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Financial Transparency and its relationship with inflows
and outflows of funds: An exploration of Australian not-for-
profit organisations (NFPs)

Final research report

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1. Applicant's Details

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2. Project Title

Financial Transparency and its relationship with inflows and outflows of funds: An exploration of Australian not-for-profit organisations (NFPs)

3. Updated project Summary (500 words)

Not-for-profit organisations (NFPs) frequently deal with headlines covering fund misappropriation. Recent media coverage involved well-known Australian organisations like NSW Returned and Service League (RSL) (Chettle, 2019), White Ribbon (Cull, Ibbett & Ghoorah, 2019) and Word Vision (Micheal, 2020). Consequently, NFPs face constant pressures to improve public accountability and transparency via disclosures of their fund flows (Hyndman & McConville, 2018).

Albeit these pressures, the NFP literature on financial transparency and its relationship with fund inflows and outflows within the NFP sector is still developing and emerging - studies primarily focused on the determinants (Behn, DeVries & Lin, 2010) and consequences of transparency (Harris & Neely, 2018). Engaging with this gap, this study (1) develops an index gauging level of financial transparency amongst Australian NFPs and (2) ascertains any relationship(s) between the level of financial transparency of an NFP and its inflows and outflows of funds.

The study uses a sample of 454 organisations over a five-year period (2013 to 2017). The sample, taken from Pro Bono Australia's database, was finalised after deleting NFPs with no or missing published financial statements between 2013 and 2017 and/or missing information on the website of the Australian Charities and Not-for-Profit Commission (ACNC). From the population, 157 NFPs published no annual and/or financial reports despite being required to submit these reports to the ACNC in addition to the mandatory Annual Information Statements (AIS). This lack of reporting indicates that accountability and transparency remain challenging and topical within the Australian NFP context. The final sample comprises 315 large, 77 medium and 37 small NFPs which operate across 15 different sectors, with the

most common sectors being children, youth and young people (14.76%), disabilities (11.45%) and community, health and support services (10.57%).

In its first phase, the study develops a disclosure index measuring level of financial transparency, following Ghoorah (2017) and AIS financial disclosure requirements. The index comprises 34 financial disclosure items (including breakdown of revenue, fundraising expenses and cash flows from operating activities), and ranges between 0 (70 NFPs) and 0.882 (four NFPs) among the sampled NFPs. 234 NFPs (51.54%) have an index above the median of 0.794, indicating that NFPs publishing financial reports are financially transparent. The study found (1) significant and direct relationships between an NFP's level of financial transparency and two variables: (a) its size and (b) its requirement to publish AIS, and (2) no significant relationship between the level of financial transparency and sector of an NFP.

In its second phase, using pooled regression and panel data analysis, the study finds significant relationships between the level of financial transparency of an NFP and its: (1) number of sources of fund inflows, (2) number of sources of fund outflows, (3) types of fund inflows, (4) types of fund outflows and (5) amount of fund inflow from each source of fund inflow. No significant relationship is found between level of financial transparency and amount of fund from each source of fund outflow. These findings show that NFPs use their level of financial transparency to highlight allocation of fund inflows to activities aligning with social expectations and thus to signal their operational legitimacy.

Modifications:

- (1) Instead of the initially planned 500 NFPs (100 organisations over 2013-2017), 2270 NFPs (454 organisations over 2013-2017) were sampled.
- (2) Due to lack of statistical power, two control variables (negative media coverage and international operations in high-risk countries) were dropped.

4. Funds granted

AUD \$ 5,000

5. Expenditure of funds

The funds were expensed on research assistance services. A research assistant was employed to look at the website of over 650 NFPs for their financial statements over a five years period (2013 to 2017). After eliminating organisations with no and/or missing published financial statements, a sample of 454 organisations was finalised for the study. The research assistant then identified specific data within these 2270 financial statements (454 organisations x 5 years) and entered these information within a predefined spreadsheet. The research assistant was employed for 121 hours as follows:

- Hours per week : 12.1 hours
- Rate per hour : \$35.49 (HEW 1 Step 1 hourly rate for casual staff at WSU in 2019)
- Total costs : \$4294.29
- **Total costs : \$4977.08** (including oncost)

As the principal investigator of this project, I was extensively involved in gathering data from the financial statements and recording them in the predefined spreadsheet I developed, given the eventually expanded sample.

6. Outcomes

The database has just been completed and cleaned. A larger dataset has been gathered with the intention of having a more robust analysis than initially intended and of being able to publish in high impact journals, as outlined in the next section. Other than the development of this dataset, which is considered huge for an Australian NFP study, there are no other outcome achieved yet.

7. Future Intentions

a. Conference submissions

From this dataset, a number of papers will be produced and some of them will be submitted for presentation at the following conferences in 2021:

- (i) AFAANZ 2021
- (ii) Asia-Pacific Interdisciplinary Research in Accounting Conference (APIRA) 2021
- (iii) International Society for Third Sector Research (ISTR) 2021

b. Journal submissions

There are at least three papers currently planned for submission next year. The targeted journals are:

- (i) Accounting & Finance (Impact factor: 2.217, ABDC ranking: A)
- (ii) Financial Accountability & Management (Impact factor: 1.70, ABDC ranking: A)
- (iii) Nonprofit and Voluntary Sector Quarterly (Impact factor: 2.820, ABDC ranking: A)

c. Grant applications

The aim is to extend to first disseminate the findings of the current study and then seek external funding from industry partners (large NFPs, such as Oxfam and World Vision) to extend the current study by developing indices gauging (1) non-financial transparency, and (2) social media presence. The ultimate aim is to develop a tool that presents information in an informative and readable format to the public. This grant represents seek funding to further explore accountability and transparency within the Australian NFP sector in coming years.

d. Projects

This research project will be extended to at least three research projects over the next coming years and these are:

- (1) The development of a transparency and social impact index,
- (2) Social media: a tool to be transparent or to manage impression?
- (3) A one-page 'Snapshot': The one-stop shop for accountability and transparency.

8. Summary of Outcomes and Benefits

The main outcome achieved so far is the development of the dataset. For an Australian NFP study, the dataset is unique and considered huge, given the limited availability of public financial information within the sector. The information gathered as part of this study is original compared to what is available on the ACNC website and thus has the potential of being disseminated in high impact journals and of informing policies around NFP financial disclosures.

The primary benefits from this grant and research project are two-folds:

- (1) As an early career research (ECR), this grant allows me to pursue my research interest in the transparency and accountability of NFPs, and furthers my research agenda,

- (2) The grant writing process has helped me refined my ideas and build contacts across institutions. I have attended one of the AFAANZ grant writing workshops and it was an amazing experience – I was able to get feedback from AFAANZ members, appreciate how grants are assessed, and create an identity among colleagues attending the workshop.

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