott, 2019). In New Zealand (NZ), the new *Public Benefit Entity Simple Format Reporting* standards (effective from April 2015) require charities to prepare annual performance reports<sup>4</sup> in line with standards issued by the External Reporting Board. These reports are made publicly available on an online charities register, which is managed by Charities Services, the regulators. Previous NZ studies have suggested that the availability of this register and improved performance disclosures could help to address the abuse of charitable status and build public trust in charities (Cordery et al., 2017; Sinclair et al., 2014).

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<sup>3</sup> The NZ Charities Act 2005 is under review (as at June 2020), with amendments due in 2020/21.

<sup>4</sup> A performance report presents financial and non-financial in a format that allows people to easily understand how a charity is doing each year (Charities Services, 2017, p. 10).

It is also recognised that public awareness of charity regulators and their oversight functions is important to building public trust (Cordery & Deguchi, 2018; Hind, 2011; Rutley & Stephens, 2017). Here, trust occurs at a system or institutional level and derives from regulators' institutional power to ensure trustworthy behaviour by charities (Getha-Taylor et al., 2019). For instance, when regulators de-register charities involved in wrongdoing (Cordery & Deguchi, 2018), or investigate public complaints (Cordery et al., 2017), public trust is likely to be enhanced.

Hind (2011, 2018) notes that UK regulators use a 'light-touch' regime to encourage charitable activities and innovation. In this approach, the regulators' efforts and resources are focused on high risk cases with most charities, being low risk, enjoying a reduced regulatory burden. Hind (2011, p. 201) further argues that the role of regulators should extend beyond ensuring compliance to emphasising "what right looks like" by encouraging and educating charities about (rather than requiring) best practices. As noted however, Cordery (2013) argues that light-touch regulation has, particularly for small charities, led to poor transparency, weak accountability and significant information asymmetry in the sector and instead suggests a 'deterrence' approach to enforcing regulatory requirements to mitigate these issues.

Regulation that requires (rather than recommends) accountability practices will inevitably impose compliance costs on charities (Cordery & Deguchi, 2018; Neely, 2011), although it may help ensure the public's vulnerability is not abused, hence building public trust. As such, trust and law can be complementary (Getha-Taylor et al., 2019) since regulation can promote trustworthy behaviour (Cross, 2005), which in turn improves public trust. However, the opposing views on how charity regulation can be implemented (the 'light-touch' and 'deterrence' approaches) highlight a tension in the charity regulation literature that needs exploring by examining the practices of regulators. This research aims to address this gap in the literature by examining charity regulators' day-to-day efforts to build public trust.

### **3. Theoretical Perspectives**

#### **3.1. Trust and regulation**

The concept of trust has received attention from various academic disciplines, including psychology, management and law (Getha-Taylor et al., 2019). However, given the legal nature of regulatory institutions, we focus on the interplay between law and trust by drawing on a

legal perspective that classifies the concept of trust according to two dichotomies: affective vs cognitive trust; and generalised vs specific trust (Colombo, 2010).

*Affective trust* is “grounded primarily in emotion...and constitutes a general, optimistic disposition that the subject of one’s trust will behave honourably and appropriately” (Colombo, 2010, p. 835). In a charity setting, affective trust relates to the public’s concern with the motives for the charity’s behaviours. For example, a charity operating a ‘save the whales’ campaign may be supported because members of the public feel emotionally connected to the charity’s cause (Burt, 2014). Hence, affective trust is derived from shared norms and concerns. At the other end of the spectrum, *cognitive trust* is a calculative form of trust based on “a cost-benefit analysis of the act of trusting someone” (Colombo, 2010, p. 836). The cognitive type of public trust is based on a rational risk assessment of whether a charity will deliver and report promised results, rather than an emotional connection with a cause. Colombo (2010) argues that, because greater vulnerability makes the decision to trust more risky, additional regulatory oversight supports cognitive trust when increased vulnerability and risk are present. Hence, charity regulation is likely to enhance cognitive trust by promoting improved reporting that reduces the public’s vulnerability to being misled or disappointed by charities. However, cognitive trust has a cumulative experience aspect that requires continuous information disclosure (Burt, 2014). Therefore, a charity must provide regular performance information, via a publicly available mechanism, to meet the public’s information needs.

*Specific trust* refers to “trust in the capability of the subject in question to satisfactorily deliver upon a specific promise, good, or service” (Colombo, 2010, pp. 838-839). For example, specific trust can be reflected in the public trusting a charity to deliver appropriate counselling services that improve the lives of beneficiaries. In contrast, *generalised trust* refers to “trust of a moral nature: trust in the character, integrity, and honesty of the subject in question”. Public trust surveys that show charities are more trusted than other organisations such as private companies, banks and government bodies (e.g. Rutley & Stephens, 2017; Populus, 2018), illustrate the public’s generalised trust in charities’ integrity, which exists independently of judgements formed about a charity’s technical capability to accomplish a particular task (i.e. specific trust).

To sum up, Colombo (2010) proposes that trust can take affective or cognitive forms and can, additionally, be either generalised or specific. He notes also that “affective trust is likely to be coupled with generalized trust, and cognitive trust is likely to be coupled with specific trust”

(Colombo, 2010, p. 839). Further, and pertinent to this study, regulation appears to impact these associated forms of trust differently. On one hand, both cognitive and specific trust can be developed based on reasoned calculation, and regulation helps to create trustworthy behaviour, thus reducing the public's vulnerability (Cross, 2005). Therefore, charity regulation could complement cognitive and specific trust. On the other hand, the public's affective and generalised trust are based on character, relationships and emotions. Regulation may do little to enhance, or may even undermine, these types of trust (Cross, 2005; Ribstein, 2001) because it tends to crowd out intrinsic trust and replace it with extrinsic penalties (Colombo, 2010). As such, regulation may limit the opportunities for charities to build public trust by imposing rules and sanctions that transform trust relationships "to something formalized, strictly circumscribed, and explicitly based upon law" (Colombo, 2010, p. 850). Therefore, regulation could substitute for affective and generalised trust.

While this legalistic view of trust highlights the important interplay between regulation and trust and thus provides a useful theoretical perspective for this research, it fails to acknowledge the agency of regulators in building public trust. This issue can be explored via institutional work theory.

### **3.2. Institutional work theory**

Institutional work theory highlights the purposive actions of individual and collective actors – who are reflexive, resourceful and capable – that are aimed at shaping institutions (Battilana & D'Aunno, 2009; Lawrence & Suddaby, 2006). Hence, we draw on institutional work theory to explain the trust-building efforts of actors (charity regulators) aimed at creating and maintaining public trust (a societal institution) by implementing regulation that enhances accountability and transparency requirements.

Lawrence and Suddaby (2006) introduce three categories of institutional work: creating, maintaining and disrupting institutions. Since this research concerns regulators' efforts to build public trust, it focuses on their institutional work to *create* and *maintain* the institution of public trust rather than to *disrupt* it. Institutional work aimed at *creating* institutions entails actors' efforts to reconstruct new rules, norms, beliefs and boundaries of meaning systems. Lawrence and Suddaby (2006) summarised various types of work that create institutions, including 'advocacy', 'defining', 'constructing identities', 'constructing normative networks', and 'educating'. For example, charity regulators may 'construct normative networks' with local communities and 'educate' the public about charities' achievements to build public trust.

Institutional work aimed at *maintaining* institutions involves actors engaging in an action intended to support, recreate, or maintain the controls that underpin institutions (Lawrence & Suddaby, 2006). Types of maintaining work include ‘policing’ and ‘valourising’. For example, charity regulators could ‘police’ charities’ compliance with reporting regulations wrongdoing and ‘valourise’ some charities’ positive stories to build public trust. Further descriptions of the types of institutional work relevant to this study appear in Appendix 1.

In this research, public trust is the focal societal institution that actors (i.e. regulators) intend to shape. The investigation of institutional work at the societal level is an under-researched area as it is considered more complex and challenging (Hampel et al., 2015). Unlike institutional work that targets individuals at the field and organisation levels, institutional work aimed at shaping societal institution, such as public trust, is likely to affect social norms and behaviours on a large scale. The 2015 financial reporting regulatory changes in NZ provide a useful context for studying institutional work at the societal level as the new requirements have a widespread influence on the behaviour and actions of the affected actors (i.e. registered charities and the public). By investigating charity regulators’ institutional work to shape societal institutional changes, this research responds to the call from Hampel et al. (2015) to address this neglected aspect of institutional work theory.

#### **4. Research Method**

This paper draws on a qualitative inquiry into regulators’ experiences and practices aimed at building public trust in the NZ charity sector. Since this study aimed to capture regulators’ perceptions and lived experiences of shaping the societal institution of public trust via implementing regulatory change, actors from both Charities Services (regulators) and the External Reporting Board (standard-setters who prepared the new regulation) participated in this study.

Interview requests were initially sent to information-rich informants such as the senior accountant at Charities Services and the chair of the External Reporting Board’s NZ Accounting Standards Board. After each interview, a snowball sampling strategy was applied to recruit further relevant interviewees. Nineteen semi-structured interviews were conducted in March-April 2017 (see Appendix 2). They included 10 regulators from the four Charities Services operational teams<sup>5</sup> and one data analyst who maintained the publicly available

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<sup>5</sup> The Charities Services Registration Team assesses applications from entities wanting to become registered charities. The Investigations Team handles public complaints and investigates suspected serious charity

charities register. These 11 interviewees from Charities Services represented almost one-third of its staff. Interviews were also conducted with five standard-setters from the two sub-boards<sup>6</sup> of the External Reporting Board (NZ Accounting Standards Board and NZ Auditing and Assurance Standards Board). Further, since Charities Services sits within the government department Internal Affairs, two officers from this department were interviewed to understand their collaborations with the regulators. Finally, one public sector service performance reporting expert commented on whether the new charity regulation helped to build public trust.

The interviews were facilitated by interview guides that were prepared based on (i) the literature on trust and charity regulation and accountability and (ii) institutional work theory. The questions were open-ended with the intention of encouraging discussion of varied strategies and challenges faced in building public trust and allowing new questions to emerge. All interviews were audio-recorded and transcribed. The transcript data was coded and analysed to identify common themes and sub-themes. Since this research was conducted soon after new financial reporting standards for charities were issued, participation and interest amongst NZ regulators and standard-setters were high and many practice issues were openly discussed. Some documentary evidence was collected during interviews, e.g. a public trust survey report commissioned by Charities Services and exemplars of reporting best practice. Other materials were obtained from the public domain, including the charities register, media statements, and Charities Services' website. In a process of triangulation, these documents were analysed to augment and corroborate the interview data to ensure its credibility.

## **5. Findings**

### **5.1. Building the public's cognitive trust**

The NZ Charities Act 2005 outlines Charities Services' fundamental role to promote public trust in the charity sector. The interviewed regulators acknowledged this role and explained how they fulfil it:

We survey the public and ask what are the key things that drive their trust and confidence in the sector.... [The answers mainly concern] accountability and transparency, so being visible about how charities spend their money is very

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wrongdoing. The Capability Team develops resources and capability initiatives and delivers stakeholder engagement. The Customer Support Team handles queries from charities and provides administrative support. There were 38 Charities Services staff at the time of interviews.

<sup>6</sup> These sub-boards comprise 18 members with expertise in the for-profit, government, or not-for-profit sectors. The five interviewees had extensive knowledge in the not-for-profit sector and had contributed significantly to charity standard-setting.

important to the public.... We are helping charities to provide good and transparent reporting, then, in theory, it should increase public trust and confidence. (CS-C4)

The survey referred to is conducted biennially by Horizon Research on behalf of Charities Services. It has shown that public confidence relies on charities being transparent and accountable about their performance, particularly how they use their funds to make a positive difference (Horizon Research, 2016). These information needs reflect a cognitive form of trust (Colombo, 2010) in which members of the public seek to make a calculative, cost-benefit assessment (Cross, 2005) of whether a charity will deliver promised results. Accordingly, regulators' efforts are devoted to compelling, encouraging and educating charities to provide more and better information that can help the public to assess risk and build cognitive trust. These efforts take several forms, as outlined next.

#### Maintaining the charities register to improve transparency

Section 21 of the Charities Act 2005 requires the regulators to maintain a public charities register:

All the information is open data, and it is available for anybody to access whenever and wherever they want. (CS-D1)

This database is used by charity regulators to 'educate' the public by providing information about individual charities' services and activities, charitable purposes, locations, beneficiaries and finances. Consequent on regulatory changes introduced in 2015 (discussed later), the charities register now also includes a performance report that most registered charities must submit to the regulators. This performance report includes both financial and non-financial information and must comply with the financial reporting standards. It is intended to enhance the transparency and comparability of charities' performance information:

The consistency of year-on-year reporting is really beneficial as you start to be able to see one compared to the other charity on the Register. Without the new reporting requirements, charities could report anything they wanted and with such varying quality you really couldn't tell how up-to-speed the organisation was. (CS-C5)

These 'educating' efforts of the regulators in maintaining the charities register are aimed at improving charity transparency, facilitating the public's donation and volunteering decisions, and eventually shaping the institution of public trust in its cognitive form. However, despite regulators' efforts to provide more information about charities to the public, prior studies have identified challenges such as charities' poor reporting quality and completeness, different reporting formats, and varying accounting approaches (Charities Services, 2019a; Cordery,

2013). Our interview data supports and extends these findings by suggesting how regulators are working to address such challenges:

There was no particular format for how charities had to disclose information, there could have been all sorts of things hidden in there. But now, [charities need to report] things like related party transactions, who has control over the organisation, whether there is money going between them, and the salary of key management personnel. That sort of information is really useful and should increase public trust and confidence. (CS-C1)

Hence, although interviewed regulators were aware of poor charity accountability in the past, their ‘educating’ institutional work in maintaining the charities register aimed to improve the transparency of charity performance information to address this problem and build public trust.

#### *Promoting and implementing new regulations to improve charity accountability*

To build public trust, regulators performed several types of institutional work that promoted the 2015 *Public Benefit Entity Simple Format Reporting* standards for small charities<sup>7</sup>. For example, they ‘advocated’ the importance of adhering to the standards and ‘educated’ charities on how to comply with the standards and the benefits of doing so:

We did 76 workshops around New Zealand. A lot of people came and they were very scared about this thing we are making them do; some people were quite angry. I talked about how good it is going to be for their charities, how they can benefit, and how they can use it for marketing their charities. So I often say ‘if you write a really good performance report, you are going to stand out from everybody else, and you are more likely to receive funding if you can articulate well what you do’. (CS-C2)

The regulators’ aim was to build public trust by improving charities’ public accountability. Sometimes, however, they faced challenges when engaging with small charities:

...lots of people were from the Marae<sup>8</sup> ... and one woman asked ‘What does it mean to record related parties? We are all related!’ It is not culturally acceptable for Maori<sup>9</sup> to privilege one person’s contribution above another...and we did not know a lot about that. The External Reporting Board had never considered it while writing the standards. So there we were, out there and being asked all these questions, and we couldn’t answer them. (CS-C5)

This interview data highlights challenges in regulators’ ‘advocacy’ and ‘educating’ work. In this case, the ‘related party transactions’ reporting requirement conflicted with a Maori cultural norm that had been overlooked by standard-setters, thus hampering the regulators’ institutional

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<sup>7</sup> Small charities have total expenditure under NZD 2 million and represent 96% of all NZ charities.

<sup>8</sup> A marae is a meeting place for Maori people that is used to bring families, communities and tribes together.

<sup>9</sup> Maori are the indigenous Polynesian people of New Zealand.

work. Another challenge noted was that many Charities Services staff “didn’t have any accounting expertise” (CS-C5), even though the new reporting standards are an accounting regulation. At the time of this study, only two of the 38 regulators were accountants. This lack of accounting expertise may have limited the regulators’ educating institutional work and thus impeded the building of cognitive public trust.

In a further effort to implement the new reporting regulations, Charities Services’ Customer Support Team conducted ‘policing’ work to complete compliance and assurance checks on 2,000 randomly selected charities and forward their reports to the Investigations Team:

If it does not [comply], we send [the charity] an email to say ‘you need to have a look at your reports and correct the areas we identified’.... A lot of them do not really understand so email back ‘can you tell me, what have I got wrong?’ So, it is for us to look at their performance reports again and give them more information around what we require. (CS-S2)

The Customer Support team do basic checks to see whether the new reporting standards had actually been used... if [the reports] have a lot of errors, they go through to the assurance check process. I then look through their accounts and see where they have gone wrong and write to the charity saying ‘this is where you have got it wrong, and this is what you need to do to fix it’. (CS-I1)

Although such ‘policing’ institutional work could be seen as supporting the ‘deterrence’ approach signalled by the new reporting regulations, it simultaneously exhibited characteristics of a ‘light-touch’ approach (Hind, 2011, 2018) whereby charities were encouraged to improve their performance reports rather than facing sanctions for non-compliance. The regulators’ regular contact with charities via workshops and email was aimed at ‘embedding and routinising’ the performance reporting requirements within charities’ accountability reporting practices. While these ‘policing’ and ‘embedding and routinising’ modes of institutional work focused on improving accountability reporting, they were ultimately aimed at maintaining the public’s cognitive trust by ensuring charities provided continuous information disclosures (Burt, 2014).

In sum, regulators performed ‘advocacy’ and educating’ institutional work to promote the new *Public Benefit Entity Simple Format Reporting* standards and engaged in soft ‘policing’ and ‘embedding and routinising’ institutional work to infuse these regulatory requirements into charity accountability practices. By encouraging charities to provide transparent accountability disclosures and making them publicly available via the charities register, regulators helped the public to analyse whether charities merited support. As such, while this institutional work by

the regulators was not without challenges, it supported their aim of enhancing the public's cognitive trust in charities.

## **5.2. Building the public's specific trust**

The regulators' efforts to promote charities' compliance with new reporting standards were also directed at building the public's specific trust in charities' capability to "satisfactorily deliver upon a specific promise, good, or service" (Colombo, 2010, p. 839). For example, interviewed regulators outlined their educating work to help charities meet the new requirement to quantify and report their annual outputs, i.e. "the number of services or goods delivered or number of people helped" (Charities Services, 2017, p. 14):

If you were an external person reading the reports, the outputs are important because they show the actual activities [charities] have done.... When I'm trying to teach people ... I ask them to think about the outputs first – 'so what do you do?' .... It's really a bit of a compliance exercise to get them to think about how to fill out their form. (CS-C1)

The regulators saw this 'compliance exercise' as providing the public with information on charities' past performance that signalled their ongoing capability to deliver on their missions.

Another way in which regulators worked to build specific public trust was by investigating public complaints about charities. Charity Services are empowered by the Charities Act 2005 to investigate any charity suspected of serious wrongdoing such as unlawful use of funds, serious harm to beneficiaries, abuse of charitable status by deliberately making a profit, and criminal activities (Charities Services, 2019c). These issues can damage public trust in a specific service area, as in this example:

There have been cases of fraudulent foodbanks, which can create mistrust and damage the ones that are legitimate and doing good work.... A foodbank that was reported to us only gave cheap food parcels to people with mental health conditions, but they were supposed to improve [beneficiaries'] lifestyles.... An outcome of our investigations is to stop fraudulent foodbanks from operating and for people to see that Charities Services is weeding out the bad eggs. (CS-I1)

In this case, the regulators performed 'policing' institutional work to ensure compliance with the Charities Act 2005 and advise the complainant of their investigation's outcome. This 'hard' form of policing work aimed to restore the public's specific trust in foodbank charities, which could have been damaged by the revelation that one foodbank failed to deliver on its promise to improve beneficiaries' lives. Nonetheless, it is important to acknowledge the reactive rather than proactive nature of this institutional work:

We are relying on the public to point out issues to us, so most of the investigations we carry out are from complaints from members of the public. (CS-I2)

Clearly, there may be other charity wrongdoing that is not reported or investigated. The limited scope and reactive nature of the regulators' 'hard policing' work could limit its ability to enhance specific trust in charities, therefore.

### **5.3. A reflexive turning point – seeking other ways of building public trust**

After promoting then implementing the new reporting standards over four years, some interviewed regulators were reflecting on the challenges of building public trust in the sector by working to improve small charities' accountability:

There are only 38 of us and 28,000 charities...having those tiny [charities] reporting takes away from our ability to do other work that could be more productive for building public trust and confidence. (CS-S1)

Further, some interviewees noted that their work with small charities was time-consuming and sometimes frustrating, as most of these charities could not afford professional accounting support so tried to figure out the new regulatory requirements on their own:

We were amazed at the low level of financial literacy...one person in a workshop asked 'do financial years come to an end?'...if he did not understand it came to an end and at the end of that year he needs to look back and do some reporting, how can he understand what is changed, or what he needs to do, or why? (CS-C5)

The overwhelming number of small charities, together with their often limited accounting literacy, presented an obstacle to regulators institutional work to 'educate' small charities about the new reporting standards. Another challenge that regulators had begun to reflect upon was the indirect nature of the trust-building process. Specifically, regulators worked with charities to improve their reporting, and then published this information with the ultimate aim of promoting a third party's (the public's) cognitive and specific trust. Regulators' 'policing' work to investigate complaints about charities also had an indirect impact on public trust since the directly affected actors were limited to specific complainants and the investigated charities.

Recognising these challenges, the regulators were seeking more proactive and direct ways to improve public understanding of their work and to build other forms of trust.

### **5.4. Building the generalised and affective trust of the public: a direct approach**

Reaching out to the public directly, the regulators initiated 'educating' work to raise awareness of both their role and the sector's level of compliance with new reporting regulations:

We have been quite quiet when we do big things... We have been quite reactive too. So, we are looking to change how we communicate with the public, and we're looking for proactive approaches. (CS-C3)

We let everyone know a summary of the first year of [implementing] the standards, like providing the general compliance rate, where people are struggling etc. We think it's going to be really useful for everyone. We don't want to put out a big dense report: we are thinking to do something visual, really easy to read and succinct, so people can quickly understand how it is all going. (CS-C3)

These quotations reflect the reflexivity and sensibility (Lawrence & Suddaby, 2006) of the regulators around achieving their objective - i.e. shaping the societal institution of public trust in charities - via direct and proactive public engagement. Here, the regulators' intentions to build generalised trust via user-friendly reports differs from their 'educating' institutional work to build cognitive trust, because it is targeted directly at the public and concerns the *outcomes* of charities' compliance rather than *how* to comply with the standards. Also, it is important to note that it is not the reporting regulations themselves that directly affect norms to engender generalised trust, but the regulators' institutional work to educate the public about the regulations' effects.

Examples of regulators' 'advocacy' work were also apparent, particularly re countering public concerns arising from charity governance challenges. This institutional work to advocate on behalf of charities was directed at creating and maintaining the public's generalised trust "in the character, integrity, and honesty" (Colombo, 2010, p. 838) of the charity sector:

We often found mismanagement of money in charities, but it wasn't malicious or intended. It was simply because the board didn't really know how to properly account for things, keep minutes of meetings, or deal with a difficult person. So we are talking about putting some proactive media statements out there to let people know. (CS-I1)

Further, regulators 'constructed normative networks' (Lawrence & Suddaby, 2006) with local communities to reach the public and build generalised trust:

We need to make sure we reach the communities. So we are going to the environment where they are most comfortable, like a marae... It is all about building trust. (DIA2)

Since Charities Services is located within the Department of Internal Affairs (DIA), regulators mobilised DIA expertise and resources to manage the cultural sensitivities involved in public engagement. For example, interviewee DIA2, who had extensive experience with Maori and Pacifica communities, was seconded to Charities Services. The regulators also connected with accounting professionals who dealt with local communities and understood their grassroots

needs. Moreover, the regulators engaged in institutional work to ‘construct their identity’ (Lawrence & Suddaby, 2006) around being modern and innovative communicators:

The days of advertising a meeting at the town hall and getting people to come along are probably gone...we have got digital channels that we use now to reach people. (CS -I2)

Indeed, Charities Services won the 2017 ‘best government agency’ award for using technology such as Facebook, blogs and webinars to connect to communities. These technology-based solutions enabled a broader public reach to raise awareness of the regulators’ work.

In addition to building generalised public trust, charity regulators sought to enhance affective trust by undertaking institutional work to ‘valourise’ (Lawrence & Suddaby, 2006) the accountability best practices of selected charities:

We put real examples on our website. We try to put up various examples of organisations so if they want to see a health provider, here is a good example; if they want to see a marae, here is another good example. So we are trying to be relatively specific to different sub-sectors. (CS-C3)

Affective trust is grounded in emotion and the identification of shared norms and concerns (Colombo, 2010). By highlighting positive examples from charities in various sectors, the regulators sought to offer members of the public positive illustrations of charities’ achievements in sub-sectors they care about, thereby building affective trust.

In sum, charity regulators proactively and directly targeted the public via several forms of institutional work aimed at creating and maintaining generalised trust: ‘educating’ with media statements and user-friendly reports; ‘constructing normative networks’ with communities; and ‘constructing an identity’ of being a modern regulator to reach communities. Regulators also ‘valourised’ positive charity exemplars to build the public’s affective trust.

## **6. Discussion**

This paper makes three key contributions to the literature on trust and regulation in the charity sector. First, it bridges opposing views on charity regulation (Cordery, 2013; Hind, 2011, 2018) via a detailed analysis of regulators’ institutional work to build public trust. Second, it extends the charities literature (e.g. Cordery & Baskerville, 2011; Hyndman & McConville, 2018; Yang & Northcott, 2019) by providing a more nuanced analysis of the concept of public trust. Third, it adds to the literature on trust in regulatory contexts (Colombo, 2010) by surfacing the agency of key actors within the regulation-trust relationship. Further, it highlights practical implications for regulators within and beyond the NZ context of the study. Each of these contributions is discussed below.

## 6.1. The institutional work of regulators in building public trust

Prior studies have identified the role of charity regulation and regulators in building public trust (Cordery & Deguchi, 2018; Hind, 2011) and have highlighted how charities' accountability reporting helps to enhance that trust (Hyndman & McConville, 2018; Yang & Northcott, 2019). However, little is known of *how* charity regulators exercise their oversight functions and promote improved accountability to build public trust. This study informs this underdeveloped area by soliciting regulators' perspectives and revealing their institutional work to create and maintain public trust in charities.

The findings reveal that regulators performed four types of institutional work directed at *creating* public trust. They 'advocated' the importance of complying with new financial reporting standards and 'educated' charities on how to comply. Advocacy and educating work were also used to increase public awareness of charity governance challenges and of the regulators' roles. Charities Services also strove to build public trust by 'constructing normative networks' with communities and 'constructing its identity' as a modern regulator by employing technology to connect with the public.

To *maintain* public trust, charity regulators used 'policing', 'embedding and routinising' and 'valourising' institutional work. They 'policed' charities' compliance with the new standards and worked with charities to 'embed and routinise' the standards into their accountability practices. Their 'policing' work also entailed investigating and sanctioning charities involved in wrongdoing. Finally, regulators 'valourised' the practices of some charities by highlighting good performance outcomes and accountability best practice.

By surfacing these forms of day-to-day institutional work by regulators, this research helps to bridge opposing views on charity regulation in the prior literature (Cordery, 2013; Hind, 2011, 2018). The finding that regulators adopted 'soft' policing and educating roles to promote appropriate public accountability supports and extends Cordery's (2013) work by highlighting *how* regulators exercised their power when implementing charity regulation. It is important to note that while this enforcing role adopted a 'light-touch' (Hind, 2011, 2018) rather than a 'deterrence' approach (Cordery, 2013), this 'soft' policing role was not entirely consistent with Hind's argument. Hind (2011) suggests that most (small, low risk) charities should have a reduced or even zero regulatory burden. In New Zealand, however, the new regulations introduced performance reporting requirements for small charities, so imposed a greater regulatory burden despite the 'soft' policing approach. Hence, the regulators needed to devote

significant effort to educating small charities to improve their accountability reporting and, thus, build public trust.

At the same time, regulators took a rather ‘hard’ policing approach in conducting investigations into charities suspected of serious wrongdoing. Since these investigations were invariably initiated by public complaints, the sanctioning of offending charities served to maintain the public’s specific trust in charities’ capacity to deliver on their missions. This finding points to the potential for regulators to adopt a ‘hybrid’ regulatory approach that combines ‘light-touch’ modes of institutional work that support cognitive, generalised and affective forms of public trust, with the ‘deterrence/enforcing’ institutional work necessary to support specific public trust (see Figure 1).

Figure 1: The interplay between regulators’ institutional work and types of public trust

Type of Public Trust	Regulators’ Institutional Work	Role of Regulators
<b>Cognitive</b> (rational risk assessment)	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Educating</li> <li>• Policing</li> <li>• Embedding and routinising</li> </ul>	A ‘light touch’ via ‘soft’ policing and educating
<b>Specific</b> (re capacity to deliver on the mission)	<ul style="list-style-type: none"> <li>• Policing</li> </ul>	A ‘deterrence/enforcing’ approach via ‘hard’ policing
<b>Generalised</b> (re integrity and honesty)	<ul style="list-style-type: none"> <li>• Advocacy</li> <li>• Educating</li> <li>• Constructing normative networks</li> <li>• Constructing identity</li> </ul>	A ‘light touch’ via educating
<b>Affective</b> (based on shared norms and concerns)	<ul style="list-style-type: none"> <li>• Valourising</li> </ul>	A ‘light touch’ via educating

## 6.2. Multiple forms of public trust

Conceptualisations of trust from the law discipline (e.g. Colombo, 2010) suggest that the charity accountability literature has emphasised *cognitive* trust, whereby charities disclose accountability information to the public to facilitate rational risk assessment (e.g. Cordery & Baskerville, 2011; Hyndman & McConville, 2018; Yang & Northcott, 2019).

Our findings extend this understanding via a more nuanced examination of public trust from the perspective of regulators. For regulators, building *cognitive* trust was indeed one key motivation for their work. In particular, they sought to enhance *cognitive* trust by eliciting and disseminating charity accountability reports that could inform rational risk assessments about whether charities will deliver promised outcomes. Further, this information dissemination recognised the need to make accountability information visual and easy to read, and to exploit the potential of technology and media to build *cognitive trust* beyond the limited constituency who read formal reports (Hyndman & McConville, 2018).

The regulators also aimed to build the public's *specific* trust by investigating suspected charity wrongdoing, and worked to build *generalised* trust by improving public awareness of their role and the positive outcomes of implementing charity regulation. This accords with the prior literature (e.g. Cordery et al., 2017) in which regulation that improves accountability is thought to help to build public trust. Finally, regulators strove to build *affective* trust by highlighting charities' positive performance reports and best practices and by communicating charities' performance in a way that the public could access, understand, and relate to emotionally. This multi-faceted view of public trust highlights the interplay between *regulation*, which can enhance cognitive and specific trust (Colombo, 2010), and the *regulators' agency* in building other forms of public trust via multiple forms of institutional work.

### **6.3. The interplay of charity regulators' institutional work and public trust**

The legal literature highlights the nexus between regulation and trust in which regulation complements cognitive and specific trust, but potentially substitutes for generalised and affective trust (Colombo, 2010). However, this understanding largely ignores the role of key actors (e.g. regulators) in implementing regulations and their reflexive day-to-day work to shape trust. This study contributes to the trust literature by drawing on a charity context where public trust is relatively high (Populus, 2018) and surfacing how the institutional work of regulators affects the various dimensions of public trust (Figure 1). Consistent with Colombo's (2010) expectations, charity regulators' various types of institutional work were directed at enhancing cognitive and specific trust. However, the studied regulators also directed their institutional work at enhancing the public's generalised and affective trust, which contrasts with Colombo's (2010) view. It should be acknowledged, however, that generalised and affective forms of trust, being based on relationships and emotion, may be less amenable to direct influence by regulators.

## 6.4. Practical Implications

Unlike corporate law, which could undermine trust (Colombo, 2010), our research suggests that charity regulation is unlikely to harm public trust. However, ensuring that all dimensions of public trust are maintained requires regulators to focus their regulatory efforts not only on charities, but also directly on the public via reporting the work they do and the positive outcomes of securing compliance with charity regulations.

While regulators aim to minimise charity wrongdoing, it is difficult to eliminate it. When such wrongdoings are revealed to the public, regulators should recognise that the generalised form of public trust (related to trusting charities' character, integrity and honesty) will perhaps be damaged first. But over time, other types of trust are also likely to be affected. Thus, regulators might seek to direct more of their institutional work (see Figure 1) towards building generalised trust by, for example, 'advocating' the important, trust-enhancing role of charity regulation. They could also 'valourise' best practices in the charity sector to remind the public that most charities do good work, deliver the promised performance, and do not abuse the public's vulnerability. If an exposed wrongdoing relates to a specific issue such as fraud, the investigation outcomes could be made public via the regulators' community networks to demonstrate the regulators' 'hard' policing of dishonest charities. These insights from the New Zealand charity sector are of potential interest to regulators in other jurisdictions where building public trust is central to their role (Cordery & Deguchi, 2018).

## 7. Conclusions

This research examined how regulators build public trust in charities. In the context of recent regulatory changes in NZ, this study reveals the complex trust-building processes that occur at the nexus between regulators, charities and the public. The findings also show that regulators' reflexive trust-building efforts extend beyond merely encouraging charities to improve their accountability in order to build cognitive public trust. Additionally, they are responding to public concerns about charity wrongdoing to build specific trust, and moving towards more direct and proactive interactions with the public to build generalised and affective trust.

Our findings add to prior literature (e.g. Cordery, 2013; Cordery & Deguchi, 2018; Hind, 2011; Hyndman & McConville, 2018) by identifying the importance of regulators' roles and institutional work in building public trust in charities. In doing so, we highlight that while some of this institutional work is focused on *maintaining* existing public trust in charities, other

efforts appear directed at *creating* trust via community outreach, advocacy and education that builds public awareness of the regulator's role in enhancing charity accountability. We also provide an empirical understanding of the complexities and challenges faced by regulators and their reflexively in seeking to shape a societal institution (i.e. public trust) on a large scale by using a 'hybrid' approach that combines elements of 'light-touch' and 'deterrence' modes of regulatory institutional work.

Second, we unpack the notion of public trust beyond prior understandings that have focused on its cognitive form (Cordery & Baskerville, 2011; Hyndman & McConville, 2018; Yang & Northcott, 2019). While the public inevitably remains vulnerable to the uncertain future behaviour of charities, this vulnerability is an inherent and unavoidable characteristic of any trust relationship (Klijn et al., 2010). Therefore, sustaining trust requires that the public can "accept uncertainty while maintaining positive expectations" (Getha-Taylor et al., 2019, p. 57). By identifying the regulator's role in enhancing specific, generalised and affective forms of trust in charities, we highlight the scope for regulators to support these positive expectations of charities in more ways than by simply enabling the public's cognitive trust via their regulatory oversight.

Third, we extend the trust literature by highlighting the potential for charity regulations and regulators to complement, rather than substitute for, generalised and affective trust (c.f. Colombo, 2010). However, we acknowledge that the studied regulators were still relatively new to their trust-building role and had faced significant and recent regulatory change. Therefore, their trust-building practices may differ from those of more established regulators in other countries. Future research could compare charity regulators' trust-building practices across countries.

Finally, we respond to the call to investigate institutional work aimed at shaping societal institutions (Hampel et al., 2017) by applying it to the question - how do regulators build public trust? – and revealing insights for charity regulators both within and beyond the studied jurisdiction.

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## Appendix 1: Types of Institutional Work

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<i>Creating institutions</i>	
<b>Advocacy</b>	The mobilisation of political and regulatory support through direct and deliberate techniques of social suasion.
<b>Defining</b>	The construction of rule systems that confer status or identity, define boundaries of membership or create status hierarchies within a field.
<b>Constructing identities</b>	Defining the relationship between an actor and the field in which that actor operates.
<b>Constructing normative networks</b>	Constructing interorganisational connections through which practices become normatively sanctioned and which form the relevant peer group with respect to compliance, monitoring and evaluation.
<b>Educating</b>	The educating of actors in skills and knowledge necessary to support the new institution.
<i>Maintaining institutions</i>	
<b>Policing</b>	Ensuring compliance through enforcement, auditing and monitoring.
<b>Valourising</b>	Providing for public consumption positive examples that illustrates the normative foundations of an institution.
<b>Embedding and routinizing</b>	Actively infusing the normative foundations of an institution into the participants' day to day routines and organisational practices.

Source: Lawrence & Suddaby (2006)

Appendix 2: Interview details

<b>Ref No.</b>	<b>Organisation</b>	<b>Position</b>	<b>Interview date</b>	<b>Interview length</b>
CS-C1	Charities Services	Financial Accounting Specialist	23 Mar 17	1 hour 25 minutes
CS-C2	Charities Services	Regional Advisor - Capability	6 Apr 17	1 hour 18 minutes
CS-C3	Charities Services	Team Leader Capability	27 Apr 17	1 hour 5 minutes
CS-C4	Charities Services	Principal Advisor	7 Jun 17	1 hour 12 minutes
CS-C5	Charities Services	Regional Advisor - Capability	7 Jun 17	1 hour 17 minutes
CS-D1	Charities Services	Intelligence and Data Analyst	27 Apr 17	1 hour 2 minutes
CS-I1	Charities Services	Investigations Accountant	24 Mar 17	1 hour 3 minutes
CS-I2	Charities Services	Investigations Manager	6 Apr 17	43 minutes
CS-R1	Charities Services	Team Leader Registration	6 Apr 17	25 minutes
CS-S1	Charities Services	Team Leader Customer Support	27 Apr 17	1 hour 10 minutes
CS-S2	Charities Services	Customer Support Officer	27 Apr 17	1 hour 28 minutes
DIA1	Department of Internal Affairs	Manager Operational Policy and Business Improvement	7 Jun 17	54 minutes
DIA2	Department of Internal Affairs	Advisor - Capability	18 Jul 17	25 minutes
PS	Public sector expert		19 Jul 17	54 minutes
XRB-A1	External Reporting Board	Chair NZASB Board	25 May 17	33 minutes
XRB-A2	External Reporting Board	NZASB Board member	8 Jun 17	1 hour 9 minutes
XRB-A3	External Reporting Board	former NZASB Board member	10 Aug 17	1 hour 20 minutes
XRB-AA1	External Reporting Board	NZAuASB Board member	11 Jul 17	1 hour 10 minutes
XRB-AA2	External Reporting Board	NZAuASB Board member	3 Aug 17	39 minutes