

# PREDICTORS OF ACCOUNTABILITY OUTCOMES IN NONPROFIT ORGANISATIONS: AN EMPIRICAL INVESTIGATION

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## ABSTRACT

*This study examined factors influencing accountability outcomes by non-profit Organisations (NPOs). Four factors identified in strategic management literature were examined; mission based management practices, budgeting practices, financial reporting practices and financial priorities. Analysis of finding from questionnaire received from top level management of NPOs discovered that mission based management practices, financial reporting practices, financial priorities significantly related to the level of accountability among NPOs. The finding of this study provides indication that for NPOs to demonstrate high level of accountability, they need to have mission based management practices, financial reporting practices and adopt adequate level of financial priorities.*

**Keywords:** *Accountability, Non-profit Organisations, mission based management and internal control effectiveness*

## BACKGROUND

Kilby (2006) defines NPO as a type of public benefit organization that provide benefit to the community such as alleviating poverty, addressing marginalization, achieving social justice and advancing human rights. By serving the community, the roles of government are partially being transferred to NPOs (Unerman & O'Dwyer, 2006; Weerawardena,

McDonald & Mort, 2010; Laratta, 2009). Currently, there have been vast reports concerning accountability of NPOs. The management and board members have been accused of wrongdoings ranging from mismanagement of resources, personal gain, corruption and fraud. Amongst the scandals that have been reported were Goodwill Industries, Bernice Pauahi Bishop Estate, Federation of Puerto Rican Organisations (Gibelman and Gelman, 2001); the United Way of America, Head Start, the American Cancer Society, and the American Red Cross (Ebrahim, 2003). All these cases mainly due to lack of internal control, transparency and accountability mechanisms in running the NPOs (Gibelman & Gelman, 2001; Kilby, 2006; Gugerty, 2009, Laratta, 2009).

The main difference between NPOs and business organisations is in terms of their source of their equity capital (Atan & Saunah, 2009). The equity capital obtained by the business Organisations either comes from the owners or shareholders (Atan & Saunah, 2009). On the contrary, the NPOs heavily depend on the on-going support and generosity of individuals, organisations and foundations as well as government grants (Mueller, 2007; Gugerty, 2009; Kelly & Lewis, 2010). Unlike private entities, the NPOs have the obligation towards the public (Mano, 2010; Tyler, 2005; Kilby, 2006). NPOs have to be accountable with all the funds they have obtained from diverse sources. Accountability referred to being answerable to stakeholders for the actions of the agency; whether by internal or external initiation through the mechanisms shall go along with the mission of those non-profits (Christensen & Ebrahim, 2004).

Mission-based management practices guides NPOs to focus on their mission (Findlay-Thompson, 2009; Iwardeen et al, 2009). In this regard, the more they practice, the higher the accountability discharged (Findlay-Thompson, 2009). This is likely to promote receptivity in increasing competence to execute their programmes effectively, which in turn advances the NPOs' missions. Thus, stakeholders are likely to be satisfied with an NPO that is able to accomplish its mission or respond timely to societal needs (Mahmoud & Yusif, 2012).

Other than that, an integrated operations planning and productivity (Sheu and Wacker, 1994) could help to evaluate operations and leads to improved efficiency, thus helping management achieve their primary mission. In

the case of NPOs, good budgeting practices and better reporting systems would lead to higher accountability (Irvine, 2005; Keating & Frumkin, 2003). These tools would reflect the ability of non-profits to signal the virtue of their stakeholders (Gugerty, 2009); consequently they should be able to obtain a large pool of donations as an indicator of public trust and confidence in the organization (Jacobs & Wilford, 2007; Mano, 2010). Hence this study aims to examine whether mission-based management practices, financial reporting practices and budgeting practices contributes towards accountability outcomes of NPOs in Malaysia

The remainder of this paper is structured as follows. The next section provides a review of relevant literature. Section 3 highlights hypotheses underpinning this study. Research framework is explain in Section 4. Section 5 outlines the methodology and research design. The results and discussions are presented in section 6. A conclusion and recommendations are provided in the last section

## **ACCOUNTABILITY OF NON-PROFIT Organisations**

Salamon and Helmut (1996) developed international classification of Nonprofit Organisations (ICNPO) framework whereby they defined non-profit Organisations as: (1) organizaed; (2) private; (3) self-governing; (4) non-profit distributing; (5) voluntary. Previous studies have provided evidence on a wide diversity of accountability portrayed by NPOs. Ebrahim (2003a) for example identifies three primary sets of accountability relationships for NPOa: relationships with funders; relationships with clients; and relationships with sector regulators. Keating and Frumkin (2003) however present a broader model incorporating, the board of directors, donors, clients, communities, staff and government. While Unerman and O'Dwyer (2006b), emphasized issue on NPOs accountability. They thus explore two dimensions of accountability: upward (accountability to donors) and downward (accountability to beneficiaries).

The importance of accountability in NPOs has been emphasized over time (Roberts & Scapens, 1985; Ebrahim, 2003; Christensen & Ebrahim, 2004). NPOs are often scrutinized and under pressure due to rising expectations of effectiveness, efficiency and transparency (Lichtsteiner & Lutz, 2012)

and the need to justify not only what services they deliver but also how they operate. Justification based on mission alone is no longer sufficient and must be supported through a demonstration of programmatic and fiscal accountability (Christensen & Ebrahim, 2004). Voluntary mechanisms such as codes of conduct, certification programs and other standard-setting mechanisms (Gugerty, 2009) are seen as the means to discharge the voluntary accountability.

Edwards and Hulme (1995) stressed on the important of accountability and transparency for NPOs. They also noted the possibility of donor requirements distorting accountability and a tendency for “accountancy” rather than “accountability”. It is often argued whether NPOs survive through their own funding, while retaining their mission (Irvine, 2005). Hence, Weerawardena, McDonald and Mort (2010) had suggested that NPOs need to focus in both strategic and operational levels of management in order to nurture organizational sustainability in response to an increasingly competitive environment. Effective internal control will result in establishing a good reputation of charity Organisations (Goddard and Assad, 2006; Gibelman and Gilman, 2001) leading to higher chances for government and other donors to inject more funds towards the NPOs.

Findlay-Thompson (2009) proposed that it was necessary for NPOs to engage in mission-based management practices or so called “for-profit” culture. The first crucial thing when establishing an organization would be capital which would require a social entrepreneur thinking. Thus, a good organization must have a mission and vision to sustain in the future. They should have a board of directors and staffs to carry out the operations. Then, they should have controlled their operations with full utilization in technologies and marketing strategies.

Therefore, the problem addressed in this study was whether or not the mission-based management practices, financial priorities, budgeting and reporting practices had any relationship to accountability in NPOOs. Thus, this study will look into the principal notion of the resource dependence theory to the extent of accountability that should be practiced in non-profit Organisations in accordance with the perception of the accountability practice to ensure the continuous supply of funds (Millesen, Carman & Bies, 2010). Accountability is crucial to ensure the funds will be mobilized

for the benefits of others the community (Morrison & Salipante, 2007). Previous studies such as Goddard and Assad (2006) discovered the importance of management information, including accounting in not-for-profit Organisations, particularly with respect to legitimacy and accountability. This would give recognition to the complexity of the NGO context and the multiplicity of stakeholders. Such an understanding of accounting and reporting processes may lead to an improvement in such systems in the future. Therefore, these practices should be directly impact on how nonprofits should discharge their accountability. Accountability; is one of the two pillars in the area of corporate governance (Dewaelheyns et al., 2009) who claimed that the two pillars, transparency and accountability towards shareholders, and should ultimately lead to maximum long-term shareholder value.

Whilst, the study about mission-based management practices have contributed to the body of knowledge, but it has been only explored the relationship between the nine mission-based management practices and revenue per employee (Findlay-Thompson, 2009). Similarly, the studies about reporting in NPOs have mostly discussed of its impacts on performance. Currently, there were lack of studies that examine the relationship of budgeting and reporting practices, financial priorities and mission-based management practices with the accountability outcomes.

It is an important responsibility of management teams in NPO in order to meet the challenges and demands for the future. Kamaria and Lewis (2009) examined the desired general management competencies of the not-for profit Organisations from the context of the strategic success. The study discovered that management skills, experiences, communication, governance, interpersonal skills, budgets and fiscal management and educated employees are required for their strategic success. Thus, a study by Das (2009) had identified the factors which can influence the performance of the non-profit hospitals. The ultimate factor will be the capital structure, rather than profitability which determines the utmost performance of those hospitals.

Apart from that, another element would be the financial management. It actually aligns with the principal-agent theory. This had been further elaborated in the study done by Helmig, Jegers and Lapsley (2004) whereby

they stated that this problem can be cast in a principal-agent framework, the principal being the funder, and the agent the organization (board or management). Leading from that, management of non-profit Organisations should pursue the goal of achieving performance for sustainability. They should enhance their performance management through innovation (Jaskyte, 2012) as a technique to evaluate organization's competitive advantage as well as facilitating all those technological advances (Jaskyte, 2011). Ossewaarde, Nihof and Heyse (2008) discovered the usage of Key Performance Index (KPI) through customer satisfaction while Tyler (2005) purports non-profits should benchmark them as to avoid any resources shortage in the future. These practices thus consistent with the final mission-based characteristic, "a tight set of controls" proposed by Findlay Thompson (2009). Prugsamatz (2010) had been stressed out about the importance of continuous learning in his study. Besides sustainability, this practice will also ensure their mission is sustained through work and programme implementation and operational processes and procedures. This on-going process can also be applied towards the partners and stakeholders affiliated to non-profits for the best results.

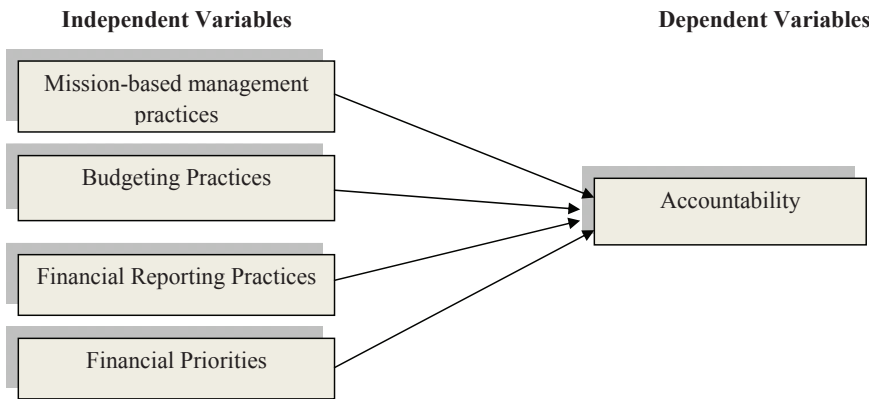
## **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

Accountability; comprises two concepts- account as in event (narration) and of money (calculation of net balances of events in a transaction form). Others view accountability in the sense or rendering intelligible aspects of people's lives-a feature of what it is to be human (McMulle & Schellenberg, 2003). They pointed out that human is naturally being accountable of what they are doing as well as to others. "Downward accountability" is associated with relationship that face "down" against existing power relationships, which is usually overlooked by non-profits in order to really uphold their role although they practice unsystematic management in dealing with this matter (Jacobs & Wilford, 2010). Thus, the extent of downward accountability is a matter for the discretion of individual managers, relying on their "grace and favour" (Kilby, 2006, p 952). Kreander, Beattie and McPhail (2009) have focused their study into the charity as part of non-profit Organisations. This important emotional aspect of charity stakeholder relationships seems to be related to the second of two different types of accountability noted by Unerman and O'Dwyer (2006b), relational accountability and identity

accountability which have been categorized into two dimensions of stakeholder relationships within NGOs; a horizontal dimension, relating to the significance of the distance between NGO management and stakeholders, and a second vertical dimension that distinguishes between upward accountability to funders and downward accountability to beneficiaries. Non-profit organization should determine to whom should be accountable whether it is donors, foundations, governments, communities or regions in order to ensure that the related parties are being served by the organization properly and their mission and objective are met (Edwards & Hulme, 1996a). An expanded notion, but often-neglected broad accountability environment by Kearns (1994) also needs to further emphasize. He pointed out that nonprofits are increasingly held accountable for ambiguous, shifting notions of what constitutes appropriate behaviour.

Ebrahim (2003) thus argued that nonprofits should be accountable according to their nature operations. Different entities usually pursue different missions and people they should be accountable to discharge the best mission. This is thus follow suit the context of study as the subjects selected were from various types of non-profit Organisations. Additionally, the issue of accountability in this study had not been classified. As such, nonprofits encounter a conflicting situation most of the time between their stakeholders (Edwards & Hulme, 1996; Jacobs & Wilford, 2010).

In light of issues being addressed in previous studies such as “too much accountability (Najam, 2000; Ebrahim, 2003); imbalance of upward and downward accountability (Edwards and Hulme, 1996); absence of signaling (Gugerty, 2009); agency slippages (Prakash & Gugerty, 2010); mission difference (Ossewaarde, Nihof, & Heyse, 2008), voluntary and accountability programs shall be the closest resolution; (Laratta, 2009; Prakash & Gugerty, 2010; Jacobs & Wilford, 2010). Consequently, this will promote the “empowerment” through effective engagement between the Organisations and the people, thus overcoming the structural disadvantage caused by marginalization (Kilby, 2006). However, there is hardly any study to test the relationship on the combined effects of management, financial priorities, planning and control practices in determining the level of accountability in non-profit Organisations.



**Figure 1.0: Framework of the Factors Influencing the Accountability**

### **Mission-based Management Practices and Accountability**

Within the non-profit literature, researchers conceptually agreed that the use of mission-based management practices were used by non-profits globally (Findlay-Thompson, 2009; Iwardeen et al, 2009). They purport that the ability of non-profits to effectively implement these practices was due to shift away to performance-based Organisations, thus enabling them to survive in the future. Empirical studies examining the effects of mission-based management practices on non-profit accountability have not been thoroughly explored. However, many scholars believed that these practices generally could help the non-profit organization in improving their performance, at the least or becomes an intermediary as to have good accountability. For example, they argued that the implementation of quality management system through the adoption of new accounting software have improved the performance (White et al., 2009). Kamaria and Lewis (2009) pointed out some general management capabilities such as leadership, governance, fundraising, marketing, research, fiscal and budgetary issues and capacity building would lead to the success of non-profit Organisations. Stid and Bradach (2009) discovered strategic clarity as a tool for better management where the higher it is, thus leading to higher performance of non-profits, thus it will led to higher accountability. Accordingly, the following hypothesis is proposed:



*H1: There is a positive relationship between the mission-based management practices and accountability of NPOs in Malaysia.*

### **Financial Priorities and Accountability**

Kreans (1994) found out that accountability is generated by means of preparing accurate records to demonstrate whether Organisations are complying with standards through the locus of higher authority. They should have discharged higher accountability due to their judgement, oversight and assessment to those Organisations. Additionally, Soobaroyen and Sannassee (2007) discovered that the usage of financial priorities had been to enhance the moral legitimacy towards both the internal and external stakeholders. Abraham (2006) Several studies found out a positive relationship between financial priorities and accountability (Abraham, 2006; Farsi & Fillippini, 2003) when non-profit of prime concern is actually the assessment of organizational productivity through efficiently and effectively application activities on its financial resources in order to support its mission (Chan, Chau & Chan, 1997; Abraham, 2006). This lead to the following hypothesis:

*H2: There is a positive relationship between financial priorities and accountability of NPOs in Malaysia*

### **Budgeting and Accountability**

Limited research literature exists in the field of non-profit Organisations accounting and budgeting practices. Frow, Marginson and Ogden (2005) found a positive relationship between budgeting and accountability. Goddard (2004) found a strong relationship between budgeting preparations in UK's local governments with the level of accountability they had discharged. Also, few studies found that this budgeting technique could lead to performance (Abernethy & Stoelwinder, 1991; King, Clarkson & Wallace, 2010; Barret, 2004; Posner, 2007). However, many scholars believe that budgeting practices could help the non-profit Organisations in improving their accountability. White (1997) found evidence of agricultural co-operatives that did utilize the usage of capital budgeting and were able to respond to the high calls for demands in their accountability discharged. Irvine (2005) found a similar link in the relationship between budgeting practices and accountability. This lead to the following hypothesis:

*H3: There is a positive relationship between budgeting and accountability of NPOs in Malaysia*

### **Financial Reporting and Accountability**

Iwardeen et al. (2009) argued that non-profit Organisations are more open about their internal affairs, thus reporting their annual reports publicly to stakeholders and gives more attention to satisfy stakeholders through development of newsletter and/or annual meeting with donors. Ebrahim (2003) thus outlined mechanisms or tools usages such as reports and performance evaluation and assessment was associated with greater upward and downward accountability discharged. Meanwhile, Connolly and Kelly (2011) found a positive relationship between accounting and reporting and accountability discharged. Keating and Frumkin (2003) also found out a positive relationship between financial reporting and accountability through reengineering activities of a whole financial reporting framework. Additionally, studies from nonprofits in Malaysia showed the same positive relationship (Nasir, Othman, Said & K. Ghani, 2009; Nahar & Yaacob, 2011). This lead to the following hypothesis:

*H4: There is a positive relationship between reporting and accountability of NPOs in Malaysia*

## **RESEARCH METHODOLOGY**

### **Sample**

The research design was quantitative and the study was designed to identify the level to which the predictor variables, mission-based management practices along with accounting control and practices by non-profit Organisations and the correlation, if any, with the dependent variable, accountability outcomes. These independent variables are the main factors which affect the accountability. Thus, there are the nine modified mission-based management practices as well as three other factors which consist of 1) financial priorities, 2) budgeting, 3) reporting. Participants were provided with a survey and asked to rate the level of use by their organization regarding these two sets of variables. The survey used five-point Likert-type rating scale. The questionnaire was divided into four sections. Section

1 comprised questions relating to demographics. The remaining sections were adapted from prior studies and measured mission-based management practices, accounting control and practices and accountability. The following sub-sections describe the measurement for each of these variables.

## Variables Measurement

### Mission-based Management Practices

Findlay-Thompson (2009) nine-item instrument was used to measure the mission-based management practices. The items used in survey are shown in Table 1.0.

**Table 1.0: Mission-based Management Practices Measurements**

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#### Description of Items

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A current mission statement that describes what organization does  
Uses a group of governing volunteers who provide direction  
Effectively uses the talents of its paid staff  
Effectively utilizes technology in the daily activities or any projects  
Uses risk taking in decision making to meet objectives  
Uses a strong marketing orientation to guide strategy  
Uses own resources to financially sustain programs  
Uses a current strategic plan for where organization is going  
Utilizes tight controls in the operation of organization

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### Financial Priorities

The items to measure financial priorities were adopted from the study by Soobaroyen and Sannasee (2007).

**Table 2.0: Financial Priorities Measurements**

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#### Description of Items

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All financial transactions are properly accounted for  
Executive committee is fully informed of the financial situation of the organization  
Major donors are fully informed of the financial situation of the organization  
The organization is financially stable  
Spending made does not exceed what was initially planned  
Members are fully informed of the financial situation of the organization  
A positive cash balance in the organization's bank account  
Surplus of income over expenditure.

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## Budgeting

Eight items asked in this study were developed from other instruments and findings reported in similar studies, namely by Soobaroyen and Sannassee (2007).

**Table 3.0: Budgeting Practices**

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<b>Code Description of Items</b>
My organization prepared budgeted expenditures
My organization prepared budgeted revenues
The proposed budget is approved by the executive committee
A plan is made of when the receipts and payments will be actually received or paid
The budget is circulated to the members.
The executive committee needs the approval of members to change money allocations
Payments cannot be made unless the item was included in the plan
All project proposals for an activity must include a plan for expenditure and income

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## Financial Reporting

Seven items were asked to capture reporting practices adopted with modification from Soobaroyen and Sannassee (2007). Table 4.0 exhibits the measurements of this variable used in this study.

**Table 4.0: Financial Reporting Measurements**

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<b>Description of Items</b>
An income and expenditure report is circulated in every normally executive meeting
A report, comparing the budgeted and actual figures is provided to the committee
Financial reports for projects are submitted and formally considered by the committee
An interim income and expenditure account is circulated amongst all the members
The members have the possibility to query on the interim report
The organization's annual audited accounts are approved during the AGM
During the AGM, members have possibility to query items in annual audited account

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## Accountability

Items to measure accountability outcomes were adopted from Ebrahim (2003); Christensen & Ebrahim (2004) and Keystone. The items used in survey are shown in Table 5.0.

**Table 5.0: Accountability Measurements**

<b>Description of Items</b>
Ensure funds are used properly and in the manner authorized
Gives a lot of attention to fully satisfied requirements at the State and Federal levels
Will report any serious incidence to higher authority (negatively impact the public)
Openly receives monitoring visits from funding and oversight agency
Engages with beneficiaries in the evaluation of projects
Provides complaints and redress mechanisms
Gives chance to beneficiaries to view clearly the performance reports
Employees to be highly effective and efficient to help beneficiaries
A regular reporting on the achievements and results of programs against objectives
Produces several performance measures concerning the quality of services delivered
Allows auditors to examine reports before being submitted to donors
Provides a provision of transparent financial and governance information

## **RESULT AND DISCUSSIONS**

### **Correlation Analysis**

Table 6.0 shows the correlation between all independent variables and dependent variables. There is existence of correlations between mission-based management practices, financial priorities, budgeting and financial reporting practices with accountability. Additionally, there are mixed medium and strongly correlations. The results reveal that there is a mix of medium and strong correlations between the accountability to mission-based management practices ( $r = .488$ ); financial priorities ( $r = .647$ ); budgeting ( $r = .542$ ) and financial reporting ( $r = .617$ ). The findings have shown that the relationship between accountability and all other indicators was significant at the level of .01.

Similarly, the relationship between the mission-based management practices to each indicator of accounting control and practices has shown medium level of positive correlation of financial priorities ( $r = .428$ ), budgeting ( $r = .455$ ), and financial reporting ( $r = .475$ ). The finding shows that the relationship between mission-based management practices and other indicator of accounting control and practices were significant at the .01 level. Other than that, the results indicate a strong correlation among the

variables in accounting control and practices; financial priorities, budgeting and financial reporting. These three variables strongly correlate with each other which the values ranging from .725 to .808.

In summary, the results of the correlations test have provided a preliminary finding on a significant positive relationship between mission-based management practices, financial priorities, budgeting and financial reporting carried out by the non-profit Organisations. Hence, nonprofits with good practices such as mission-based management, financial priorities, budgeting and financial reporting is expected to have better accountability discharged to the authorities and local society specifically.

**Table 6.0: Summary of the correlation results of the analysis.**

	ACC	FP	BUD	REP	MBMP
ACC	1	.647**	.542**	.617**	.488**
FP		1	.808**	.793**	.428**
BUD			1	.725**	.455**
REP				1	.475**

\*\* Correlation is significant at the 0.01 level (2-tailed)

### Regression Analysis

The result of regression analysis shows no evidence of an existence of multicollinearity problems. The first assumption has been derived as such all variables can be retained as the correlation is less than .7. Tolerance values are to indicate show much of the variability of the specified independent variable is not explained by the other independent variables in the study. Hence, the values exceed .10 in this study. It implies only moderate correlation with other variables thus eliminate the possibility of multicollinearity. The VIF values also are lower than 10, for all independent variables used in the study. Therefore, the multicollinearity assumption was not violated.

The first objective is to test whether the mission-based management practices have a positive relationship with the accountability. Table 7.0 exhibits that there is relationship between these two variables ( $B = .233$ ,  $t = 2.850$ ,  $p = .005$ ). Thus, the first hypothesis is supported.

Similarly, the second objective in this study is to determine whether there is relationship between financial priorities and accountability. Table 7.0 also showed an evidence of the existence of positive relationship between these two variables ( $B = .434$ ,  $t = 3.104$ ,  $p = .002$ ). Therefore, the second hypothesis is supported.

Next, the third objective is to determine any relationship existed between the budgeting and accountability. Table 7.0 exhibits the results and showed there is negative relationship between these two variables ( $B = -.067$ ,  $t = -.536$ ,  $p = .593$ ). It can be said that the relationship is insignificant (lower than .05); therefore, the hypothesis is not supported.

The fourth objective of this study is to determine the relationship of financial reporting and accountability. Table 7.0 exhibits the values in indicating the relationship. The ( $B = .210$ , the  $t = 1.720$  and  $p = .088$ ). Though insignificant, the hypothesis is not supported in this study.

**Table 7.0: Regression results on Accountability**

Variables	Coefficient	Std. Error	t-stat	p-value	VIF
<b>(constant)</b>		.192	1.842	.130	
<b>Mission-based Management Practices</b>	.233	.448	2.850	.005	1.335
<b>Financial Priorities</b>	.434	.146	3.104	.002	3.897
<b>Budgeting</b>	-.067	.114	-.536	.593	3.119
<b>Financial Reporting</b>	.210	.110	1.720	.088	2.983

The model is particularly explained about the variance in the dependent variable, the statistical significance of the result and the contribution of variable towards the dependent variable. The results, too could determine the level of uniqueness of each independent variable; it is important to look at the beta values of the non-standardized coefficients. Hence, this study showed the second independent variable – financial priorities have the largest beta coefficient recorded as .434. This indicates that this variable makes the strongest unique contribution in explaining the dependent variable

(accountability), when the variance explained by all other variables in the model is controlled for. Meanwhile, the beta value for budgeting practices was the lowest at only -.067 implying it made the least of a contribution.

**Table 8.0: Variance Results on Accountability**

<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
.696 <sup>a</sup>	.484	.464	.56162

Table 8.0 exhibits the variance results on the dependent variable used in this study which is mainly explained by the values of R square. As shown above, the R Square value will explain the level of variance in the dependent variable (accountability) is explained by the model (mission-based management practice, financial priorities, budgeting and reporting practices). This study shows that around 46.4% have ideally explained the variance in accountability. This is deemed sufficient as to compare from previous study by Soobaroyen and Sannasee (2007) whereby they found out there was limited practices of accounting control and practices (financial priorities, budgeting and financial reporting) without any inclusion of mission-based management factor. This study thus add on the value of variance showing the importance of management practices in discharging accountability in nonprofits supported as well from studies such as Papadimitriou (2007) and Kamaria & Lewis (2009).

## **CONCLUSION**

This study aims to examine whether mission-based management practices, budgeting practices, financial priorities and financial reporting contribute to the accountability of NPOs in Malaysia. The relationship between these practices with accountability was tested with data collected from 107 NPOs. The findings revealed that mission based management practices strongly contribute to accountability outcomes of NPOs. This finding is consistence to Findlay-Thompson (2009), Stid and Bradach (2009); Kamaria and Lewis (2009) and Valor (2007) who discovered positive relationship between mission based management practices and accountability



The second objective of this study is to examine whether financial priorities has positive relationship to accountability. Result of regression analysis revealed that there is significant relationship between this variable and accountability. This finding implies that in order to potrays accountability, NPOs need to. This finding is consistent with the study of Soobaroyen and Sannassee (2007) whereby they found that the extent of usage financial priorities in local voluntary Organisations appears to meet the statutory-defined responsibilities. This is deemed as a partial requirement to fulfill the “stewardship” role of company directors towards the shareholders. One can postulate that the legislator had this requirements as such “using the accountability records as “source of data” the approval of accounts as an “example of an accountability and discussion forum” as well as the filing of accounts as the “logical consequences” of such processes (p.291). It was also an attempt to legitimate his/her position vis-à-vis other internal actors, reflective of a moral legitimacy.

The third objective of this study is to examine whether budgeting practices and accountability has any positive relationship. The result of regression analysis showed that there is no relationship between budgeting and accountability. Soobaroyen and Sannassee (2007) discovered a phenomenon of limited use of budgeting by treasurers of NPOs in Mauritius towards accountability enhancement. This implies that it may not be perceived as a “positive” symbol in legitimating the organization, and perhaps even contravene the social-led identity of the associations (p.293). This low reliance may both be explained by a symbolic as well as a functional purpose, perhaps to present itself as being “up-to-date and modern to its external controlling environment”, Helmig, Jegers & Lapsley (2004) rather than to actually implement the techniques to improve its financial management system. Also, as pointed out by Abraham (2006); non-profit Organisations do not cater for advance planning. They tend to react to any changing circumstances and events. Thus, their systems are developed as responses to external circumstances, but not as initiatives. Hence, the nature of financial management has been reactive rather than proactive. Consistently, study from Chenhall, Hall and Smith (2010) discovered that the introduction of formal controls such as budgets did not impact of the social capital in non-governmental organization. The social capital system is important to enhance the role in legitimizing among alliance partners funding agencies and government as to maintain identity and cultural capital

to attract the type of programme and funding suited welfare agenda. The budgetary system was not successful as they were predicated of acquiring and managing economic capital - they did not enable employees to identify with the new competitive funding context.

The fourth objective of this study is to examine whether financial reporting practices lead to better accountability of non-profit Organisations. The result of the study showed that the relationship between reporting practices and accountability is significant. Consistent with previous study by Iwardeen, Wiele, Williams & Moxham (2009) that proposed internal control effectiveness could lead to higher accountability. The study found out that those charities in the Netherlands have been more concerned about their stakeholders through financial reporting and regular meeting with their donors. As most of donors have raised questions on the transparency of their donations, the charities now had generally becoming more open to giving more content information about what they do with their charities income.

This is consistent with the argument from Hooper et al. (2007) as the reporting practices may enhance the accountability; it still posed some problems which need to be sorted out. The problems indicated in the study comprised of fundraising expenses; fund accounting; treatment of fixed assets and accounting basis. Additionally, they discovered the problems mainly rooted from the absence of standardization of terms and practices as well as information ambiguities among charities in New Zealand. Also, prior studies as cited by Hooper et al. (2007); for example, Williams and Palmer, (1998); Connolly and Hyndman, (2004) say that there had had some serious problems with the understandability of the financial accounts of charities. These findings thus showed although reporting could enhance the transparency, nonprofits may just utilize it only to some extent.

This study has particularly extend the study done by Soobaroyen and Sannassee (2007) which explored the elements that contribute to good accounting and control practices in voluntary Organisations through the perception of treasures. This study has intended to test financial priorities, budgeting and reporting practices towards enhancing the accountability which is crucial of every non-profit organization to uphold all the time. Both financial priorities and reporting showed positive relationship with accountability except for the budgeting.

Detail explanations of mission-based management practices have been suggested as one of the ways non-profit Organisations carry out to enhance their sustainability. Those practices are closely related of becoming a competitive nonprofits; imitating the nature of for-profit Organisations. Additionally a study done by Findlay-Thompson (2009) has examined the impact of these practices towards revenue per employee in non-profit Organisations of Nova Scotia. Nevertheless, it did not study the extent of these practices towards enhancing accountability; which is far more important in the nature of any non-profit Organisations. Therefore, this study has proved that these management practices also have a significant positive relationship in enhancing the accountability.

This study has several limitations that may influence the interpretation of the results which should be taken into consideration when interpreting the results or when applying the method of this study in other research settings. There may have been a response bias as the respondents were from various types of non-profit Organisations in Malaysia. The responses may deviate from each other as different Organisations will have different objectives as to sustain their entity. Hence, the respondents of a particular organization may also have had different perceptions when they attempted to answer the questionnaires. Further, some of Organisations may have never observed all those practices suggested in this study. Therefore, they would perceive it is too irrelevant of their Organisations. This would have directly influenced the way they answered every question; whereby they may merely wanted to give good impression of their Organisations.

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