

Disclosure practices of funded and non-funded religious non-profit organizations: A comparison

Saunah Zainon, Ruhaya Atan, Zarina Abu Bakar Roland Yeow Theng Nam

Abstract—Social responsibility performs by religious non-profit organizations (RNPOs) typically depend on the availability of various sources of funds available. The most basic sources of funds available are from donations, corporate giving and grants. The main objective of this study is to analyze the disclosure practices of funded and non-funded RNPOs. Through content analysis on the sample of 83 RNPOs annual returns for the year 2010, results of independent sample T-test indicated that funded RNPOs are more likely to disclose information. In addition, ANOVA findings confirmed the differences in the disclosure practices among funded organizations of government, private and non-funded RNPOs. The results of this study provide empirical evidence to the government and other resource providers in scrutinizing the decision to distribute their funds to these RNPOs.

Keywords—disclosure, funded, non-funded, religious non-profit

I. 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 to their stakeholders. Similarly, government sector too does not have all the resources to fulfill the needs of all stakeholders. Hence, non-profit organizations (NPOs) are established by the founders with various missions and visions.

Saunah Zainon is a senior lecturer with the Faculty of Accountancy, Universiti Teknologi MARA, Johor, Malaysia (e-mail: saunah5885@yahoo.com).

Ruhaya Atan is an associate professor at the Faculty of Accountancy, Universiti Teknologi MARA, Shah Alam, Malaysia (e-mail: ruhaya@salam.uitm.edu.my).

Zarina Abu Bakar is a lecturer with the Faculty of Accountancy, Universiti Teknologi MARA, 85000 Segamat, Johor, Malaysia (e-mail: zarin524@johor.uitm.edu.my).

Roland Yeow is the Deputy Director of Boys' Town Singapore, a non-profit multi-services youth organization. He is also an appointed Adjunct Lecturer of Murdoch University, Australia, teaching the subjects of Employment Relations in Asia and Organizational Theory and Behaviour. (e-mail: rolandyew@boystown.org.sg).

NPOs activities are mainly to provide services in order to achieve their different purpose of establishment. Different NPOs have different characteristics and may fall under different categories, but having a common goal, that is, they were incorporated not for profit. NPOs can be classified into various classifications such as according to its basis of incorporation, locality or its size [1]. NPOs can also be categorized based on its sources of fund either funded or non-funded NPOs. This category can be determined 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 include societies, associations, foundations, clubs and companies limited by guarantee (CLBG). It can be subdivided into various types such as culture, youth, women, community services, mutual benefits, professional, religious and others. Religious NPOs (RNPOs) or faith-based organizations are the third largest group among all other types of NPOs in Malaysia. There were 6,782 RNPOs registered with the ROS in Malaysia as at April 2011. The main statutes dealing with establishment and regulation of NPOs in Malaysia are the Societies Act 1966 (Act 335) & Societies Regulations 1984 and the Income Tax Act (ITA) 1967 issued by the Inland Revenue Department (IRD). Some NPOs may register under specific Acts (e.g. the Sports Commission Act or the University and University Colleges Act 1971). Otherwise, they can register themselves under the Companies Act. NGOs in the form of company are incorporated as a company limited by guarantee (known as "charitable corporation") governed by the Companies Act 1965. The principal act governing the activities and operations of the societies registered under the ROS is enforced by the Societies Act 1966 (Act 335) & Societies Regulations 1984. The regulations made there under, are known as Societies Regulation 1984. Since the enactment of the Societies Act 1966 (Act 335), numerous amendments have been carried out, and the most recent in 1998 [the Societies (Amendment) Act 1998].

RNPOs work 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 their mission, and mission become the central thrust for RNPOs' existence and operations [2]. Irrespective of the reasons for RNPOs' existence, the issues of funding are still among the main concerns of the founders or the grantors of these RNPOs especially on the aspect of the disbursement of the fund. [3] stated that NPOs provide their services based on three various sources of revenues, that are membership fees, donations and

grants. [4] studied three various sources of revenues in NPOs which includes private contributions, government funding and commercial activities. The study further stated that NPOs must rely on variety of activities and need support from resource providers and grantors in order to support their activities. [5] found that there are an increasing number of religious NPOs and this also increase the competition for resources such as donation. Shortage of fund might hold back the sustainability of their religious activities. Whilst many other studies in NPOs consider charities organizations [6-12], this study focuses on RNPOs, being one of the most important categories in NPOs that contributes to the social development in this country. In particular, this study focuses on disclosure practices of funded and non-funded RNPOs. Disclosure practice in accounting can be referred to as a direct input to investor protection. Vast disclosure practice of an organization improved its transparency [13]. Organization that is transparent will disclose more information regarding the activities and the management of this organization. This is important as stakeholders will rely on this information in deciding on any decision related to an organization. [14] found that critical accounting policy disclosures influence investors' valuation decision. As for RNPOs, stakeholders decision particularly fund provider's decision is vital as they will determine the fund being allocated to the organization. When stakeholders know more information about the organization or how the funds were utilized, this will increase their trust and can affect stakeholders' decision. [15, 16] found that religious NPOs have done a good job in controlling the cash receipt into the organization but controls are weak in the disbursement and reporting. Therefore, disclosure practices of funded and non-funded RNPOs are another important governance aspect especially where the dependency of resources is based on funding.

The remainder of this paper is presented as follows. Section II revisits the statutes dealing with NPOs in Malaysia. Section III reviews the literature on the extent of disclosures for funding organizations. Section IV describes the research methodology. Section V summarizes the findings and Section VI discusses and concludes the study and finally recommendations are provided in Section VII.

II. NPOs REGULATORY REQUIREMENTS

The main statutes dealing with establishment and regulation of nongovernmental organizations (NGOs) or NPOs in Malaysia are the Societies Act 1966 (Act 335) & Societies Regulations 1984 and the Income Tax Act (ITA) 1967 issued by the Inland Revenue Department (IRD). Some NPOs may register under specific Acts (e.g. the Sports Commission Act or the University and University Colleges Act 1971). Otherwise, they can register themselves under the Companies Act. NGOs in the form of company are incorporated as a company limited by guarantee (known as "charitable corporation") governed by the Companies Act 1865.

The principal act governing the activities and operations of the societies registered under the ROS is enforced by the Societies Act 1966 (Act 335) & Societies Regulations 1984. The regulations made there under, are known as Societies Regulation 1984. Since the enactment of the Societies Act 1966 (Act 335), numerous amendments have been carried out, and the most recent in 1998 [the Societies (Amendment) Act 1998].

All NPOs that intend to participate or organize any activity on behalf of the society must register with the relevant authorities. The ROS's primary function is only concerned with the registration, control and monitoring of registered societies throughout Malaysia so that they do not adversely affect the security, peace, public order, welfare or morality in Malaysia. The ROS requires the registered societies to submit Form 9 within 60 days after holding its Annual General Meeting (AGM).¹ In dealing with the accountability and accounting, the registered societies are required to submit the accounts of the last financial year together with a balance sheet showing the financial position at the close of the last financial year of the society. The accounts can either be audited by the societies' internal auditor or an external auditor.

NPOs that formed as "charitable corporation" are governed by the Companies Commission of Malaysia (CCM). The CCM is responsible in the registration, supervision and control of the activities of these charitable corporations. A newly incorporated charitable corporation must convene an AGM within 18 months from the date of incorporation. Following an AGM, it must lodge its annual returns and audited accounts with the Companies Commission in a timely manner.

In relation to financial reporting practices for NPOs registered with ROS, there are no particular regulatory requirements in Malaysia except for the brief requirements on the need to furnish the Form 9 together with the annual returns to the ROS. Due to less stringent regulatory requirements, the information reported by the NPOs can be insufficient or misrepresented for effective monitoring and regulating of NPOs [17].

III. REVIEW OF LITERATURE

Previous researches have suggested that greater dependence on funding, particularly the government funding can cause isomorphism, i.e. missions and programs of the NPOs to change [18]. This argument is in line with organization theory which states that the external environments can influence organizations' structural and strategic decisions [19]. On the other hand, resource dependence theory justifies the organizations' dependency on the funding to support its activities and services [20]. The external resource dependency perspective developed by [21] 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 [22-24]. [25] reviewed the shift in government funding from religious NPOs to social services NPOs. [23]

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

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. [26] 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 [18]. Other studies looked at the organizational age, size, government funding levels and percentage of revenues from direct public support and tested them as the function of organizational characteristics. [27] 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 [27], the results show that the government funding of FBOs is affected positively by age of the FBOs, and negatively affected by its size in [18].

Governments have come to depend on the non-profit sector as a community-based vehicle through which they can expand their social services [28] and this governmental funding impacts the operations of NPOs in many ways including the operations and the accountability of NPOs [29]. [30] 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. [31] 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 [32] 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 [33]'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 [34]. In the for-profit organizations, disclosure studies presume that there are information asymmetry between managers and stakeholders [35, 36]. However, this information asymmetry can be eliminated by means of disclosure of information. In NPOs, board of trustees are able 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.

The discussion above is consistent with resource dependency theory assertions that each source of revenue has its own pros and cons, and each has a different level of dependency on other organizations or external actors. Although the NPOs operate in the same legal environment, registered under the ROS, it is, however, their effort and ability to secure resources. Some organizations may face more pressure than others. For instance, organizations that receive grants might experience stronger pressures on accountability than those which do not receive any grants. As [37] notes, dependence on government funding has a very significant implication on the organization's board.

A. The Resource Dependency Theory

The unique characteristics of NPOs provide an alternative theoretical framework that can be applied in a non-profit setting. Known as the resource dependence theory (RDT), this theory is based on the notion that organizations depend on other organizations or actors for resources in order for them to survive [21] and considers financial resources as an important contingency for organizations. Resource dependency is defined as, "... the product of the importance of a given input or output to the organization and the extent to which it is controlled by a relatively few organizations" [38]. 41). A resource that is not important to the organization cannot create a situation of dependence, regardless of how concentrated the control over the resource is. This implies that in the government-NPOs relationship, NPOs which are more reliant on government fundings for a larger part of their incomes will show a greater dependence than NPOs which have other dominant sources of funding. This theory can also be related to the system resource model of organizational effectiveness developed by [39] who defined organizational effectiveness as the survival of the organization, which has "*the ability to exploit its environment in the acquisition of scarce and valued resources to sustain its functioning*" (p. 393). The system resource model justifies the use of resource acquisition as a measure of organizational effectiveness.

The main principle of RDT is that the organizations depend on financial resources to support the non-profit's activities (Weisbrod, 1998). The external stakeholders, such as corporations and governments are entities on which NPOs depend for various tangible and intangible resources. The issue of resource dependence is therefore an obvious interest

to non-profits because of its dependency on the external stakeholders. In an ideal scenario, the corporations and government will support the NPO's mission and activities.

This RDT also provides a basis for the analysis of NPOs governance and performance. From a resource dependence perspective, the board plays an important role in the performance of the organization. [38] note that "*the board is primarily of use to provide linkage to the (external) environment...*". Larger boards have been associated with better performing organizations [27, 40-42]. It appears that more board members will increase the organization's access and ability to obtaining resources for the organization to perform well. In addition, [42] stated that larger board members would also facilitate a wider community representation.

Prior studies in the non-profit setting show that the RDT has been used as a framework in examining various issues concerning NPOs and their board. [43] found that NPOs which are predominantly financed through public sectors, are more likely to (1) see themselves as bureaucratic, (2) feel political pressures, and (3) opt for political contact to counteract budget shortfalls. In contrast, private funded NPOs are more likely to bring in austerity measures. The RDT contends that the board plays a crucial role in upholding the ability to acquire and maintain resources for an organizational survival. The theory is also beneficial in explaining board behaviour that is receptive to resource-based pressure[44].

The resource dependence theory has been used in the examination of organizational performance and survival [44], relationship between funding and strategy [27], strategy and board structure [45, 46], board and organizational performance [47] and the development of hypotheses based on resource dependence theory related to the composition of audit committees [48]. Interestingly, some research findings reported that the financial dependence on the state is often associated with a general loss of autonomy [49]. Furthermore, the state and the NPOs have mutual resource dependence and substantial resource autonomy within each sector in the state. In sum, given the above discussion, the literature on the use of resource dependence theory is rich with specific attention to normative roles and responsibilities in governing boards and disclosure of information.

IV. RESEARCH METHODOLOGY

A. Sample and Data Collection

The sample consists of annual returns for the financial year 2010 of 83 RNPOs registered with the Registry of Societies (ROS). This study divided the sample according to the presence of religious practices in Malaysia; Islam, Buddhism, Hinduism, Christian and others (Sikhism, Daoism and Confucianism). A summary of the selected societies according to religious practices are shown in Table I.

TABLE I
SAMPLE SELECTION

No.	Category of RNPOs	Numbers	Percentage (%)
1.	Islam	14	16.9
2.	Buddhism	41	49.4
3.	Hinduism	4	4.8
4.	Christian	14	16.9
5.	Others (Sikhism, Daoism and Confucianism)	10	12.0
TOTAL		83	100

The largest or highest proportion of RNPOs was from Buddhism (41; 49.4%), followed by Christian and Islam (14; 16.9%), others (10; 12%) and the least is Hinduism (4; 4.8%). All RNPOs in this study 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%) RNPOs prepared financial statements and they were audited by the external auditors but none was audited by the Big Four auditors. In contrast, about half of the organizations established the position of internal auditors in their organizations.

In order to examine the different level of disclosure practices, the sample was divided between funded (44; 53%) and non-funded (39; 47%). The data were then analyzed through content analysis, a well-established research method [50-53].

B. Extent of 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 [54]. 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 [55].

C. Measurement of Variables

The measurement of score for the variables used in this study is based on a dichotomous measure where an item scores a one if it is disclosed and a zero if it is not disclosed. For each organization, the extent of disclosure is calculated as a ratio of the actual score awarded to the organization divided

by the maximum potential score awarded to that society. There are three indexes computed from Basic Information Index (BI), Financial Information Index (FI) and Governance Information index (GI). The extent of disclosure for each index is calculated as follows:

$$TDISC_j = \sum_{i=1}^{n_j} Item_i$$

The total score $TDISC_j$ represents the total score awarded to each organization and it is an unweighted total disclosure. A charity organization reporting index was then computed by using the following formula:

Total score obtained of each index for each RNPO

Maximum possible score obtained by each RNPO

The unweighted scores are used in this study because of the assumption that each item disclosed by an organization is of equal importance to the stakeholders [56]. Since the content of the reports were analyzed based on three subcategories, the researcher calculated for each index, and aggregating the results to obtain the total index.

For other independent variable of funded and non-funded organizations, data were collected from the annual returns of the participating organizations. Dummy variables were coded "1" to indicate funded RNPOs and "0" to indicate non-funded RNPOs.

D. Statistical Methods

Independent samples T-test was used 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.

V. RESULTS

A. Descriptive Analysis

The result on the extent of disclosure is given by the mean score for BI, FI, GI and TDISC as depicted in Table II. Overall, the disclosure by these RNPOs could be considered as low since the mean score is ranged between 5.29 to 9.01 of the total expected disclosure.

TABLE II
MEAN AND STANDARD DEVIATION FOR TDISC

Variables	Mean	Std. Deviation	Min	Max
BI	5.29	1.255	2	9
FI	9.01	3.311	0	17
GI	6.05	0.840	5	8
TDISC	20.35	4.092	10	33

Table III presents the mean and standard deviation for the two groups of funded and non-funded RNPOs.

TABLE III
MEAN AND STANDARD DEVIATION FOR TDISC OF FUNDED AND NON-FUNDED RNPOS

	Types	n	Min	Std. Deviation
TDISC	Funded	44	21.36	3.577
	Non-Funded	39	19.21	.700

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

B. Multivariate Analysis

Table IV highlights the result on whether there is any significant difference between the two groups and the extent of disclosure practices. 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 IV
INDEPENDENT SAMPLES T-TEST

		F	Sig.	t	df	Sig. (2-tailed)
TDISC	Equal variances assumed	1.155	.286	2.472	81	.0016
	Equal variances not assumed			2.443	73.579	.0017

The result found there is a significant difference between the two groups ($p < .05$). The result is consistent with [29, 31, 57], where in this situation the government as a local funder was significant factor influencing the disclosure of information made by the non-profit organizations.

In addition, the F -distribution is used for ANOVA to determine whether or not the mean groups are equal. The F -distribution is used instead of the T -distribution because more than two means group were investigated. The two assumptions of ANOVA are considered valid in this study. [58] stated the first assumption is that an independent random sampling is made from each of the different groups. The second assumption stated that the "populations under the study are normally distributed." [58]. The significance value in Levene's test for homogeneity of variances found to be .578 for the TDISC index. The value of greater than .05 shows that no violation is made in respect of variance homogeneity.

ANOVA findings show the TDISC index show 95% confidence level that there is significant difference among the groups. The extent of TDISC unweighted index differed significantly across the type of organisations, $F=(2, 81)$

=17.830, $p=0.000$. The results indicate that the extent of disclosure on the average differ, depending whether the organization is a non-funded, public-funded or private-funded organizations.

The Levene's test for homogeneity of variances assumption is not violated since it is greater than .05 ($p=.568$). The results from the one-way ANOVA, however, do not indicate which of the three groups differ from one another unless the follow up analysis with a post hoc test or a planned comparison among particular means are conducted. In this study, Tukey's Honestly Significant Difference (HSD) test is used in conjunction with an ANOVA to find which means are significantly different from one another. Tukey post-hoc analysis is performed to determine which denominations in the means that cause the null hypothesis to be rejected. The results for confidence interval for mean unweighted index are shown in Table V.

TABLE V
CONFIDENCE INTERVAL FOR MEAN UNWEIGHTED INDEX

Type	N	Mean	95% Confidence Interval for mean		Min	Max
			Lower Bound	Upper Bound		
Non-Funded	33	.249	.231	.266	.114	.367
Public-Funded	29	.343	.309	.376	.114	.455
Private-Funded	21	.305	.255	.354	.239	.443
Total	83	.281	.263	.297	.114	.455

Results that show a significant difference under the Tukey post-hoc test method is shown in Table VI.

TABLE VI
TUKEY HSD FOR UNWEIGHTED TDISC INDEX

	n	Subset for alpha = 0.05	
		1	2
Non-Funded	63	.248557	
Private-Funded	21	.304546	.304546
Public-Funded	29		.342534
Sig.		.054	.253

As shown in Table V and VI, there are three organizational types for comparisons at 5% level of significance. Extent of disclosure differed significantly across the three types of organizations, $F=(2, 81) =17.830$, $p=0.000$. Tukey post-hoc comparisons of the three types of organizations indicate that the public-funded organization ($M=.343$, 95% CI [.309, .376]) gives significantly higher extent of disclosure than the non-

funded organizations ($M=.248$, 95% CI [.23, .266]), $p =.000$. However, there is no significant difference in extent of disclosure between the private-funded organizations ($M=.305$, 95% CI [.255, .354]) and the other two types (non-funded and public-funded) of organizations.

These results are consistent with prior research [12, 31, 32, 57, 59-61], which reported that the difference in the extent of disclosures appears to be partly due to government control. This study empirically confirmed that organizations that rely on governmental funding are more likely to disclose more information and be more accountable to their stakeholders. It offers an understanding where organizations that do not rely on government funding or grants are less likely to disclose more information about their organizations.

The public-funded charity organizations have a great influence of government control as a local funder, through the establishment of the Welfare Department under the Ministry of Women, Family and Community Development. The preparers of annual reports from public-funded RNPOs sought to include information on activities and projects undertaken during the year. Disclosure of such information was deemed important as it directly communicates to the government, as a local resource funder. The disclosure of information tells what they have accomplished during the year. From this disclosure and information furnished to the government, the public-funded RNPOs can be assured that the government will continue proving grant to them in the next year's budget allocation for their activities.

VI. DISCUSSION AND CONCLUSION

Since funding from government is evident to be significant in the disclosure practices of RNPOs. [57] 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. 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, but faith or beliefs in religion is important for keeping the sanity and the harmony of the community.

NPOs such as RNPOs, human service organizations, hospitals or education have a moral responsibility to provide services that reflect the needs of their stakeholders, and keep them informed by making available quality of information [11]. The information to be disclosed can be both the financial and non-financial information [9] [62] [63] for these organizations to perform their social responsibility functions [64, 65]. The importance of the information holds the rationale that organizations influenced by government funding are more likely to be accountable in disclosing more information. Even though government may not be the largest funder for many NPOs, but the government may be the most important institutional actor through its regulatory requirements and legal mandates [37]. To the extent that reliance on government funding and grants enhance the disclosure for information, policy makers should consider developing policy in scrutinizing the decision to distribute their funds to these RNPOs. A well-developed funding

policies or regulations over RNPOs would help improve RNPOs accountability and transparency in the disclosure of information for the stakeholders to make better informed decision. In addition, having strong internal accounting control system can prevent cases of financial mismanagement in RNPOs [16]. These can ensure that RNPOs are directing their resources towards their vision and mission and ensuring the continuous religious services can be offered towards a better and enhanced community.

VII. RECOMMENDATIONS

This study also offers a number of recommendations for improving accountability and transparency in RNPOs reporting as follows:

- i) Rules and regulations are important in providing guidance when conveying important information in annual returns and accounts. The Societies Act 1966 (Act 335) & Societies Regulations 1984 need to be fully enforced to all categories of NPOs, including RNPOs. There has been a lack of monitoring and control especially in terms of the examination of current RNPOs financial reports.
- ii) The ROS is only involved in filing of the annual returns (without examining the validity and authenticity of the annual returns). It is timely to redefine the examination on the reliability of the annual returns prepared by RNPOs. This can be done through the establishment of an external audit for RNPOs (currently RNPOs are not required to establish an external audit). It is essential for every RNPO to conduct an independent audit of their financial statements before they file and submit the annual returns to the ROS.
- iii) The present capacity of ROS staffs and resources are not capable to cope with the increased in responsibility due to the growing numbers of NPOs. To ensure sound governance, accountability and transparency, the government should put emphasis on allocating sufficient resources to the ROS. The employment of more qualified, trained and professional staffs may also assist the ROS to monitor the activities of the NPOs generally, and in particular, the RNPOs.
- iv) Due to the large variability in accounting practices among NPOs, it is recommended that ROS prepare a special template for the NPOs' annual reporting. The ROS support in providing the reporting template will not only ensure the stakeholders' needs are met but also alleviate the problems of varying reporting formats currently practised by NPOs. Since RNPOs are driven by social missions and not by money, RNPOs are encouraged to have reporting templates that cover not only the financial but also the non-financial information. The non-financial information for RNPOs can be in various forms such as activities, future planning and stewardship information. This will encourage greater consistency and comparability in the reporting.
- v) The regulator is one of the stakeholders with respect to the formulation of accounting and reporting regulations

for NPOs. The Malaysian Accounting Standard Board (MASB) who sets standards, can play a dominant role in the development of reporting and accounting standards for NPOs in Malaysia. The involvement of the regulator and standard setter as well as members of the accounting profession is to ensure the standards prepared for NPOs is compatible with the underlying reporting framework. This provides legitimacy in the drive towards the need for better accountability and transparency.

- vi) One of the main factors to improve annual reports and accounts is not only the concern over the content but also the engagement and motivation of the preparers. However, although there is an awareness of the benefits of increasing transparency through disclosure and reporting, the costs appear to be high in the preparers' decisions on disclosure of information. The results of the study revealed that the public-funded RNPOs show a significantly higher disclosure compared to private or non-funded RNPOs. This may be because public-funded RNPOs have more resources and tend to have more specific principles, rules, regulations and disclosure requirements and they must conform to higher disclosure standards. This indicates that government support may enhance better reporting practices. Since the government prefer to subsidise these NPOs, improving the reporting practices is aimed at informing interested stakeholders about the organizational achievements, missions and visions.
- vii) Improvements for RNPOs reporting can be promoted through a variety of mechanisms. The effort to improve quality reporting by RNPOs can be supported by awards. For instance, the Charities Aid Foundation in UK supports quality reporting by charities through its charities' published accounts awards and charities' online accounts awards. The awards incentives will foster a healthy stakeholders-RNPOs relationships, which in turn increases affective commitment by both parties. In addition, the aims to promote best practice in RNPOs accounts is by encouraging a more professional approach to the management of finance in RNPOs.
- viii) The examination of the extent of disclosure through the lens of resource dependence theory in this study has the potential to provide regulators with an increased understanding of what motivates the organisations to provide information as part of the reporting practices. An improvement in accounting and reporting could enhance confidence in RNPOs sector, and thus can increase financial support in terms of donations from the stakeholders, which indirectly lead to a better social and community development.

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. An earlier draft of this paper was presented at the 3rd International Conference on Urban Sustainability, Cultural Sustainability, Green Development,

Green Structures and Clean Cars (USCUDAR '12), Barcelona, Spain, October 17 – 19, 2012.

REFERENCES

- [1] Y. Matsunaga, N. Yamauchi, and N. Okuyama, "What determines the size of the nonprofit sector?: A cross-country analysis of the government failure theory," *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, vol. 21, pp. 180-201, 2010.
- [2] A. Abraham, "Financial management in the nonprofit sector: A mission-based approach to ratio analysis in membership organizations," *Journal of American Academy of Business*, vol. 10, pp. 212-217, 2006.
- [3] K. A. Gronbjerg, "How nonprofit human service organizations manage their funding sources: Key findings and policy implications," *Nonprofit Management and Leadership*, vol. 2, pp. 159-175, 1991.
- [4] K. A. Froelich, "Diversification of revenue strategies: Evolving resource dependence in nonprofit organizations," *Nonprofit and Voluntary Sector Quarterly*, vol. 28, pp. 246-268, 1999.
- [5] J. San Hu and H. Ran Hong, "A study on the conceptualization of folk religion temple donation," *International Journal of Business and Management*, vol. 6, pp. 94-104, 2011.
- [6] C. Connolly and N. Hyndman, "Performance reporting: A comparative study of British and Irish charities," *The British Accounting Review*, vol. 36, pp. 127-154, 2004.
- [7] N. Hyndman and D. McMahon, "The evolution of the UK charity Statement of Recommended Practice: The influence of key stakeholders," *European Management Journal*, vol. 28, pp. 455-466, 2010.
- [8] S. Newberry, "Charity reports analyzed," *Chartered Accountants Journal of New Zealand*, vol. 74, p. 54, 1995.
- [9] Z. Saunah, A. Ruhaya, R. A. Raja Adzrin, and Y. Bee Wah, "Associations between organizational specific-attributes and the extent of disclosure in charity annual returns," *International Journal of Mathematical Models and Methods in Applied Sciences* vol. 6, pp. 482-489, 2012.
- [10] Z. Saunah, A. Ruhaya, Y. Bee Wah, and R. A. Raja Adzrin, "Information disclosure by charity organizations," in *6th WSEAS International Conference on Business Administration (ICBA '12)*, Harvard, Cambridge, USA, 2012.
- [11] A. Ruhaya, Z. Saunah, and Y. Bee Wah, "Quality information by charity organizations and its relationship with donation," *Recent Advances in Business Administration*, vol. World Scientific and Engineering Academy and Society (WSEAS), pp. 118-123, 2012.
- [12] Z. Saunah, A. Ruhaya, Y. Bee Wah, and A. B. Zarina, "A comparative analysis of financial performance of funded and non-funded charity organizations," *World Academy of Science, Engineering and Technology (WASET)*, vol. 68, pp. 1421-1426, 2012.
- [13] P. Huang and Y. Zhang, "Does enhanced disclosure really reduce agency costs? Evidence from the diversion of corporate resources," *The Accounting Review*, vol. 87, pp. 199-229, 2012.
- [14] C. B. Levine and M. J. Smith, "Critical accounting policy disclosures," *Journal of Accounting, Auditing & Finance*, vol. 26, pp. 39-75, 2011.
- [15] A. Levitt, "The importance of high quality accounting standards," *Accounting Horizons*, vol. 12, pp. 80-82, 1998.
- [16] T. C. Wooten, J. W. Coker, and R. C. Elmore, "Financial control in religious organizations," *Nonprofit Management and Leadership*, vol. 13, pp. 343-365, 2003.
- [17] A. Roshayani, O. Normah, A. R. Rashidah, S. Jamaliah, and M. Intan Salwani, "Governance and financial reporting: An exploratory study of disclosure practices by nonprofit organizations in Malaysia," in *Accounting Research and Education (AREC)* Universiti Teknologi MARA, Shah Alam, 2012.
- [18] L. Lampkin and K. Raghavan, "Organizational characteristics, financial performance measures, and funding sources of faith based organizations," *Journal of Health and Human Services Administration*, vol. 31, pp. 332-355, 2008.
- [19] W. R. Scott, *Organizations: rational, natural and open systems*, 2nd ed. Englewood Cliffs, NJ: Prentice Hall, 1987.
- [20] B. A. Weisbrod, "Guest editor's introduction: The nonprofit mission and its financing," *Journal of Policy Analysis and Management*, vol. 17, pp. 165-174, 1998.
- [21] J. Pfeffer and G. R. Salancik, *The external control of organizations*. New York: Harper and Row, 1978.
- [22] R. Cnaan and S. C. Boddie, "Charitable choice and faith-based welfare: a call for social work," *Social Work*, vol. 47, pp. 224-235, 2002.
- [23] J. C. Green and A. L. Sherman, *Fruitful collaborations: A survey of government-funded faith-based programs in 15 states*. Charlottesville: VA: Hudson Institute, 2002.
- [24] B. R. Johnson, *Objective hope: Assessing the effectiveness of FBOS: A review of the literature*. Philadelphia: University of Pennsylvania, Center for Research on Religion and Urban Civil Society, 2002.
- [25] R. A. Cnaan and S. C. Boddie, *The invisible caring hand: American congregations and the provision of welfare*. New York: New York University Press, 2002.
- [26] J. D. Scott, "Exploring the funding relationships between community foundations and faith-based social service providers," State University of New York, Albany, NY2004.
- [27] M. M. Stone, M. A. Hager, and J. J. Griffin, "Organizational characteristics and funding environments: A study of a population of United Way-Affiliated nonprofits," *Public Administration Review*, vol. 61, pp. 276-289, 2001.
- [28] P. D. Hall, "Philanthropy, the welfare state, and the transformation of American public and private institutions, 1945-2000," Harvard University, Cambridge, MA, Hauser Center for Nonprofit Organizations2000.
- [29] W. Luksetich, "Government funding and nonprofit organizations," *Nonprofit and Voluntary Sector Quarterly*, vol. 37, pp. 434-442, 2008.
- [30] L. M. Salamon, S. W. Sokolowski, and H. K. Anheier, "Social origins of civil society: An overview," 2000.
- [31] T. Gordon, M. Fisher, D. Malone, and G. Tower, "A comparative empirical examination of extent of disclosure by private and public colleges and universities in the United States," *Journal of Accounting and Public Policy*, vol. 21, pp. 235-275, 2002.
- [32] M. Fischer, T. P. Gordon, and M. A. Kraut, "Meeting user information needs: The impact of major changes in FASB and GASB standards on financial reporting by colleges and universities," in *Journal of Accounting and Public Policy* vol. 29, ed, 2010, pp. 374-399.
- [33] M. Jegers and C. Houtman, "Accounting theory and compliance with accounting regulations: The case of hospitals," *Financial Accountability & Management*, vol. 9, pp. 267-278, 1993.
- [34] J. L. Gandia, "Internet disclosure by nonprofit organizations: Empirical evidence of nongovernmental organizations for development in Spain," *Nonprofit and Voluntary Sector Quarterly*, vol. 40, pp. 57-78, 2011.
- [35] P. M. Healy and K. G. Palepu, "Information asymmetry, corporate disclosure and the capital markets: A review of the empirical disclosure literature," *Journal of Accounting and Economics*, vol. 31, pp. 405-440, 2001.
- [36] O. Kim and R. E. Verrecchia, "Market liquidity and volume around earnings announcements," *Journal of Accounting and Economics*, vol. 17, pp. 41-68, 1994.
- [37] C. Guo, "When government becomes the principal philanthropist: The effects of public funding on patterns of nonprofit governance," *Public Administration Review*, vol. 67, pp. 458-473, 2007.
- [38] J. Pfeffer and G. R. Salancik, "Social control of organizations," in *The external control of organizations: A resource dependence perspective*, R. E. Beach, Ed., ed New York: Harper and Row 1978.
- [39] S. E. Seashore and E. Yuchtman, "Factorial analysis of organizational performance," *Administrative Science Quarterly*, vol. 12, pp. 377-395, 1967.
- [40] D. E. Olson, "Agency theory in the not-for-profit sector: Its role at Independent Colleges," *Nonprofit and Voluntary Sector Quarterly*, vol. 29, pp. 280-296, 2000.
- [41] J. Pfeffer, "Size, composition and function of hospital boards of directors: The organization and its environment," *Administrative Science Quarterly*, vol. 18, pp. 349-363, 1973.

- [42] K. G. Provan, "Board power and organizational effectiveness among human service agencies," *Academy of Management Journal*, vol. 23, pp. 221-236, 1980.
- [43] H. K. Anheier, S. Toepler, and S. Sokolowski, "The implications of government funding of nonprofit organizations: Three propositions," *International Journal of Public Sector Management*, vol. 10, pp. 190-213, 1997.
- [44] J. L. Miller-Millesen, "Understanding the behavior of nonprofit boards of directors: A theory-based approach," *Nonprofit and Voluntary Sector Quarterly*, vol. 32, pp. 521-547, 2003.
- [45] R. D. Heimovics, R. D. Herman, and C. L. Jurkiewicz, "Executive leadership and resource dependence in nonprofit organizations: A frame analysis," *Public Administration Review*, vol. 53, pp. 419-427, 1993.
- [46] M. M. Hodge and R. F. Piccolo, "Funding source, board involvement techniques and financial vulnerability in nonprofit organizations: A test of resource dependence," *Nonprofit Management and Leadership*, vol. 16, pp. 171-190, 2005.
- [47] W. A. Brown, "Exploring the association between board and organizational performance in nonprofit organizations," *Nonprofit Management and Leadership*, vol. 15, pp. 317-339, 2005.
- [48] T. E. Vermeer, K. Raghunandan, and D. A. Forgione, "The composition of nonprofit audit committees," *Accounting Horizons*, vol. 20, pp. 75-90, 2006.
- [49] J. R. Saidel, "Resource interdependence: The relationship between state agencies and nonprofit organizations," *Public Administration Review*, vol. 51, pp. 543-552, 1991.
- [50] O. R. Holsti, *Content analysis for the social sciences and humanities*: Addison-Wesley Publishing, Reading, MA, 1969.
- [51] K. Krippendorff, *Content analysis: An introduction to its methodology*. Newbury Park, CA: Sage Publications, 1980.
- [52] K. A. Neuendorf, *The content analysis guidebook*. Thousand Oaks, California: Sage Publications, 2002.
- [53] M. Weber, "Basic content analysis," in *Sage University Paper Series on Quantitative Applications in the Social Sciences*, ed. Beverly Hills, CA and London: Sage, 1988.
- [54] Z. Saunah, A. Ruhaya, and Y. Bee Wah, "Applying stakeholder approach in developing charity disclosure index," *Archives Des Sciences Journal*, vol. 65, pp. 204-229, 2012.
- [55] D. George and P. Mallery, *SPSS/PC + Step by: A simple guide and reference*. Belmont, CA: Wadsworth, 1995.
- [56] C. W. Chow and A. Wong-Boren, "Voluntary financial disclosure by Mexican corporations," *The Accounting Review*, vol. July, pp. 533-541, 1987.
- [57] C. P. Scheitle, "Identity and government funding in Christian nonprofits," *Social Science Quarterly*, vol. 90, pp. 816-833, 2009.
- [58] A. D. Aczel and J. Sounderpandian, *Complete business statistics*, 5th ed. Boston: McGraw Hill, 2002.
- [59] M. A. Desai and R. J. Yetman, "Constraining managers without owners: Governance of the not-for-profit enterprise," in *Working Paper Series, No. 11140*, N. B. o. E. R. (NBER), Ed., ed, 2005.
- [60] R. B. Posey, "An investigation of the differences in bond disclosures made by public and private colleges," Oklahoma State University 1980.
- [61] S. Verbruggen, J. Christiaens, and K. Milis, "Can resource dependence and coercive isomorphism explain nonprofit organizations' compliance with reporting standards?," *Nonprofit and Voluntary Sector Quarterly*, vol. 40, pp. 5-32, 2011.
- [62] P. Kanthawongs, "An analysis of the information needs for e-parliament systems," in *3rd WSEAS International Conference on e-Activities*, Rethymno, Crete, Greece, 2004.
- [63] R. Nistor, A. Capatina, C. Nistor, and D. Cristea, "Performance assessment of a business intelligence system acquisition using balanced scorecard software," in *5th WSEAS International Conference on Business Administration (ICBA '11)*, Montreux, Switzerland, 2011.
- [64] A. Ruhaya, M. R. Noraida, and M. Nafsiah, "Corporate reporting of contribution to society: Compliance to the silver book by Malaysian government linked companies," in *8th WSEAS International Conference on Management, Marketing and Finances (MMF '10)*, Penang, Malaysia, 2010.
- [65] A. S. Branca, J. P. Pina, and M. Catalao-Lopes, "Corporate social responsibility and macroeconomic environment," in *2nd WSEAS International Conference on Environment, Medicine and Health Sciences (EMEH '11)*, Playa Meloneras, Gran Canaria, Canary Islands, Spain 2011, pp. 223-228.

Saunah Zainon is a senior lecturer at the Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Segamat, Johor. She is currently a PhD Candidate at Universiti Teknologi MARA (UiTM), Malaysia. Her research interest and publications are in the fields of financial reporting in non-profit organizations, social responsibility, governance and accountability

Ruhaya Atan (PhD) is an associate professor at the Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Malaysia. She is a Chartered Accountant (CA) of Malaysian Institute of Accountant and holds a PhD in Accounting and Finance from the University of Birmingham, UK. She is a member of UiTM- ACCA Financial Reporting Research Centre, and also a member of Asia Pacific Centre for Sustainability (APCeS), Accounting Research Institute, Malaysia. She is now in the Editorial Advisory and Review Board of Journal of Financial Reporting & Accounting. Her research interests and publications are in the fields of financial reporting in private sector and the not-for-profit sector, corporate governance and corporate social responsibility.

Zarina Abu Bakar is a lecturer with the Faculty of Accountancy, Universiti Teknologi MARA, 85000 Segamat, Johor, Malaysia. Her research interest is financial reporting, management accounting, auditing and corporate governance.

Roland Yeow Theng Nam is the Deputy Director of Boys' Town Singapore, a non-profit multi-services youth organization. He is also an appointed Adjunct Lecturer of Murdoch University, Australia, teaching the subjects of Employment Relations in Asia and Organizational Theory and Behaviour.