Funding Source and Disclosure Practices of Religious Nonprofit Organizations: A Test of Interdependence Theory

RUHAYA ATAN¹, SAUNAH ZAINON², SHARIFAH ALIMAN³, ZARINA ABU BAKAR⁴
Accounting Research Institute, Faculty of Accountancy¹,²
Faculty of Computer and Mathematical Science³
Universiti Teknologi MARA, 40450 Shah Alam, Selangor
Faculty of Accountancy, Universiti Teknologi MARA, 85000 Segamat, Johor⁴
MALAYSIA
Email: ruhaya@salam.uitm.edu.my
http://www.uitm.edu.my

Abstract: - This study tested an interdependence theory in funding source and disclosure practices of the religious nonprofit organizations (RNPOs). From a sample of 83 RNPOs, results indicated that government-funded RNPOs were more likely to disclose information. These results provide vindication of interdependence theory and suggest that board of trustees engagement with the government contribute to the organizational resources.

Key-Words: - disclosure, funding, interdependence theory, religious nonprofit organizations

1 Introduction

In the world of globalization where most of business communities are only looking at the skyrocketing sales, large amount of assets and huge profits, there are still the social responsibility aspect that can never be forgotten. Corporate social responsibility issues are never ending such as the issues on poverty, poor healthcare, and lack of proper education. Nevertheless, most businesses had difficulties in fulfilling their corporate social responsibilities as their hands are tightening by their upmost responsibility to their stakeholders. Therefore, as to cater for the issues on the social responsibility, non profit organizations (NPOs) are incorporated by the founders with various missions and visions.

NPOs activities are mainly to provide services in order to achieve their different purpose of incorporation. Different NPOs have different characteristics. Even though NPOs have different characteristics and can have different categories, they still do have common characteristic that is, they were incorporated not for profit reason.

NPOs can be classified into various classifications such as according to its basis of incorporation, locality or its size [1]. NPOs can also be categorised into different categories based on its sources of fund either funded (public or private) and non-funded charity. This can be determined for example by their sources of fund reported in the Statement of Receipts and Payments through their annual returns submitted to the Registry of Society (ROS).

In Malaysia, NPOs can be subdivided into different categories which are culture, youth, women, charity, mutual benefits, professional, religious and others. This study will focus only on religious nonprofit organizations (RNPOs) or so-called faith-based organizations (FBOs). RNPOs’ are chosen in this study as many nonprofit organizations (NPOs) disclosure studies focus on charity sectors [2-5] and education sectors [6-8], but little concern on disclosure practices over RNPOs. [9] stated that the time has come for the government to put more responsibilities towards RNPOs or the FBOs in providing the social services. RNPOs’ works are towards achieving the development, practices and the expansions of the religious foundation and beliefs. It was also found that the reason for RNPOs’ existence is its mission and mission become the central thrust for RNPOs’ existence and operations [10]. Regardless of the reasons for RNPOs’ existence, the issues of funding the organizations are still among the main concerns of the founders or the provider of the nonprofit organizations.

[11] stated that NPOs provide their services based on three various sources of revenue which are fees, donations, as well as, government grants and contracts. [12] studied three sources of funds in NPOs which are private contributions, government funding and commercial activities. It is further stated that NPOs must rely on variety of activities and resource providers to support its activities. These examples of resources or funds are gathered externally either from government or public at large. In this study on RNPOs, the focus is on the government funding, that is, the dependency of the RNPOs on government funding. For NPOs receiving government funding, they will carry the services as per
their incorporation and also taking into consideration the needs or the instruction of the government. Unlike other category of NPOs, RNPOs are limiting their activities mainly to religious or faith-based activities. There might be some of the government needs that might not be against the social norm but it is against some of the religious beliefs. Nonetheless, the dependency on the government funding cannot be put aside.

2 Review of Literature

2.1 Funding Source, Disclosure and Interdependence Theory

Previous researches have suggested that greater dependence on government funding can cause isomorphism, i.e. the missions and programs of the NPOs to change [13]. This argument is in line with organization theory which states that the external environments can influence organizations’ structural and strategic decisions [14]. On the other hand, resource dependence theory justifies the organizations’ dependency on the funding to support its activities and services [15]. The external resource dependency perspective developed by [16] provides a good framework for understanding the government-NPOs partnership from an external source perspective.

Several previous researches have started studies on government funding of religious NPOs or faith-based organizations [17-19]. [20] reviewed the shift in government funding from religious NPOs to social services NPOs. [18] surveyed 587 organizations receiving government funding totalling $124 million for social service program in 15 states in the United States. They concluded that government funding enabled the FBOs to expand their program and clientele without inhibiting their religious liberty. Despite the substantial growth in funding FBOs, there have been researches on community foundations direct support. [21] surveyed 694 community foundations across the United States and found that 68 percent of community foundations had awarded at least one grant to FBOs. Children, youth and family services were funded most frequently followed by health and wellness, community activism and improvement.

FBOs contributed significantly to the community by serving 49 percent of the community and shared similar organizational characteristics to the other NPOs [13]. The organizational age, size, government funding levels and percentage of revenues from direct public support were tested as the function of organizational characteristics. [22] compared differences in organizational characteristics between non-profits receiving higher percentages of revenues from government sources. They examined the associations between government funding, United Way funding and a few organizational characteristics including organization size, number of board members, use of volunteers, racial diversity of boards, staffs and volunteers. It was found that organization size of United Way affiliated NPOs shows a positive relationship to government funding, and a negative relationship to United Way funding. The empirical evidence, however, is not consistent. Contrasted with [22], the results show that the government funding of FBOs is affected positively by age of the FBOs, and negatively affected by its size in [13].

Governments have come to depend on the non-profit sector as a community-based vehicle through which they can expand their social services [23] and this governmental funding impacts the operations of NPOs in many ways including the operations and the accountability of NPOs [24]. [25] found that nonprofit sector grew in proportion to the actual level of government support of nonprofit activities. They claimed that the relationship between governments and the nonprofit sector supports the sturdiness of the interdependence theory.

Empirical studies on disclosure have generated diverse results on the effect of the organizational type from the not-for-profit education sector. [6] provided the first comprehensive study of extent of financial disclosure by US institutions of higher education. Their study found little difference in extent of disclosure between public and private college and universities (C&Us) either with the weighted or unweighted disclosure scores. Except for non-financial performance measures, public C&Us reported service efforts and accomplishments (SEA) at a higher level compared to private C&Us. The study is further extended by [7] through the longitudinal study that reports the impact of changes in GAAP on financial statement disclosures for 100 public and private institutions of higher education. The results of the 75-importance-weighted disclosure index items show user needs are better met using the new reporting standards for public but not for private institutions. This is similar to the [26]’s who regard public hospitals as significantly more levered than non-profit private hospitals.

Disclosure of information is essential for the organizations to capitulate information for them to be accountable to their stakeholders [27]. The stakeholders can then evaluate the effectiveness and efficiency of the organizations with the organizations function their activities. In the profit organizations, disclosure studies
presume that there are information asymmetry between managers and stakeholders [28, 29]. However, this information asymmetry can be eliminated by means of disclosure for information. In NPOs, board of trustees has incentives to make more information available to stakeholders. This is because they have supremacy to enhance the transparency of the organizations by means of quantitative and qualitative disclosure of information.

3 Research Methodology

3.1 Population and Sampling

There were 6,782 RNPOs registered with the Registry of Society (ROS) in Malaysia as at April 2011, being the third largest group among all other categories in NPOs that include culture, youth, women, charity, mutual benefits, professional and others. Only 83 RNPOs annual returns from six states (Kuala Lumpur, Selangor, Kelantan, Terengganu, Sabah and Sarawak) were made available by the ROS for the purpose of this exploratory study and that were complete. To examine the different level of disclosure practices, the sample was divided between funded (44; 53%) and non-funded (39; 47%) RNPOs. The data were then analyzed through content analysis as a well-established research method [30-33].

3.2 Measuring Extent of Total Disclosure

The extent of information disclosed in the annual reports of RNPOs in this study was measured based on adapted Charitable Organizations Reporting Index (ChORI), a self-developed index by [34]. The identification of items to be included in the index was guided by the review of prior studies relevant to disclosures in annual reports of charity organizations which have common characteristics with RNPOs. The initial index of ChORI allowed the researcher to build three partial indexes to analyze the information contained in the annual returns of RNPOs. The disclosure index consists of altogether 59 items grouped into three subcategories – 11 items of Basic Information (BI), 30 items of Financial Information (FI) and 18 items of Governance Information (GI). The Cronbach’s alpha has been carried out in order to check for the reliability of internal consistency of the index. The consistency of the index was good, with a value above the threshold level of 0.80 [35]. The total disclosure index (TDISC) was calculated as follows:

\[ \text{TDISC}_j = \sum_{i=1}^{n_j} \text{Item}_i \]

3.3 Statistical Methods

Independent samples T-test was used in this study to test the difference in funding source, by groupings. This test was used to compare the mean scores of the extent of disclosure (TDISC) of the two different groups of funded and non-funded RNPOs. An indicator of funded RNPOs was recorded into a binary variable where “1” indicates funded RNPOs and “0” indicates non-funded RNPOs.

4 Results

4.1 Descriptive Results

This study divided the sample according to the presence of religious practices in Malaysia according to various religions; Islam, Buddhism, Hinduism, Christian and others (Sikhism, Daoism and Confucianism). It was found that the sample consists of high proportion from Buddhism (41; 49.4%), followed by Christian and Islam (14; 16.9%), Others (10; 12%) and the least of Hinduism (4; 4.8%). All have a board of trustees, and the organizations are independent entities. The board size in the sample averaged 14 members, with 13 (21.7%) RNPOs have below 10 members and only one RNPO containing more than 30 members. It is also noted that only 11 (18.3%) financial statements prepared by RNPOs in this present study were audited by the external auditors and none audited by the Big Four auditors. In contrast, about half of the organizations in the sample established the position of internal auditors in their organizations. The result on the extent of disclosure is given by the mean score for BI, FI, GI and TDISC as depicted in Table 1. Overall, the disclosure by these RNPOs could be considered as low since the mean score is less than 50% of the total expected disclosure.

Table 1: Mean and Standard Deviation for the Disclosure Index

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>BI</td>
<td>5.29</td>
<td>1.255</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>FI</td>
<td>9.01</td>
<td>3.311</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>GI</td>
<td>6.05</td>
<td>0.840</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>TDISC</td>
<td>20.35</td>
<td>4.092</td>
<td>10</td>
<td>33</td>
</tr>
</tbody>
</table>

Table 2 presents the descriptive statistics for the two groups of funded and non-funded RNPOs.

Table 2: Mean and Standard Deviation for TDISC of Funded and Non-Funded RNPOs

<table>
<thead>
<tr>
<th>Types</th>
<th>N</th>
<th>Min</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded</td>
<td>44</td>
<td>21.36</td>
<td>3.577</td>
</tr>
<tr>
<td>Non-Funded</td>
<td>39</td>
<td>19.21</td>
<td>.700</td>
</tr>
</tbody>
</table>

The table shows the mean disclosure level for funded RNPOs is higher than the non-funded RNPOs group. That is, organisations that received funding, on average, disclosed more information than those organisations that did not receive any funding source.
4.1 Statistical Results

Independent samples T-test was performed for the assumption of equal variance. The results of Levene’s test for equality of variances was significantly larger than .05 (i.e. 0.286) indicated equal variances were assumed and the normality assumption in the study is not violated. Table 3 highlights the results on whether there is any significant difference between the two groups and the extent of disclosure practices.

Table 3: Independent Samples T-test

<table>
<thead>
<tr>
<th>TDISC</th>
<th>F</th>
<th>Sig.</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal variances assumed</td>
<td>1.155</td>
<td>.286</td>
<td>2.472</td>
<td>81</td>
<td>.0016</td>
</tr>
<tr>
<td>Equal variances not assumed</td>
<td>2.443</td>
<td>73.579</td>
<td>.0017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The result found there is a significant difference between the two groups (p < .05). The result is consistent with [6, 24, 36], where in this situation the government as a local funder was significant on the disclosure of information made by the non-profit organizations.

5 Discussion and Conclusion

Since funding from government is evident to be significant in the disclosure practices of RNPOs, other future research can consider whether there is any difference in the RNPOs receiving government funding and those that do not receive government funding. [36] stated that there is a difference in the organizational identity of those Christian NPOs receiving public funds and those that do not receive public funds. Other than that study can be done whether there are differences against RNPOs as compared to NPOs in receiving private funding. Nonetheless, RNPOs role in providing services to the communities are well needed and important in the development of communities in any part of the world. In the corporate world where everything is mostly measured by how much profits were earned, faith or beliefs in religious is important for keeping the sanity and the harmony of the community.

Acknowledgment

This paper draws from grants awarded by the Higher Institutions Centre of Excellence (HiCoe) and Accounting Research Institute (ARI) for research conducted in religious nonprofits organizations. Appreciation also goes to the Faculty of Accountancy, Universiti Teknologi MARA in providing facilities during the conduct of this research.

References:


