

# THE EXTENT OF CHARITABLE ORGANISATIONS' DISCLOSURES OF INFORMATION AND ITS RELATIONSHIP WITH DONATIONS

**Ruhaya Atan  
Saunah Zainon**

Accounting Research Institute and Faculty of Accountancy  
Universiti Teknologi MARA, Malaysia

**Yap Bee Wah**

Faculty of Computer and Mathematical Science  
Universiti Teknologi MARA, Malaysia

## ABSTRACT

*This study examines the extent of disclosures of information by charitable organisations and the effect of total donations on disclosure. The sample of this study consists of annual returns for the financial year 2009 of 101 charitable organisations. The disclosure score obtained was based on the ratio of total disclosure score to its total possible disclosure score. The overall total disclosures are very low and below the mean score. Statistical results indicate that the extent of disclosure is significantly related to total donations received. This study provides evidence to the management of the charitable organisations in Malaysia to improve their financial disclosure of information in their reporting so as to convince the stakeholders that the resources are used efficiently for charitable services. Due to the unique features of charitable organisations, ChORI was developed and applied in this study to assist in the examination of the extent of disclosures of information.*

**Keywords:** *Charitable organisations, disclosure, donations, index, information*

## Introduction

Malaysia has quite a substantial number of registered non-profit organisations (NPOs). As of April 2011, it is estimated that 64,136 organisations registered with the Registry of Society (ROS).<sup>1</sup> These NPOs are classified into various categories, such as social and recreation, sports, religious, community welfare, trade, youth, mutual benefits, culture, profession, women, politics and general. Due to this classification, it entails unique issue of performance evaluation because these organisations are not subject to public financial reporting obligations. Unlike the concern over organisational performance, particularly in the corporate sector, there is limited empirical research examining the disclosure of information and financial performance of NPOs.

There is a broad acceptance that the NPOs, specifically the charitable organisations, need to improve their accountability and transparency. The lack of transparency and information asymmetry that exists between NPOs and donors can be minimised through more transparent information disclosure (Parsons, 2007; Zhuang, Saxton, & Wu, 2011). Disclosure of information in the non-profit sector is necessary to ensure that resources are better utilised, and donors and volunteers would continue their support and involvement in charitable organisations. Previous studies have taken up few measures on the effects of financial performance, often captured by the efficiency ratios and the amount of donations (Behn, DeVries, & Lin, 2007; Christensen & Mohr, 2003; Connolly & Hyndman, 2004; Parsons, 2003; Trussel & Parsons, 2008). Zhuang et al. (2011) provide a better understanding of disclosure-donor interactions incorporating both donors preferences and “value-relevant” information by means of game-theoretic model that was conducted.

One of the ways to enhance accountability and transparency is by establishing governance mechanism over the NPOs. In the United States for example, the American Competitiveness and Corporate Accountability Act, popularly known as the Sarbanes-Oxley Act or SOX, passed in 2002, has most provisions that apply to publicly held companies, has also been imposed on the NPOs (Independent Sector, 2007).

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1 <http://www.ros.gov.my>

Recently, South Asian countries such as Singapore and Thailand through their Charity Council have been actively reviewing and improving their non-profit regulatory framework. The Charity Council of Singapore has embarked upon the Code of Governance for Charities and Institutions of a Public Character or IPCs, which was introduced in November 2007. Later, the Charities Accounting Standards (CAS) issued on 24 June 2011 had set out the financial reporting framework, which applies to charities when they prepare their financial statements for financial periods beginning on or after 1 July 2011. This latest initiative is the major effort of the Singapore Accounting Standards Council to improve governance and enhance public confidence in the charity sector. In Malaysia, the levels of transparency and governance controls of the NPOs are not prescribed by laws. Hence, they should take an initiative to improve the situation because accountability, transparency and good governance are the keys to enhance relationships between the NPOs, donors and volunteers.

The primary objectives of financial reporting is to provide information that is useful for resource providers in making rational decisions about the allocation of scarce resources to business and NPOs (Financial Accounting Standards Board, 1980, para. 35). From a social perspective, accountability implies a willingness to endure public scrutiny and a duty to report not only to the minimum requirement of the law (Lawry, 1995) but beyond the annual report produced by most organisations is one measure to fulfil their accountability duty to their stakeholders and to the society at large. Reporting as a means of accountability should be tailored to meet the stakeholders' information needs, as the Malaysian Accounting Standards Board (2005, para. 7) highlights:

*“Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management’s stewardship of the resources entrusted to it.”*

In the context of charitable organisations in Malaysia, the only primary source of information for stakeholders to make their decision is the annual return furnished to the ROS every year. However, the annual returns are

limited to the members of the organisations and are not publicly available for reviews. Thus, the current forms of disclosure are very minimal based on the reporting requirements of the regulatory body. Furthermore, it is not tailored to donors' needs of information.

The aim of this study is to examine the extent of information disclosure by charitable organisations using an instrument, named ChORI (Charitable Organisations Reporting Index), and relates the extent of disclosure to charity financial performance, as captured by the aggregate amount of donations.

This paper is organised as follows. Section 2 reviews the literature on disclosures studies. Section 3 covers the research design and study sample. The measure of extent of information disclosures is explained in Section 4. Section 5 summarises the findings and finally, the implications of this study are discussed in Section 6.

## **Review of Literature**

Considerable literature that examines the disclosure levels and financial performance of charity (donations as a proxy of financial performance). These studies on informational disclosures, donations and performance efficiency were examined from 18 studies as shown in Table 1. Prior studies have found positive relationship between the extent of disclosure and the amount of future donations received (Behn DeVries, & Lin, 2007; Christensen & Mohr, 2003; Connolly & Dhanani, 2004; Parsons, 2003; Trussel & Parsons, 2008). These studies used the extent of voluntary disclosures based on annual reports that are hypothesised to impact the charitable donation decisions. In recent studies, it was found that there is effective tool in providing financial and performance disclosure for the stakeholders' input in making decision (Gandia, 2011; Saxton & Guo, 2011).

Size of non-profits as measured by total income, has been widely used as one of the attributes in disclosure studies. Total income generated by charitable organisations depends on contributed income such as donations from donors and grants from foundations. Research indicates institutional funders, governmental grantors and corporate donors have studied non-profits' financial statements during grant review process or donation decisions (Keating & Frumkin, 2003). This shows that financial information

reported in the financial statement is important information. The financial information provided by charity affects the extent of disclosure and consequently influences a potential donor's decision to donate. Previous studies provide evidence that financial reports play a role in donation decision (Hyndman, 1990, 1991; Khumawala & Gordon, 1997; Parsons, 2007; Weisbrod & Dominguez, 1986). Through financial reports issued by the charitable organisations, donors can obtain the necessary information for them to assess and evaluate the performance efficiency of the organisation. Nevertheless, many individual contributors do not review a charity's financial statements before making their contribution decisions (Gordon & Khumawala, 1999).

Performance efficiency attribute is often used in disclosure studies and is also found to positively affect the charitable donations (Callen, 1994; Tinkelman, 1998, 1999). Efficiency is defined by Parsons (2003) as the degree to which NPOs direct their available resources to the organisation's mission. This aspect of performance efficiency becomes one of the donors' principal financial concern to determine the degree to which available resources are directed to providing programmes based on donors-specified terms and purposes. Hyndman (1991) and, Khumawala and Gordon (1997) reported that donors' principal concern is the performance efficiency in terms of the percentage of expenses dedicated to programmes. In other words, the donors are more comfortable with organisations which provide financial information as they used the required financial information to make donations in the future.

Information provided beyond financial disclosures is considered as supplementary disclosures of non-financial information. Non-financial disclosures through Service Efforts and Accomplishments (SEA) disclosures are to complement and supplement the financial information and are a way to provide information about an organisation's mission's accomplishment. Supplementing information with SEA disclosures has been found to significantly (1) increase the quality perception of the requesting charitable organisation and (2) increase the percentage of potential donors who claimed they would donate to the requesting organisation in the future (Buchheit & Parsons, 2006). Gordon et al. (2002) conducted a study on the extent of disclosure of SEA information through weighted disclosure index list on 100 public and private institutions. They found that public institutions, as compared to private, were more likely to include performance indicators in their annual reports. Further, public institutions audited by state auditors

rather than certified public accounting firms are inclined to disclose more SEA information.

The relevance of SEA disclosures in NPOs is similar to government sector since both sectors provide services not for profit purposes. The Financial Accounting Standards Board (FASB) and the Government Accounting Standards Board (GASB) discuss the reporting of SEA in their conceptual framework (Brace et al. 1980) to mandate disclosure of performance indicators. Without mandated disclosure, reports containing SEA information have little consistency in their contents. A normative approach was taken by GASB (1994) in producing external reports of *Reporting Performance Information: Suggested Criteria for Effective Communication*. This report suggested the use of 16 criteria in order to communicate relevant, reliable information on the government programmes and services to the users of the report. The 16 criteria are grouped into three categories. The first category consists of seven criteria directed toward the external reporting of performance information that provide a basis for understanding the extent to which the organisation accomplishes its missions, goals and objectives in the context of accountability and decision making. The second category of another seven criteria concerns what performance information to report based on the extent to which the organisation and its programmes, services and strategies have contributed to achieving the organisation's goals and objectives. The third category addresses how performance information is communicated and its availability.

Table 1 summarises the studies on information disclosure and donations with diverse attributes affecting the extent of disclosures, among others, ownership structure, board performance, age and size (Christensen & Mohr, 2003; Saxton & Guo, 2011).

Table 1: Summary of Studies on Informational Disclosure and Donations

Study	Country	Theme	Dependent Variable	Variables
Christensen and Mohr (2003) Conolly and Dhanani (2004) Parsons (2003) Behn, DeVries and Lin (2007) Trussel and Parsons (2008) Zhuang et al. (2011)	USA UK USA USA USA USA	Disclosure and Donations	Voluntary Disclosure Disclosure Patterns Voluntary Disclosure Voluntary Financial Disclosure Voluntary Disclosure Value-Relevant Disclosure	Type, Age, Size Total Income Total Income Total Income Total Donations
Posnett and Sandler (1989) Callen (1994) Tinkelman (1998, 1999)	USA USA USA	Performance Efficiency and Donations	Efficiency Technical Efficiency Efficiency	Total Donations Total Donations Total Donations
Gordon et al.(2002) Buchheit and Parsons (2006) Parsons(2007)	USA USA USA	Disclosure of Non-Financial Information Service Efforts and Accomplishments (SEA Disclosure)	Voluntary Disclosure Voluntary Disclosure Voluntary	Size Total Income Total Income
Gandia (2011) Saxton and Guo (2011)	Spain USA	Websites Disclosure Websites Disclosure	Accountability Index Websites Disclosure	Total Donations Size, Board Performance
Weisbrod and Dominguez (1986) Khumawala and Gordon (1997) Hyndman (1990, 1991) Parsons (2007)	USA UK UK US	Financial Reporting Information and Donations	Total Donations Total Donations Total Donations Total Donations	Quantity of Information Financial Information Financial Information Financial Reporting Information

## **Disclosure Index**

One way of measuring information disclosed is through the use of disclosure index. An index comprises numbers that encapsulate, in single figures, objects in the set that one wants to measure and that are capable of measurement (Coy & Dixon, 2004, p. 82). The extensive use of disclosure index is not only in corporate annual reports (Alanezi & Albuloushi, 2011; Ho & Wong, 2001; Marston & Shrives, 1991), but also applied in the context of various categories of non-profits such as colleges and universities (Coy & Dixon, 2004; Gordon et al. 2002, Posey, 1980), schools (Tooley & Guthrie, 2001), museums (Christensen & Mohr, 2003; Wei et al. 2008) and charities (Connolly & Hyndman, 2000, 2001, 2004; Jetty & Beattie, 2009).

It is common to design an index that takes into account several items of information, which are dichotomous measured in terms of two possibilities of disclosure with value of 1 for disclosure and value of 0 for non-disclosure. Various scholars have adopted a dichotomous approach in order to assess the extent of disclosure in annual reports (Gandia, 2011; Gordon et al. 2002; Wei et al., 2008). Alternatively, items of information are weighted in correspondence with their relative importance. This alternative approach of a weighted disclosure index was used by Chow and Wong-Boren (1987), Coy, Tower and Dixon (1993), and Fischer et al. (2010) although there is no consensus about the convenience of weighting them. In fact, in some cases, the researcher argued that predetermined weights are subjective (Ahmad et al., 2011). Furthermore, it is also argued weighted indices have no difference or empirical advantage over an unweighted index (Fischer et al., 2010).

Table 2: Non-profits Studies using Disclosure Indices

Author/s	Country	Sector	Weighted (W) or unweighted index (UW)	No. of items
Fischer, Gordon, and Kraut (2010)	United States	College and universities	W	75
Hyndman (1990)	United Kingdom	Charities	W	14
Jegers and Houtman (1993)	Belgium	Non-profit hospitals	UW	21
Coy et al. (1994)	New Zealand	Universities	W	26
Coy (1995)	New Zealand	Universities	W	58
Coy and Dixon (2004)	New Zealand	Universities	W	43
Dixon, Coy, and Tower (1991)	New Zealand	Universities	UW	52
Gandia (2011)	Spain	NGOs	W	78
Krishnan and Schauer (2000)	United States	Non-profit health and welfare	UW	8
Tooley and Guthrie (2001)	New Zealand	School	W	20

Table 2 presents some of the non-profit studies that employ an index of disclosure. The number of disclosure items in the index varies from one author to another. The highest number of index items proposed by Gandia (2011) contained 78 index items, followed by Fischer et al. (2010) for 75 index items. The least number of index items developed by Krishnan and Schauer (2000) with eight items. Majority (70%) of the indices is weighted index, indicating that attention is given or being emphasised on weighted index, based on the importance of the information given by the stakeholders. This shows stakeholders have long been considered as an important target group for items of information in disclosure (Elkington, 1993).

### Items of Information for Disclosures

The direction for non-profit disclosure movement began with a call for better reporting within charity sector in the United Kingdom (UK) with the first study by Bird and Morgan-Jones (1981). Their study found great

diversity in financial accounting practices of charities which, in turn, affect the use and understanding of the disclosures by stakeholders. The findings of Bird and Morgan-Jones's (1981) resulted in the introduction of the 1988 Statement of Recommended Practice (SORP) by the Accounting Standards Committee (ASC, 1988), which was subsequently revised in 1995 (Charity Accounting Review Committee 1995), in 2000 (Charity Commission 2000) and in 2005 (Charity Commission 2005).

Other studies conducted by Hines and Jones (1992) and, William and Palmer (1998), also found varying practices among the United Kingdom (UK) charities. Hines and Jones (1992) found that the original SORP (1988) had little impact in reducing the variations in practices and this was supported by William and Palmer (1998). Both studies suggested a change in direction towards improving the quality of reporting through the user needs model. Soon after, research on charity appears to follow user needs model as suggested by previous studies. Studies by Connolly and Hyndman (2003, 2004), and Christensen and Mohr (2003), for example, have specifically examined the extent of narrative disclosure presented in charities' annual reports. Specifically, Connolly and Hyndman (2003, 2004) investigated the level of disclosures, with specific information on background and performance indicators within the narrative section of annual reports. They found that the charities were only reporting background information but seems to lack in disclosure of performance, with regards to efficiency and effectiveness. They concluded though that even the charity management are aware of the needs of users, there were no provisions made to meet the performance disclosure of information.

Similarly, the study conducted by Christensen and Mohr (2003) in the US showed that the contents of 172 not-for-profit museums annual reports were highly variable. They vary in overall content of annual reports, from short descriptions of museum's aims and activities to a comprehensive overview of the charity's mission, objectives and accomplishments. Disclosure of financial information also differs, from no information to a complete set of audited financial statements. A content analysis study by Connolly and Dhanani (2004) in assessing the disclosure patterns of accounting narratives within 71 UK fund-raising charities also revealed that: practices vary considerably, disclosure patterns are diverse depending on the type of information disclosed; and charities reports are mainly descriptive in nature, do not compare activities and operations over time and do not provide explanations for significant changes reported.

Hyndman (1989) initially examined ten types of information in meeting stakeholders' needs. In a later study Hyndman (1990) identified four more information commonly disclosed by charities. He concluded that charity reports are led by financial information, which stakeholders perceive as relatively less important than the non-financial information. His study proposed a priori model of reporting based on information types suggested and needed by stakeholders. In addition, Hyndman recommended the need towards moving the central focus from financial to non-financial disclosure for quality reporting. Similarly, Khumawala and Gordon (1997) found that donors are more interested in non-financial information such as the purpose of the organisation, service efforts and accomplishments, the statement of activities, programs provided, organisational goals and achievement, and the classification of expenses.

Kilcullen et al. (2007) identified four types of information – including information on donation and grants or non-reciprocal transfers (NRT), additional disclosure on the contribution of volunteers in hours and dollars, the uses of NRT and the sources of funds. Other information in their study also covers the financial and the non-financial information on the service performance, fund accounting and budget information. The four types of information were from the guidance provided to not-for-profit entities by standard setters from New Zealand, the U.S.A., Canada and the U.K. and prior research on charities by Hyndman (1990) and, Khumawala and Gordon (1997).

The studies on information disclosure were further extended recently by Hancock et al. (2010) who investigated the extent to which information is useful for assessing accountability and for decision making. They found that users and preparers have different perspectives, and they are able to differentiate the usefulness of information for the purpose of decision making and accountability. Respondents are also able to distinguish between different types of information for each category.

As evidence from the above literature, there appears to be a great motivation towards identifying items of information to be considered by the charity in their information reporting and the next section describes the process of developing the charity disclosure index instrument for charity organisations.

## Research Design and Study Sample

The population under study is all registered charitable organisations with the ROS in Malaysia which are eligible for tax-exempt status. A total of 1,262 registered charitable organisations have been granted subsection 44(6) of the ITA 1967 tax-exempt status as at January 2010. They are 1,028 from Wilayah Persekutuan and Putra Jaya and 234 from the state of Selangor. Judgmental or purposive sampling is a form of non-probability sampling (Polit & Hungler, 1999) and was in this study to include the organisation that were willing to participate and exclude those which did not. As a result, a total of 101 organisations (36 from Selangor and 65 from Kuala Lumpur) had agreed and participated in this study. The annual returns for the year 2009 of the 101 sampled organisations were obtained from the Head Office of the ROS.

The age of the organisation in the sample varied from the very young group of (7 years of less) up to the very mature (50 years and above) group. Majority (32.7%) of the organisations are mature and only 9.9% are very mature organisations. The overall profile of the age of the organisation is depicted in Table 3.

Table 3: Type of Organisations

Age Category	Frequency (n=101)	Percentage (%)
Very Mature (50 years and above)	10	9.9
Mature (25 – 49 years)	33	32.7
Established (15 – 24 years)	22	21.8
Young (8 – 14 years)	18	17.8
Very young (7 years or less)	18	17.8
<b>Total</b>	<b>101</b>	<b>100</b>

## **Operationalisation on the Extent of Information Disclosures**

The organisation's total disclosure score was operationalised based on the ratio of total disclosure score to its total possible disclosure score. These scores were weighted scores obtained using a four-step process:

### **The Identification of the Information Items**

The list of information items was primarily determined through a review of literature and prior studies (Coy, 1995; Coy et al., 1994; Hooks et al., 2002; Hyndman, 1990). The minimum regulatory requirements of Malaysia charity reporting issued by the ROS and the Income Tax Act 1967 guideline for the tax-exempt status application were also referred to. Hyndman's (1990) priori model was also used as a benchmark in the identification of the items of information. As a result, the initial list of ChORI contained 34 items of information. The list was first reviewed by eight local experts. The local panel experts included two institutional donors who are also the member of the National Council of Welfare and Social Development of Malaysia (NCWSD), three representatives from the charity management and three academic researchers from accounting, law and language backgrounds. The expert from the non-profit regulatory body, i.e. the ROS was also invited in reviewing this validity process. Four additional information items were added that makes up the list to 38 items of information.

### **Assessment of Validity**

In developing ChORI, for the test of validity of the information items, both face and content validity were carried out. This is important because the quality of the research instrument becomes a central focus point of the study. Both local and international experts participated in this validity process. The recognised local experts were asked to review whether all items of information had been covered, and consequently, from the 38 items of information, two items were deleted, 21 new items were added and 28 items were modified, giving a total of 85 items of information in the list. The modified ChORI was then sent for international experts review. Two international experts in survey research and NPO's study were selected. One was an academician from Florida University in the United States who was the expert in non-profit survey research. The other one was an expert in non-financial performance measurement for NPOs from Singapore. The

international experts considered three additional items to be included. The inclusion of those items completes the index ChORI and was adequate to be used as the instrument to measure the extent of disclosure practices by the charitable organisations. Finally, the revised and validated ChORI consisted of 88 items of information.

## **Disclosure Measurement**

Disclosure measurement can be either weighted or unweighted. The determination of weights is usually based on the perceived importance of the items by the user groups or stakeholders. Without weights, each item has equal importance. Weightings have been used in this study to acknowledge that disclosure of some items is more important than others. Previous studies have shown the use of weights (Chow & Wong-Boren, 1987; Fischer et al., 2008; Fischer et al., 2010; Gordon et al., 2002) in measuring the extent of disclosures. In order to calculate the disclosure index that aggregate the scores of all information, the weightings assigning the level of importance for the information items were measured using a seven-point scale (1= not at all important to 7= extremely important). A survey of institutional donors was carried out to capture their point of view on the items of information that should be disclosed and the relative importance of the information items from the charity organisations annual returns.

The extent of validity and reliability of ChORI were confirmed by means of large-scale data through survey. Data was collected via a structured questionnaire using web application survey (perseus.surveysolutions®/EFM) based on claims being made on the advantages of conducting surveys on the web. Previous studies show an e-mail survey to Lotus Development Corporation employees conducted by Bachmann and Elfrink (1996) achieved 56% response rate. Also, Kiesler and Sproull's (1986) e-mail survey to college students achieved a 67% response rate. Mehta and Sivadas (1995) concluded that e-mail surveys with pre-notice and follow up prompts can generally achieve higher response rates.

In this present study, the target respondents were asked to rate the importance of the 88 items of information is those institutional donors from the main public companies listed in the Bursa Malaysia. As at 10 May 2011, there were 839 main public listed companies in the Bursa Malaysia. The chosen companies were based on the basis that the companies have made substantial amount of donations as one of the corporate social responsibility (CSR)

pillars. From 590 web surveys sent to them, a total of 140 institutional donors participated. Out of 140 returned questionnaires, 16.4% were incomplete responses and therefore only 117 fully completed responses were used for further analysis. This contributed to only 13.9% of response rate. Of the 88 items in the index, three were given a high importance weight, 84 medium importance and one low importance. The 88-items of disclosure information in ChORI can be obtained upon request from the authors.

### Computing Disclosure Scores

The organisations registered under the ROS must submit the annual returns (Form 9) that consists of the Statement of Receipts and Payments of the last financial year, together with a balance sheet showing the financial position to the ROS within sixty days after holding its annual general meeting.<sup>2</sup> This requirement is in accordance with Section 14(d) of the Societies Act 1966 (Act 335) & Regulations 1984. However, the accounts submitted may not necessarily be audited. Content analysis was conducted on the annual returns submitted to the ROS and were used to generate the disclosure scores.

Content analysis is a quantitatively oriented technique which uses a standardised and unit of measurement. It involves “codifying the qualitative and quantitative information into predefined categories” so that a pattern can be discerned from information presented (Abeysekera & Guthrie, 2005, p. 156). Specifically, the coding system or disclosure indices were used in content analysis. Disclosure index is an extensive list of selected items which may be disclosed in the organisational reports. In this study, the disclosure index consists of 88 items which were weighted by its relative importance to the key stakeholders of the charity organisations, the institutional donors. In all, there were three items with a maximum weight of 7, 58 items with a weight of 6, 22 items with a weight of 5, four items with a weight of 4 and only one item with a minimum weight of 3. Overall, the 88-index items were possible for the unweighted score and total possible disclosure index score by weighting is 498<sup>3</sup>. The measurement construct for extent of disclosure was the ratio of the total disclosure score to its total possible disclosure score. This means, each index is the ratio of relevant items for each organisation. For each organisation, a disclosure index is calculated where the index  $I_j$  for each set of annual return is defined as:

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2 Section 14(1) of the Societies Act 1966 (Act 335) & Regulations.

3 The disclosure score sheet can be obtained upon request from the author/s.

$$I_j = \sum_{i=1}^n X_{ij}$$

where  $n$  = number of items,  $n \leq 88$ ,  $X_{ij} = 1$  if  $i^{\text{th}}$  item disclosed, with assigned weight.

In order to control for subjectivity in interpreting the annual returns, two independent raters were used to determine which items were disclosed. The content analysis on each of the annual returns was coded individually into the disclosure score sheet. Next, the annual reports were exchanged between the raters. The scores entered by each rater for each of the organisation's annual returns were then compared to identify any differences and disagreements. The score has been separately analysed according to the information, and independently examined by the raters. A very minimal disagreement was found, and an acceptable inter-rater reliability was accepted after all the disagreements and discrepancies were resolved.

## Findings and Discussions

Analysis of total extent of disclosure practices is divided into three parts. The first part covers analysis on the extent of disclosures made by the organisations. Secondly, the analysis on the relationship between total donations and the extent of disclosures is covered using the Pearson correlation test.

### Descriptive Statistics for the Variables in the Sample

Table 4 below provides descriptive statistics for both variables employed in the analyses.

Table 4: Descriptive Statistics for the Variables in the Sample

Variables	n	Mean	Standard Deviation	Min	Max
Total Disclosure (TDISC) according to total score	101	141.16	43.91	51	228
Total Disclosure (TWDISC) according to ratio	101	0.283	0.0882	0.102	0.458
Total Donations (TOTDON)	101	251,723.50	466,322.11	1110	3,094,770

Table 4 shows the mean relative ratio disclosure index of the sample organisations was 0.283, with a range of 0.102 and 0.458. For the total disclosure score, it shows a mean of 141.16 and the maximum total disclosure score are less than half of the total scores. The mean amount of total donations is RM251,723.50, with the minimum amount of donations received for the year is RM1,110 up to the maximum of RM3,094,770. A low standard deviation (0.0882) was found in total disclosure (TWDISC). Overall, this data set presents an opportunity to examine the relationship between the two variables.

### Correlation Test

The correlations are estimated between TOTDON (Total Donations) and each of TWDISC (Ratio Weighted Disclosure) across the whole sample. The Pearson Correlation test was conducted to examine the degree of linear relationship between total donations and the extent total disclosure. The result of the Pearson Correlation is reported in Table 5.

Table 5: Relationship between Donations and Extent of Disclosure of Information

		Extent of Disclosure of Information
<b>Total Donations</b>	Pearson Correlation	0.256
	Sig. (2-tailed)	0.01**
	n	101

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

Table 5 displays the correlation and p-value for the association between total donations and the extent of disclosure of information. There is a positive coefficient of 0.256 and significant at  $p < 0.001$ . The result shows that there is a significant correlation between total donations and the extent of disclosure of information. However, A low coefficient value shows a weak relationship. This significant result is consistent with the previous researches on donations and disclosure (Behn, DeVries, & Lin, 2007; Gandia, 2011; Parsons, 2003; Trussel & Parsons, 2008). Organisations that received higher donations tend to disclose more information. They tend to be more accountable to their donors and other stakeholders.

## Discussion

This study produces evidence that NPOs, particularly the charity organisations in Malaysia, provides low extent of disclosures of information in their annual returns. The expected amount of disclosures was measured from the expectations of institutional donors as the NPOs important stakeholders. They rated the importance of information based on their needs for information in making decisions to donate to the charity organisations. Since NPO reporting is loosely regulated and not publicly accessible, many NPOs produce minimum information including those required by the Society Act. Yet when asked, stakeholders do want more information for better decision making. In addition, previous studies have also given evidence that there is a relationship between the amount of information disclosed and the donations made to the NPOs. Similarly, despite the low level of disclosure, this study has shown that though weak, there is a significant relationship between the disclosure level and donations made to the charity organisations. We might interpret this finding as evidence to the management of the

charitable organisation to put a serious effort in providing information to their stakeholders, not only to reduce information asymmetry but it can enhance the accountability and transparency to stakeholders. A concern amongst the charity management to disclose more financial information could persuade the donors to be more proactive in giving more donations.

Since this study has taken into consideration the institutional donors' needs of information in the development of the disclosure index, future research might consider different types of stakeholders with specific needs for items of information. For instance, institutional donors from Shariah Compliant companies or Islamic Institutions might have different information needs to fulfill their objectives.

An extension to this study could also consider the effects of multidimensional disclosure of information, such as the governance information, future oriented information and performance information., This study has focused only on a single dimension of total disclosure. Such studies may better reflect the reality of non-profit reporting environment.

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