Board size and level of financial disclosures: An investigation of Australian not-for-profit organisations

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Abstract

**Purpose:** The paper aims to explore the association between the board size of large Australian not-for-profit organisations (NFPs) and their level of financial disclosures.

**Design/ Methodology/ Approach:** The paper pursues its objective using a resource dependence theoretical lens, a judgmental sample of 52 NFPs across four sub-sectors, two years of data (2013 and 2014) and regression analysis.

**Findings:** The paper finds a statistically significant impact of board size on the level of recommended financial disclosures by the examined NFPs. This observation suggests as the number of members on the NFP board increases, the members encourage the organisation to publish a greater level of financial statement disclosures which align with those recommended by the sector-neutral reporting requirements. Conversely, the paper notes an absence of influence of board size on the level of additional financial disclosures of the examined NFPs. This finding indicates that the number of board members of a NFP does not encourage the organisation to go beyond the financial disclosures required under the sector-neutral standards and to improve their financial transparency. Also the paper observed variances in the levels of financial disclosures within the NFP sector as well as across sub-sectors.

**Research limitations/implications:** The main limitation of this paper is its sample size which is restrained to 52 organisations, given access to general purpose financial statements within the Australian NFP sector is scare. Another limitation of the paper pertains to its focus on financial statement disclosures at the expense of other forms of disclosures, such as social media and annual report disclosures.

The observations made in this paper add to the case for improvement in the current Australian NFP reporting framework. The results show that the board size of a NFP encourages the organisation to conform to recommended financial reporting requirements and restrict its level of financial disclosures additional to those prescribed by reporting standards. To promote financial transparency and disclosures within the Australian NFP sector, the findings suggest the ACNC introduces a NFP-specific financial reporting framework prescribing the items to be included in the financial reports produced by NFPs.

**Originality/ Value:** With most study investigating the association between board size and disclosures having focused on country contexts like Malaysia and/or specific sub-sectors (such as hospitals in California), this study takes an original stance by exploring Australian NFPs.

**Key words:** governance, board members, financial statements, accounting disclosures, reporting framework.
1. Introduction

Not-for-profit organisations (NFPs) are generally set up with the primary objective of promoting social welfare and they do not operate for the economic benefit of a particular group (ACNC 2018). Given the nature of NFPs, there tends to be a reasonable expectation that NFPs can be trusted for using their resource flows to maximise their social mission (Arshad et al. 2013). To carry out social activities, NFPs are reliant on their external environment for resource inflows (Verbruggen et al. 2011), including donation income, fundraising income, government grants and membership fees (Zainon et al. 2014). However, in recent times, negative headlines covering fund misappropriation within the not-for-profit (NFP) sector and NFP-related fraud have adversely impacted trust and confidence in the resource flows of NFPs (Saxton and Guo 2011). This loss of trust has, in turn, reduced NFPs’ ability to attract resource inflows (Arshad et al. 2013). To maintain these inflows, NFPs have to retain trust in their operations (AbouAssi 2015) and one way of doing so is by demonstrating accountability of their use of resources (Arshad et al. 2013). A fundamental element in the discharge of accountability is transparency (Behn et al. 2010; Burger and Owens 2010) via disclosures (Lee and Joseph 2013; Zainon et al. 2014).

This study investigates disclosures within the NFP context by focusing on the financial statement disclosures: recommended and additional financial disclosures made by Australian NFPs. Unlike USA, UK, New Zealand and Canada, Australia does not yet have financial reporting requirements specific to the whole NFP sector. Australian NFPs deal with sector neutral standards: one set of accounting standards applicable to all sectors and which has been slightly amended for NFPs (Irvine and Ryan 2013), in addition to a range of other disclosure requirements (Artiach et al. 2016). These requirements however lack consistency (ACNC 2014) and appear to do little to promote comparability in the financial disclosure practices of Australian NFPs (Palmer 2013; Ryan et al. 2014; Ghoorah 2017).

Governance boards play a primary role in the financial statement disclosures made by an organisation (Dionne and Triki 2015) and in assuring the integrity of these disclosures (AICD 2013). The governance board of an organisation is responsible for approving (Verbruggen et al. 2011) and signing off financial statements which fairly represent the financial situation of their organisation (CAANZ 2017). The Australian Charities and Not-for-Profit Commission (ACNC) Act 2012 (Section 180) highlights the significance of governance mechanisms in the NFP context by making NFP directors personally liable for the activities of their NFP.

NFP governance studies have focused on the issues arising when NFPs compete with for-profit organisations (Bolton and Mehran 2006), role of a national regulator in addressing governance challenges (Chelliah et al. 2015), the recruitment and retention of voluntary board members (Barnes et al. 2017). NFP disclosure studies (such as Behn et al. 2010; Saxton et al. 2012) have developed models to empirically explain the influence of governance mechanisms. Studies exploring the impact of board size and disclosures have focused on country contexts like Malaysia (Arshad et al. 2013), Bangladesh
(Ahmed and Khan 2016) and/or specific sub-sectors such as hospitals in California (Krishnan and Yetman 2011). The literature on the relationship between the governance mechanism and disclosures of Australian NFPs is still emerging.

This paper fills in the gap in the NFP literature by exploring the association between board size and the level of financial disclosures published by Australian NFPs. The paper is structured as follows. The next two sections discuss financial transparency and governance boards respectively. The remaining sections address the theoretical framework, research method, data analysis, findings and concluding remarks of the paper.

2. Financial transparency & disclosures

Transparency has been defined as the provision of access to different types of information: being inclusive of information ranging from the financial (Hooper et al. 2008) to the activities, governance (Burger and Owens 2010) and functioning of an organisation (Rodriguez et al. 2011).

The financial transparency, in the form of financial statement disclosures, represents a fundamental source of information enabling stakeholder groups to assess the performance of a NFP (Krishnan and Yetman 2011; Zainon et al. 2014). Financial disclosures made by NFPs play a key role in resource providers’ economic decisions (Parsons 2007), in stakeholders’ perceptions of the reporting NFP, and in eventually encouraging resource inflows to the NFP (Zainon et al. 2012).

3. Governance boards

NFP context

In the NFP sector, board members often take their position voluntarily (Herman and Renz 2004), as part of their philanthropic service (Viader and Espina 2014). As a result, NFP boards are generally composed of volunteers, paid directors (Barnes and Howson 2014), “honorary” members, staffs and hybrid members (members who are simultaneously staff and volunteer to the NFP) (Romano 2013, p.104).

Further, NFPs have a non-distribution constraint implying that NFPs cannot distribute any of their surpluses to identifiable owners or residual claimants (Bolton and Mehran 2006), including board members (Hopkins 2011). This non-distribution constraint implies that NFPs are not primarily accountable to one specific stakeholder group, namely, shareholders as in the commercial sector (Barnes and Howson 2014; Viader and Espina 2014); but instead face multiple “accountability mechanisms” where they are accountable to their resource providers as well as to the recipients of their goods or service (Chelliah et al. 2015, p.454).
Board size and transparency
The governance mechanism of an organisation has the potential of improving its accountability and transparency (Zainon et al. 2012). In the NFP context, board members are perceived as being responsible for the development of valuable relationships with external stakeholder groups, including resource providers, and for the eventual resource inflows to their NFP (Viader and Espina 2014). The governance structure of a NFP plays a fundamental role in the sustainability of the organisation (Connolly and Hyndman 2013; Yeo et al. 2017).

The governance structure of an organisation encompasses its board composition and its board size (Yeo et al. 2017). Board size has been adopted in the literature as a proxy for the overall governance of an organisation (Zainon et al. 2012). Within the NFP context, a larger board denotes a greater representation of social interests (Provan 1980) as well as a greater number and range of contacts with the public in general, which in turn facilitates external activities (such as fundraising) and the inflow of resources to a NFP (Pfeffer 1973; Olson 2000). Given the resource dependence of NFPs on external providers, large boards represent a mechanism by which NFPs can increase revenue inflows (Zainon et al. 2014).

To further strengthen their ties with these external providers, NFPs may also use disclosures (Nah and Saxton 2012). The board size of a NFP may potentially impact the governance and the disclosures of the NFP (Krishnan and Yetman 2011). Large boards denote a pool of members with a broader range of specialisation (Ahmed and Duellman 2007), experience, knowledge (Arshad et al. 2013; Harris et al. 2014).

Conversely, larger NFP boards imply communication, coordination and decision-making issues (John and Senbet 1998; Krishnan and Yetman 2011), eventually adversely impacting the monitoring of the overall board (Ahmed and Khan 2016).

4. Resource Dependence Theoretical (RDT) Framework

Resource Dependence Theory (RDT), as introduced by Pfeffer and Salancik (1978), argues that the ability of an organisation to survive is directly related to their potential to attract and retain resource inflows. This theory emphasises the influence of external resource inflows on the practices adopted by an organisation. The two key tenets of the theory is that, first, organisations are dependent on other stakeholder groups for their resource inflows and, second, organisations engage in practices which reduce uncertainties associated with their resource inflows (Zainon et al. 2014).

From a RDT perspective, larger boards denote greater contacts with different stakeholder groups, placing the NFP in a better position to attract funds (Olson 2000). For instance, NFPs may use board members’ reputation as collateral to attract resource inflows (Handy 1995). NFPs with higher resource dependency are likely to have a larger governance board comprising of members with a link to external providers.
resource providers (Arshad et al. 2013). Studies such as (Pfeffer 1973; Sanders and Carpenter 1998) provide empirical evidence that board of directors play a key role in the resource dependency strategies of an organisation and in increasing their resource inflows (Aggrawal et al. 2012).

Transparency, via disclosures, represents a form of responding to the information needs to different stakeholder groups (Meyer and Rowan 1977), in particular resource providers (Froelich 1999). Larger NFP boards, denoting a greater representation of social interest (Provan 1980), it seems reasonable to expect a positive impact of the board size of a NFP on its disclosures, including financial statement disclosures. Also, NFPs with larger boards are expected to provide more financial statement information as these NFPs are likely to have to prepare a wider range of financial statement disclosures catering for the information requirements of a larger number of members (Ahmed and Khan 2016).

Studies had mixed observations of the association between the board size of an organisation and its level of transparency. Some studies have observed a positive impact of board size on the level of disclosures (Saxton and Guo 2011; Gregory et al. 2016), including financial disclosures made by NFPs (Atan et al. 2012; Saxton et al. 2012). Conversely, while earlier studies (such as Gordon et al. 2002) have observed an inverse influence of board size on disclosures made by NFPs, more recent ones (including Zainon et al. 2012; Galvez-Rodrigues et al. 2016) found no impact of board size on the level of disclosures made by NFPs. Given these mixed findings, Atan et al. (2013) calls for further investigation of the impact of board size on the disclosures made by NFPs. Responding to this call, this paper explores the association between the board size and the level of financial disclosures published by Australian NFPs.

5. Research Method

Sample

This paper pursues its objective using a sample drawn from the Pro Bono Australia database: one of the largest online publishers of information on the Australian NFP sector, at the time of this study. A sample of 52 NPOs has been identified using judgment sampling with the following criteria:

(1) The NPO operates in one of the four sub-sectors which constantly record the largest contribution to the Australian economy, namely, the social services, culture and recreation, education and research, and environment sub-sectors (ABS, 2015; Productivity Commission, 2010).

(2) The NPO operates in only one sub-sector,

(3) The NPO produces general purpose financial statements (GPFS) which are publicly available, and

(4) The NPO is a large organisation: its annual total revenue is at least $1 million, following the measurement used by the ACNC.
The sample of 52 NFPs, across four sub-sectors is summarised in Table 1.

Table 1. Sample by NPO market sector categories

<table>
<thead>
<tr>
<th>Market sector</th>
<th>Number of Samples NPOs</th>
<th>Proportion of sample (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture and Recreation</td>
<td>4</td>
<td>7.70</td>
</tr>
<tr>
<td>Education and Research</td>
<td>7</td>
<td>13.46</td>
</tr>
<tr>
<td>Environment</td>
<td>7</td>
<td>13.46</td>
</tr>
<tr>
<td>Social Services</td>
<td>34</td>
<td>65.38</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Data

This paper explores the association between board size and level of financial transparency using two years (2013 and 2014) of annual report and GPFS data.

Measurement of variables

Dependent Variable: Level of financial disclosures

The dependent variable is gauged using disclosures made within the statement of financial performance, the statement of financial position and the statement of cash flows: statements containing the main elements of financial statements (AASB 2016) as well as notes accompanying these statements. The paper measures level of financial transparency using two disclosure measurement tools: a disclosure index and a disclosure score.

The disclosure index is composed of 88 financial statement items and assesses the level of recommended financial disclosures by Australian NFPs. These 88 items are identified from exemplar financial statements aligning with the sector neutral reporting standards applicable to publicly reporting Australian NFPs. Specifically, the disclosure index is developed from analysing example financial statements produced by Grant Thornton and Chartered Accountants Australia and New Zealand (CAANZ).

The disclosure score assesses the level of additional financial transparency which Australian NFPs publish besides the 88 items forming the disclosure index.
Consistent with prior studies (such as Saxton et al. 2014; Ghoorah 2017), this paper uses an unweighted disclosure index and score:

\[
\text{Disclosure index } \, k = \frac{\sum_{i=1}^{n} d_i}{\sum_{j=1}^{n} d_i}
\]

\[
\text{Disclosure score } \, k = \sum_{i=1}^{n} d_i
\]

where,

\text{Disclosure Index } \, k = \text{Disclosure index of NFP}_k

\text{Disclosure Score } \, k = \text{Disclosure score of NFP}_k

d_i \text{ is gauged using a dichotomous scoring process, where } d_i = 1 \text{ if item ‘}i\text{’ is disclosed; and } 0 \text{ if otherwise)}

(Adapted from Cooke 1989; Ghoorah 2017).

For further elaboration of the sample and dependent variable used in this paper, refer to the study by Ghoorah (2017).

**Measurement of board size**

Board size is measured as the number of board members, following prior studies (including Atan et al. 2012; Arshad et al. 2013; Ahmed and Khan 2016).

**Control variables**

This study further explores the association between board size and level of financial disclosures by considering three control variables, namely, age of NFP, size of NFP and size of audit firm. The measurements of these control variables are summarised in Table 2.
Table 2. Measurement of independent and control variables

<table>
<thead>
<tr>
<th>Control variables</th>
<th>Measurement</th>
<th>Adapted from</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of NPO (NPO_AGE)</td>
<td>Number of years since the NPO was initially created in Australia</td>
<td>Saxton et al. (2014); Sloan &amp; Grizzle (2014); Haski-Leventhal &amp; Foot (2016)</td>
</tr>
<tr>
<td>Size of audit firm (AUDIT_SIZE)</td>
<td>A dichotomous scale of 1 and 0 is used, where 1 denotes a Big-4 audit firm; and 0, if otherwise.</td>
<td></td>
</tr>
<tr>
<td>Size of NPO (NPO_SIZE)</td>
<td>Total annual revenue received by a NPO</td>
<td>Following the measurement adopted by ACNC</td>
</tr>
</tbody>
</table>

6. Data Analysis, Results and Discussion

Descriptive Statistics

Table 3. Descriptive statistics: Non-categorical variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>n</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Median</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of recommended financial disclosures</td>
<td>104</td>
<td>0.86</td>
<td>0.047</td>
<td>0.87</td>
<td>0.74</td>
<td>0.96</td>
</tr>
<tr>
<td>Level of additional financial disclosures</td>
<td>104</td>
<td>44.15</td>
<td>17.243</td>
<td>40.50</td>
<td>18</td>
<td>93</td>
</tr>
<tr>
<td><strong>Independent Variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Size</td>
<td>104</td>
<td>10.97</td>
<td>4.179</td>
<td>10.00</td>
<td>4</td>
<td>31</td>
</tr>
<tr>
<td><strong>Control Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age of NFP</td>
<td>104</td>
<td>67.79</td>
<td>45.482</td>
<td>53.50</td>
<td>8</td>
<td>172</td>
</tr>
<tr>
<td>Size of NFP</td>
<td>104</td>
<td>123393026.75</td>
<td>218711921.834</td>
<td>34203631.00</td>
<td>1038892</td>
<td>1078315000</td>
</tr>
</tbody>
</table>
The descriptive statistics, as summarised in Table 3, show that the mean level of additional financial disclosures is 44.15 and of recommended financial disclosures is 0.86. These statistics indicate that, on average, the sampled NFPs provide 44 additional disclosure items within their financial statements and conform to 86% of the disclosures recommended within the exemplary financial statements. Further, variances in the level of financial transparency of the sampled NFPs (Table 3) as well as across each of the examined sub-sectors (Table 4) are noticeable. These variances highlight that under the current sector neutral financial reporting framework applicable to Australian NFPs (as represented by the example financial statements), there is a lack of consistency in the level of financial disclosures published by the explored NFPs. These findings add to the case for reviewing the current Australian sector-neutral disclosure requirements to a NFP-specific financial reporting framework promoting uniform financial disclosures practices.
Further, this paper notes variances in the board size of the sampled NFPs (Table 3) and across each of the examined sub-sectors (Table 4). The association of these variances in board size and level of financial disclosures are explored next.

Multiple Regression Analysis & Results

The results of a multiple regression analysis of the association between board size and level of financial disclosures amongst the sampled NFPs are reported in Tables 5 and 6.

Table 5. Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable: Level of recommended financial disclosures</td>
<td>.269a</td>
<td>0.073</td>
<td>0.063</td>
<td>0.046</td>
<td>7.976</td>
<td>.006***</td>
</tr>
<tr>
<td>Dependent Variable: Level of additional financial disclosures</td>
<td>.146a</td>
<td>0.021</td>
<td>0.012</td>
<td>17.141</td>
<td>2.233</td>
<td>.138</td>
</tr>
</tbody>
</table>

*Figures have been rounded to 3 d.p, ***p < 0.01*

Table 6. Association between level of financial disclosures and board size

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable: Level of recommended financial disclosures (Constant)</td>
<td>0.827</td>
<td>0.013</td>
<td>65.287</td>
<td>0.000</td>
</tr>
<tr>
<td>BSIZE</td>
<td>0.003</td>
<td>0.001</td>
<td>2.824</td>
<td>0.006***</td>
</tr>
<tr>
<td>Dependent Variable: Level of additional financial disclosures (Constant)</td>
<td>37.528</td>
<td>4.742</td>
<td>7.914</td>
<td>0.000</td>
</tr>
<tr>
<td>BSIZE</td>
<td>0.604</td>
<td>0.404</td>
<td>1.494</td>
<td>0.138</td>
</tr>
</tbody>
</table>

*Figures have been rounded to 3 d.p, ***p < 0.01*
Table 5 shows that the research model is statistically significant only when exploring the level of recommended financial disclosures by the sampled NFPs. Table 6 confirms the statistically significant impact (at a level of 0.01) of board size on the level of recommended financial disclosures provided by the sampled NFPs.

Conversely, both Tables 5 and 6 outline that board size has no statistically significant impact on the level of additional financial disclosures by the examined NFPs.

Table 7. Association between level of financial disclosures, board size and control variables

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>SE</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level of recommended financial disclosures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.820</td>
<td>0.015</td>
<td>54.147</td>
<td>0.000</td>
</tr>
<tr>
<td>BSIZE</td>
<td>0.001</td>
<td>0.001</td>
<td>1.153</td>
<td>0.252</td>
</tr>
<tr>
<td>AGE</td>
<td>9.140E-05</td>
<td>0.000</td>
<td>0.949</td>
<td>0.345</td>
</tr>
<tr>
<td>AUDIT_FIRM</td>
<td>0.024</td>
<td>0.008</td>
<td>2.833</td>
<td>0.006***</td>
</tr>
<tr>
<td>NFP_SIZE</td>
<td>9.764E-11</td>
<td>0.000</td>
<td>4.759</td>
<td>0.000***</td>
</tr>
<tr>
<td><strong>Level of additional financial disclosures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>16.903</td>
<td>5.110</td>
<td>3.308</td>
<td>0.001</td>
</tr>
<tr>
<td>BSIZE</td>
<td>1.012</td>
<td>0.375</td>
<td>2.699</td>
<td>0.008***</td>
</tr>
<tr>
<td>AGE</td>
<td>0.237</td>
<td>0.033</td>
<td>7.282</td>
<td>0.000***</td>
</tr>
<tr>
<td>AUDIT_FIRM</td>
<td>-4.921</td>
<td>2.861</td>
<td>-1.720</td>
<td>0.089*</td>
</tr>
<tr>
<td>NFP_SIZE</td>
<td>1.391E-08</td>
<td>0.000</td>
<td>2.010</td>
<td>0.047**</td>
</tr>
</tbody>
</table>

Figures have been rounded to 3 d.p; ***p < 0.01, **p < 0.05, *p < 0.1

Table 7 reports the results from the inclusion of control variables into the regression analysis of the association between board size and level of financial disclosures. These results however do not align with the observations made in Table 6: whilst they show no statistically significant impact of board size on level of recommended financial disclosures, the findings summarised in Table 7 indicate a statistically significant influence (at a level of 0.01) of board size on level of additional financial disclosures.

Further, Table 7 illustrates that size of audit firm and size of NFP have statistically significant impacts on both the level of recommended and the level of additional financial disclosures by the sampled NFPs. These findings suggest a future study may explore the impact of the technical capacity of Australian NFPs (as proxy by their age and size) on the level of financial disclosures of these organisations. Table 7 also reports a statistically significant (at a level of 0.01) influence of age of NFP on the level of
additional financial disclosures of the explored NFPs. An interpretation of this statistically significant impact is as a NFP operates for a longer period time period, it builds a reputation and trust around its brand, and to retain that trust, the NFPs signals improved financial transparency using its financial statement disclosures.

7. Discussion & Concluding remarks

The findings of the paper show that board size has varying impacts on the level of financial disclosures by the sampled NFPs. The statistically significant association of board size on level of recommended financial disclosures suggests as the number of members on the governance board of a NFP increases, the representation of overall social interest may increase (Provan 1980). Further, these members may encourage the NFP to improve its financial disclosures by making additional financial statement disclosures aligning with the sector-neutral reporting requirements (as represented by the exemplar financial statements). An interpretation of this statistically significant association is that the governance board of the sampled NFPs use their compliance with reporting requirements and hence, their recommended level of financial disclosures, as a medium to signal their legitimacy, retain trust in their operations and attract resource inflows.

The statistically insignificant association between board size and level of additional financial disclosures indicates that the board size however has no impact on the additional financial statement disclosures provided by the examined NFPs. This finding suggests the governance board of the examined NFPs do not encourage their organisation to make financial statement disclosures in addition to those recommended by sector-neutral reporting standards applicable to NFPs in Australia.

The findings of this paper further add to the case for improvement in the Australian NFP reporting framework. The results of the paper show that the board size of a NFP is likely to encourage the NFP to conform to recommended financial reporting requirements, but not to make any disclosures which are additional to those prescribed by reporting standards. Hence, to promote financial transparency within this Australian NFP sector, it is suggested that the ACNC introduces a NFP-specific financial reporting framework prescribing the items to be included in the financial reports produced by NFPs.

This paper makes two main contributions. First, the observations made in this paper add to the NFP literature examining disclosures and/or governance. Second, its findings provide insights to regulators into the need for a NFP-specific financial reporting framework to encourage financial disclosures and transparency within the Australian NFP sector.

The results of the paper need to be considered bearing in mind its limitations. The paper has three key limitations. First, its sample is restricted to 52 NFPs across four sub-sectors, restraining the generalisation of the findings of this paper. Second, the main focus of this paper is on large publicly
reporting NFPs, ignoring the extent to which non-large and non-publicly reporting NFPs publish financial statement information. Third, the paper focuses on disclosures provided within three financial statements and the notes accompanying these statements. The study does not examine other financial statements, social media and annual report disclosures by a NFP.

Future research may extend this paper by exploring the association between board size and level of financial disclosures amongst small and medium-sized NFPs. Another study may examine the influence of board size on the disclosure of non-financial statement disclosures, such as on the narrations, graphs and pictures provided within the annual reports of NFPs. Also, further studies extend this study by exploring the impact of board size on financial transparency across a wider range of NFP sub-sectors and a longer time period.


CAANZ (Chartered Accountants Australia and New Zealand) (2017), *Directors’ Responsibilities for Financial Reporting*, CAANZ.


