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Transparency of NPOs' financial reporting: A quantitative study of annual reports (Switzerland)

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Abstract

Key words: Information needs of stakeholder, accounting of non-profit-organizations, transparency of financial reporting, best practice disclosure, potential of improving financial reporting.

The present study is based on an empirical analysis of annual reports from more than 300 social non-profit organizations (NPOs) in Switzerland. It provides a necessary knowledge basis regarding the level of disclosure of an NPO's accounting. The set of instruments presented in the study enables a step-by-step identification of the informative value of the reporting using a self-assessment tool as well as a determination of the appropriate course of action for optimization using an action matrix. The accounting's informative value can be increased by exploiting the potential for improvement using an optimization matrix and implementation recommendations. This allows the management of an NPO to answer the following four questions: (i) what is the informative value of the NPO's own accounting? (ii) is there potential for optimization? (iii) how can the tools provided be applied to exploit the potential for optimization? (iv) what measures can be taken within the NPO to improve the informative value of the annual report in the future?

Introduction

Within the framework of a research project funded by the (Federal) Swiss Commission for Technology and Innovation (CTI) and renowned industry partners (among others PricewaterhouseCoopers), the accounting of social non-profit organizations (NPOs) in Switzerland was examined empirically for the first time. The objectives of the project were (i) the empirical measurement of the level of financial disclosure by Swiss NPOs in the annual report, (ii) the comparison of actual and target level of disclosure with a benchmark, and (iii) recommendations for the management to increase the level of disclosure.

Concerning the annual report, the following basic questions need to be answered by the governing body of an NPO:

- i) What does the annual report mean for the various stakeholder groups, and what information needs are to be satisfied with the annual report?
- ii) To what extent does the annual report meet the respective information needs, and what options are there for optimization?
- iii) What measures should the management take to ensure that information needs can be met as effectively and efficiently as possible?

In the literature and in practice, the charitable NPOs in focus are assigned to the third sector. According to Badelt (1999, p. 13), this shows that non-profit organizations operate in an environment of commercial, profit-oriented companies (market sector) on the one hand and in an environment of state institutions on the other. The third sector has a long tradition in

industrialized countries, along with a high economic, political and social importance of NPOs (Helmig et al., 2010). This also applies to Switzerland, which has an estimated 18,000 non-profit social NPOs, whose number will tend to increase in the future.

While the term "non-profit organization" expresses that the organization does not aim primarily to make a profit, in reality, profits are often achieved (Salamon / Anheier, 1997, p. 12 f.). However, these profits are not distributed to the shareholders, but are usually used to realize the organization's purpose or are retained. Badelt (1999, p. 18 and 43) assumes that there is only one common denominator among the number of different viewpoints, namely to try to consciously distance oneself from the for-profit world of the private sector. Other possible defining characteristics of non-profit organizations include their objectives, their tax status, and their source of income (Badelt, 1999, p. 8 f.).

Because of its great diversity and for purposes of clarity, the third sector is divided into twelve groups. This division is based on the ICNPO¹ classification by Salamon / Anheier. According to Badelt (1999, p. 47), NPOs in Switzerland are particularly active in the areas of health (group 3) and social services (group 4).

In the foundational study, the focus is exclusively on social or not-for-profit, sometimes also termed charitable, private institutions, as well as those state institutions acting in the common interest, including private organizations that administer para-governmental functions while carrying out a performance mandate from the community. The legal form is often the only criterion to distinguish non-profit organizations from informal groups of individuals active in the social environment. In general, NPOs in Switzerland and in neighboring countries are constituted as associations and foundations.

The (total) non-profit sector is a substantial part of the Swiss economy, with a share of 4.7% of the Swiss gross domestic product (GDP) in 2005. In addition to the value of the volunteer work performed, the total economic value of non-profit organizations was actually 6% of the GDP, compared to 10% for the banking sector ("Die Volkswirtschaft," 2011).

Funding of non-profit organizations is provided by three primary sources (Helmig et al., 2010, p. 184): (i) service charges (e.g. membership fees, sales revenue from services, sponsorships, and investment income), (ii) donations (donations from private households, companies, and other organizations), (iii) national public contributions (e.g. money from service contracts or warranties covering deficits).

Therefore the state, donors, and the general public have a very legitimate interest in a transparent and understandable use of funds and efficiency targets. The relevant information is routinely made available in the financial report.

Theory

As in many other areas of the economy, politics and society, relevant stakeholders increasingly demand greater transparency in the non-profit sector as well (Stoetzer, 2009, p. 227). Transparency is the most important factor for NPOs to gain trust and thus the favor of supporters. In addition to transparent management and control structures (corporate governance), the transparency of reporting has a high priority for non-profit organizations (Stoetzer, 2009, p. 227).

In the broadest sense, NPOs do not aim at profit maximization and distribution of surpluses to owners, but usually provide certain services to their members or others in need (Theuvsen, 2001, p. 2). Against this background, such organizations and their management are obliged to different stakeholder groups (Siebart, 2006, p. 82).

The interest groups are located in both the organization itself and in its environment (Theuvsen, 2009, p. 2). In the literature, Freeman's rather general definition is frequently used (1984, p. 46): "A stakeholder in an organization is (by definition) any group or individual, who can be or is affected by the achievement of the organization's objectives". In this respect

¹ International Classification of Nonprofit Organizations.

the stakeholders include both individuals and groups who can influence the organization's goals, as well as those persons who are affected by the organizational goals (Theuvsen, 2009, p. 2). In other words, almost everyone inside or outside an NPO can belong to an interest group (Theuvsen, 2002, p. 2). A somewhat narrower concept counts all those individuals and groups as stakeholders if they are essential for the existence of an NPO in the long run (Theuvsen, 2002, p. 2).

In the literature, the influence of each stakeholder group and thus its importance for an organization is often discussed in terms of aspects such as power, legitimacy, and urgency (Theuvsen, 2009, p. 7). The two aspects of power and legitimacy are important for the annual report, which should serve as a source of information for the stakeholders. In the current literature on NPO research (Greiling, 2010, p. 94; Theuvsen, 2001, p. 9), "power" is defined as the ability of a stakeholder group to carry out its wishes. Stakeholder groups with a large amount of power (for instance to grant funds or authorization) may therefore force the information relevant to them to be disclosed. Thus the annual report has little meaning for this group. Legitimacy is granted to actions that are considered appropriate and correct within a social system (Theuvsen, 2002, p. 8). This study assumes, in accordance with the literature (Busse, 2010, p. 95 f.; Schauer, 2008, p. 135; Stoetzer, 2009, p. 227), that awarding funds legitimizes access to the annual report. The figure below shows a division of the importance for selected stakeholders, and the categorization comprises the steps low, medium, and high.

Table 1: Importance of annual report for selected stakeholders.

	Power	Legitimacy	Possibility to demand information	Importance of annual report
Donors (private)	low	high	low	high
Donors (professional)	high	medium	medium	medium
Public authorities (not regulated) ²	low	low	low	high
Public authorities (regulated) ³	high	high	high	low
Sponsors	high	medium ⁴	medium	medium

The following hypotheses are derived from the table represented above (Figure 1): i) low power coupled with high legitimacy means that access cannot be demanded, despite justifiable interest, ii) the impossibility of this demand means that the annual report is highly significant for the supply of information.

These hypotheses apply in particular to private donors, since access is usually not possible for this group. For this group, therefore, the annual report is the most important source of information. It has not been quantitatively analyzed, at least not in the German-language literature, whether this group actually takes advantage of this possibility. This study assumes that the availability of a meaningful annual report is significant for private donors' decision to donate (Busse, 2010, p. 95; Schauer, 2008, p. 227; Stoetzer, 2009, p. 227). It hereby asks which information needs the annual report ought to meet.

² An unregulated public authority is defined in this study as follows: no financial support from public funds. Therefore the usual regulation that accompanies financing does not exist (see definition in footnote 3). As a result of nonexistent financing and regulation, power and legitimacy are low.

³ A regulated public authority is to be understood in this context as follows: financing with public funds and the regulations that often accompany it (such as, for instance, issuing performance mandates, issuing directives with regard to accounting, cost accounting as well as auditing).

⁴ A sponsor usually provides resources for a specific project or area. With regard to access, this means that the project level is of interest. There is therefore only an indirect interest in the annual report.

The necessary transparency in accounting assumes a certain standardization of accounting. In German-speaking countries, regulation occurs via (i) lawmakers, (ii) expert panels (standard), (iii) certified charitable contributions, (iv) association of selected organizations (code).

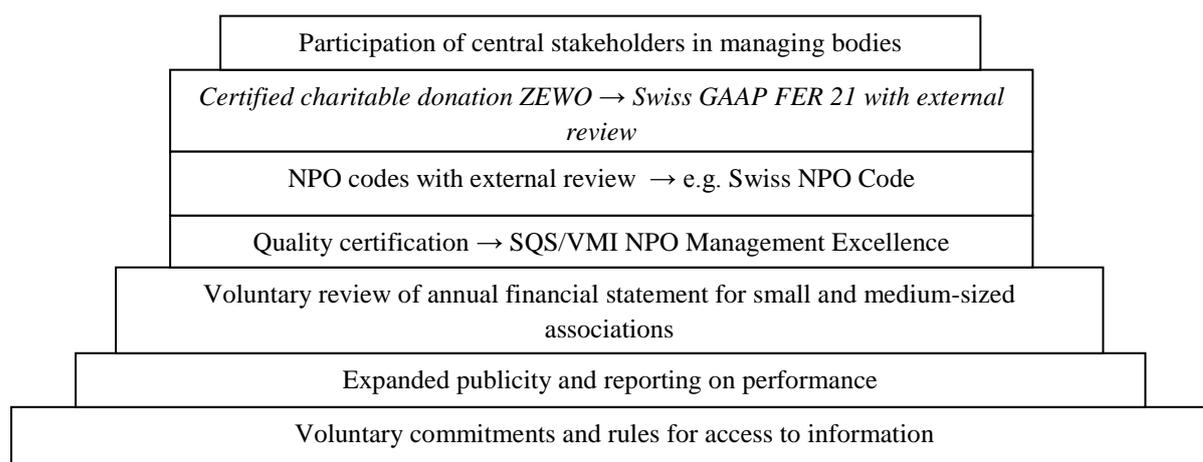
The accounting provisions enacted by Swiss lawmakers are dependent on the legal form and on the degree of participation in the economy. The formulation of these provisions is quite rudimentary in parts, which allows a great deal of leeway with regard to judgments. This leads to the problem that financial statements created according to legal standards may not be compared to one another.

Therefore privately-developed standards, so-called rules and standards, have also been implemented in order to supplement legal provisions. Standards offer a greater volume of regulations and allow less leeway with regard to judgments. The aim is to make financial reporting more meaningful and comparable according to the rules and standards. The higher volume of regulations nevertheless contains the following dangers: unclear relationship between improved transparency due to applied standards and due to improved access to resources, a lack of cultural context (continental European versus Anglo-Saxon) or over-regulation and faulty regulation (for instance due to the monopoly of an expert panel) (Sunder 2011, p. 1; Greiling, 2012, p. 39). A quantitative study has nevertheless come to the conclusion that the application of IFRS (International Financial Reporting Standards) leads to greater transparency in financial reporting for companies listed on the stock exchange (Horton/Serafeim, 2011, p. 28). This study will quantitatively examine for the first time using an analysis of annual reports whether this state of affairs also applies to the application of accounting to charitable, social NPOs (SWISS GAAP FER 21).

Despite the criticism of accounting standards, these play an important role in transparency. Greiling identifies (2012, p. 39) so-called transparency levels from the point of view of performance measurement. An application of this model to Swiss accounting could look like this:⁵

⁵ Foundations already have to be audited according to swiss civil code and 83b and swiss code of obligations 727a.

Table 2: Transparency levels in accounting, with reference to Greiling (2012, p. 39)



The evaluation of the degree of disclosure was made in accordance with the "Swiss GAAP FER" standard. In order to avoid including too many as well as irrelevant criteria, donors' deductively and normatively derived information needs and requirements were compared (see footnote 8). The comparison shows that both approaches lead in part to identical, but at the very least to similar, criteria.

The study is based on Swiss GAAP FER 21⁶, a standard developed by experts that regulates the accounting of charitable organizations that are financed by donations, or dedicated funds, from public authorities. This standard is applied as a supplement to the legal provisions concerning accounting. In accordance with the International Financial Reporting Standards (IAS 1.10) and the International Public Sector Accounting Standards (IPSAS), the professional recommendation for financial reporting (FER Conceptual Framework 7.15) assumes that an annual report must contain, among other things, the following components: annual financial statement (balance sheet, profit and loss statement, appendix) as well as a financial report. The performance report is an additional element, which allows for the specificities of an NPO's performance measurement (dominance of not-for-profit objectives, for instance output and its effect) as opposed to for-profit organizations (dominance of financial objectives, for instance sales, profit) (Eberle/Müller, 2011, p. 7).

The authors of this paper believe that every social organization should disclose an annual financial statement, a financial report, and a performance report. The evaluation of transparency (degree of disclosure) will be made accordingly. Other components (such as the cash flow analysis and consolidation in the empirical investigation), however, will be considered separately. This paper only examines the degree of disclosure. In Figure 3, the fulfillment of information needs is examined using the three central elements of the annual report.

Possible information needs of donors that could be prioritized in relation to an NPO are value conformity, offering / goals, goal achievement, use of funds, financial situation / continuity, comparability, compliance with guidelines and projects / areas to be funded (Stoetzer, 2009, p. 189). In Figure 3, the fulfillment of information needs is examined using the three central elements of the annual report.

⁶ This standard is also binding for ZEWO members.

Table 3: Fulfillment of information needs by Swiss GAAP FER 21.

	All stakeholders – in particular private donors						Public authorities / professional donors	
	Value conformity	Offering / goals	Goal achievement	Use of funds	Situation ⁷	Comparability	Compliance with guidelines	Projects ⁸
Financial report				x	x	x		
Performance report	x	x	(x)					
Status report			x		x			

The figure above shows that FER 21 largely complies with the information needs of private donors. However, this is only partially true for the performance report, since the disclosure of the effect achieved is not explicitly required. Certain requirements of public authorities and professional donors, respectively, are therefore not met. However, due to their power base, these stakeholders can demand the additional information necessary.

In line with other international accounting standards like IFRS and IPSAS, Swiss GAAP FER 21 requires that financial statements give a true and fair view. Compared to other standards, Swiss GAAP FER is small in scale with around 200 (total number of standards) and 20 pages (only FER 21). Significant donation quality seals as the certification body for charitable organizations and the Swiss NPO Code attach importance to FER 21 by either requiring or recommending its application.

The fact is that accounting standards affect accounting's informative value tremendously. Thus, the use of FER 21 can lead to a high informative value, provided that the standards are implemented correctly. Therefore, the use of an accounting standard is generally to be audited by an independent body. This is done with (mandatory) consultation of an auditor, who tells the client the audit opinion in a standardized form. As a result, the final examination in view of the accounting's informative value is an important quality assurance tool.

Methods

Normally, an NPO's reporting occurs in the form of an annual report. The study concludes that the annual report serves as an information source above all for private donors (see Figure 1), and that Swiss GAAP FER 21 fulfills the information needs of private donors to a large extent, also from a theoretical point of view (see Table 4 and footnote 10), meaning that it may therefore be applied as a benchmark. Further reasons for this use are: i) fulfillment of the information needs of private donors, ii) application independent of the form of the legal form and the business model, iii) unique in the German-speaking countries.

⁷⁸⁹¹⁰ Using a normative-deductive approach, Busse (2010, p. 275) deduces the donor's fundamental information needs. These are identified in the above table with a star. The information needs gathered in this way are partially confirmed by the results of two studies conducted in English-speaking countries (Busse, 2010, p. 275). Only those aspects that Busse also calls "information about the investment of assets" and the "statement on sustentative commercial businesses and/or special purpose businesses" are not considered in this study.

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To make a conclusion about the informative value of actually existing social NPOs' accounting, transparency needs to be measured quantitatively. Against this backdrop, the following two aims are pursued: capturing and assessing the informative value of the financial reporting of the objects of investigation (by an annual report analysis) and developing tools to increase the informative value of the financial reporting.

To carry out the survey, a questionnaire with 54 questions has been designed, which focuses on information in publicly available annual and audit reports. The structure of the questionnaire focuses primarily on the provisions of FER 21, which have been established in Switzerland as a standard for social NPOs' reporting. The FER rules are not applied in each case individually, but grouped thematically.

The measurement of accounting's informative value encompasses those criteria (in total, 13 of 54) that should be available in every organization regardless of branch, size, or financing model and, according to theory, are also relevant. The first nine of these thirteen criteria (see Table 4) include questions on financial statements and financial and performance reporting as well. The other four criteria consider information to be disclosed in the appendix as a result of negative confirmations⁹. Valuation is determined by a three-stage framework (0 / 2 / 4 points). With the help of the questionnaire, 331 NPOs' annual reports from 2008 are evaluated. The evaluation of test results (actual) is performed using FER 21 as a benchmark (target).

Due to the fact that nonprofit organizations tend to differ from each other, it is necessary to segment them into different sectors in order to compare them. The corresponding definition depends here on the partners involved in the research project and will ultimately be determined by data availability: (i) homes for youth and for the disabled (sector 1), (ii) funding organizations (sector 2), (iii) development aid organizations (sector 3), and (iv) other social organizations, exclusively those with certified charitable donations (sector 4). The segmentation chosen means that the findings cannot be generalized and applied directly to all social NPOs. In contrast, conclusions can be drawn about the general applicability of the observed results within the respective sectors - albeit to varying degrees: sector 1: high, sector 2: low, sector 3 / 4: medium.

Findings and Discussion

The maximum number of points concerning the accounting's informative value is 52 points (13 criteria with a maximum of 4 points per criterion). The obtained values could be evaluated by means of various aspects and on different levels (e.g. total score, scores for each criterion). However, due to lack of space only the most important findings regarding the accounting standard, sector, and legal form are discussed here.

Table 4: Points achieved "accounting's informative value" (maximum score 52 points) depending on accounting standards applied.

Accounting standard		Quantiles				
		10%	25%	50%	75%	90%
Both groups	N = 331	8.0	12.0	18.0	24.0	29.6
Law users	N = 165	6.0	8.0	14.0	18.0	24.0
FER users	N = 166	14.0	18.0	24.0	28.0	32.0

⁹¹⁰ Using a normative-deductive approach, Busse (2010, p. 275) deduces the donor's fundamental information needs. These are identified in the above table with a star. The information needs gathered in this way are partially confirmed by the results of two studies conducted in English-speaking countries (Busse, 2010, p. 275). Only those aspects that Busse also calls "information about the investment of assets" and the "statement on sustentative commercial businesses and/or special purpose businesses" are not considered in this study.

The aim of FER is to increase the informative value of accounting. In the study, every other criterion is FER-specific. The chosen segmentation by sector means that FER users are over-represented significantly compared to real users of this standard. Therefore, it is not surprising that users of FER with a median of 24 points (law users, 14 points) and quartiles of 18 or 28 points, respectively (users of the law: 8 / 18) achieve better results than law users. With regard to the maximum points possible (52 points), the empirically-measured values of both groups (law / FER) should be considered too low. Although under FER an informative norm can be provided, there still seems to be a high potential for optimization in the implementation.

Table 5: Points achieved “accounting’s informative value” (maximum score 52 points) depending on sector.

Sector		Quantiles				
		10%	25%	50%	75%	90%
All sectors	N = 331	8.0	12.0	18.0	24.0	29.6
Branch 1: Homes for youth /the disabled	N = 137	6.0	8.0	12.0	16.0	20.0
Branch 2: Funding organizations	N = 75	13.2	16.0	22.0	26.0	32.0
Branch 3: Development aid organizations	N = 46	16.0	20.0	26.0	30.0	32.0
Branch 4: Other social organizations (all FER 21 users)	N = 73	12.0	15.0	20.0	26.0	30.0

“Best in class” of both the median (26 points) and the quartiles (20 / 30 points) is sector 3. This result is not surprising when one considers that the NPOs examined are development aid organizations that are financed mainly through donations and using FER. Moreover, NGOs receiving government subsidies have for the most part tightened disclosure requirements. According to the study criteria observed, these factors lead, in fact, to significantly improved informative value in the accounting.

In second place are funding organizations (median 22, quartiles 16 / 26 points). When interpreting this result, it must be taken into account that this is only a certain segment (members of Swiss Foundations) that tends to include large and professionally-run institutions. In addition, sector 2 comprises a share of 75% of foundations (average: 53%), i.e. a relatively high proportion of this legal form.

Sector 4 comprises solely those social organizations with a ZEWOW membership, which obliges them to comply with FER 21. Thus the observed results (median 20, quartiles 15 / 26 points) do not meet expectations, being slightly worse than those of FER users across all four sectors (median 24, quartiles 18 / 28 points).

Homes for youth and the disabled are at the lower end of the scale (median 12, quartiles 8 / 16 points). On closer analysis this result is consistent with previous findings. As already explained above, an application of FER usually leads to an increase in the accounting’s informative value. The proportion of NPOs using FER is 20% in sector 1, which is low compared to an average of as much as 50% across all organizations. In addition, this sector is mainly financed by the Swiss cantons, which often issue directives (e.g. as part of a comprehensive service level agreement controlling) that are frequently quite different from one another. In the foundational study, this state of affairs is evaluated as a high volume of regulations. Moreover, the organizational structures in this sector are complex and the number of employees is high. This can lead to a situation that in such an environment, it is more difficult to achieve more meaningful accounting and this is associated with correspondingly higher costs.

The sectors analyzed also differ fundamentally in terms of (i) the importance of donation income (sector 1: low, sector 3: high), (ii) the density of regulation (sector 1: high, sector 4: low), and (iii) the relative number of FER users (sector 1: low, sector 4: high). Thus, the conclusion can be drawn that the accounting in sectors with high revenues from donors has a high informative value, and vice versa.

Table 6: Points achieved “accounting’s informative value” (maximum score 52 points) depending on legal form.

Legal forms		Quantiles				
		10%	25%	50%	75%	90%
All sectors	N = 331	8.0	12.0	18.0	24.0	29.6
Associations	N = 137	8.0	12.0	18.0	24.0	28.0
Foundations	N = 176	6.0	12.0	18.0	24.0	30.0

Among the NPOs examined, 53% are organized in the form of foundations and 41% are associations. Other legal forms are insignificant (6%) and are therefore not considered. The analysis of the legal provisions shows that more restrictive rules apply to the organizational structure, accounting, and auditing of foundations than to that of associations (Meyer et al, 2011, p. 26). This should protect the independent foundation's assets to a certain minimum extent. Therefore it could have been expected that foundations have a higher informative value compared to associations. However, this is not the case: values obtained with regard to these legal forms do not differ significantly.

From a management perspective, the interesting questions are above all those that ask in which topic areas there is potential for optimization and how this may be used. The answers are given in the optimization matrix shown in Table 4.

The potential for improvement shown in the table below applies to all objects of the study (sectors 1 to 4) and is calculated as the difference between the maximum score (4) minus the actual points achieved. The causes responsible for a high potential for optimization are differentiated according to five categories: (i) data availability, (ii) knowledge, (iii) awareness, (iv) grievance, and (v) lack of negative confirmations. Data availability, in particular information that is entirely missing, is the most difficult cause to remedy. This is because procurement of data usually requires a high level of resources and can often be realized only in the medium term (e.g. introduction of business accounting software, development of cost accounting in a spreadsheet, development strategy as a basis for offer and goal descriptions, development tools for performance measurement). If however the fact that the accounting possesses a low informative value can be attributed to the following causes, this deficit can be corrected often at short notice using comparatively few resources: knowledge, awareness, grievance, absence of negative confirmations.

Table 7: Potential for optimization “accounting’s informative value” (maximum score 4 points per criterion) depending on topic area and causes.

Aspects Accounting’s informative value ¹⁰		Opti- mization potential	Data avail- ability	Know- ledge	Aware- ness	Grie- vance	No negative confir- mations
	Availability						
1	Disclosure of financial statement	1.3		x	x	x	
	Balance sheet/profit and loss statement						
2	Previous year's figures / budget figures*/**	2.0		x	x	x	
3	Statement of income positions**	1.0		x	x		
4	Accounting policies / valuation policies**	2.9		x	x		
5	Activation limit	3.6		x	x		
6	Administrative costs / directly productive expenses*/**	2.2	x	x	x	x	
	Financial report						
7	Financial statement*	3.2		x	x	x	
	Performance report						
8	Description of offer / description of goals*	2.3	x	x	x	x	
9	Impact assessment*	2.6	x	x	x	x	x
	Appendix						
10	Transactions and relationships with related parties*	2.5		x	x	x	x
11	Contingent liabilities / events after the balance sheet date **	3.7		x	x	x	x
12	Paid (FTE ¹¹) work / voluntary work**	3.0	x	x	x	x	x
13	Accounting expenses / auditing expenses**	3.7	x	x	x	x	x

¹⁰ Using a normative-deductive approach, Busse (2010, p. 275) deduces the donor's fundamental information needs. These are identified in the above table with a star. The information needs gathered in this way are partially confirmed by the results of two studies conducted in English-speaking countries (Busse, 2010, p. 275). Only those aspects that Busse also calls "information about the investment of assets" and the "statement on sustentative commercial businesses and/or special purpose businesses" are not considered in this study.

Busse further develops requirements for accounting from the point of view of the stakeholders, which are: relevance of the information, intelligibility, clarity, importance, reliability, comparability, and currency. In order to measure the degree of disclosure, an operationalization must take place. The resulting aspects are marked with two stars. For those aspects that are not already marked with a star, the following indicates which requirements they address: number of profit and loss statement positions → intelligibility, bases of accounting and evaluation → intelligibility and clarity, materiality threshold → clarity, contingent liabilities, and events following the balance sheet date → clarity, paid and unpaid work → clarity, accounting and auditing expenses → clarity.¹¹ Full-time equivalent

¹¹ Full-time equivalent

Conclusion

The results confirm that on the one hand, the accounting standard used does significantly influence the accounting's informative value, as does the correct implementation of the norm on the other. Thus, the accounting of social NPOs applying Swiss GAAP FER 21 in addition to statutory provisions usually has a much higher informative value than NPOs that only implement the statutory standards. However, the study shows that there is always some potential for optimization, irrespective of whether legislative norms or FER are applied, although the reasons for this are different (user of the law: standard and implementation, user of FER: implementation).

Significant differences in the accounting's informative value also exist between the various sectors, with development aid organizations (sector 3) as the best performers, and, at the other end, homes for youth and the disabled (sector 1) as the worst.

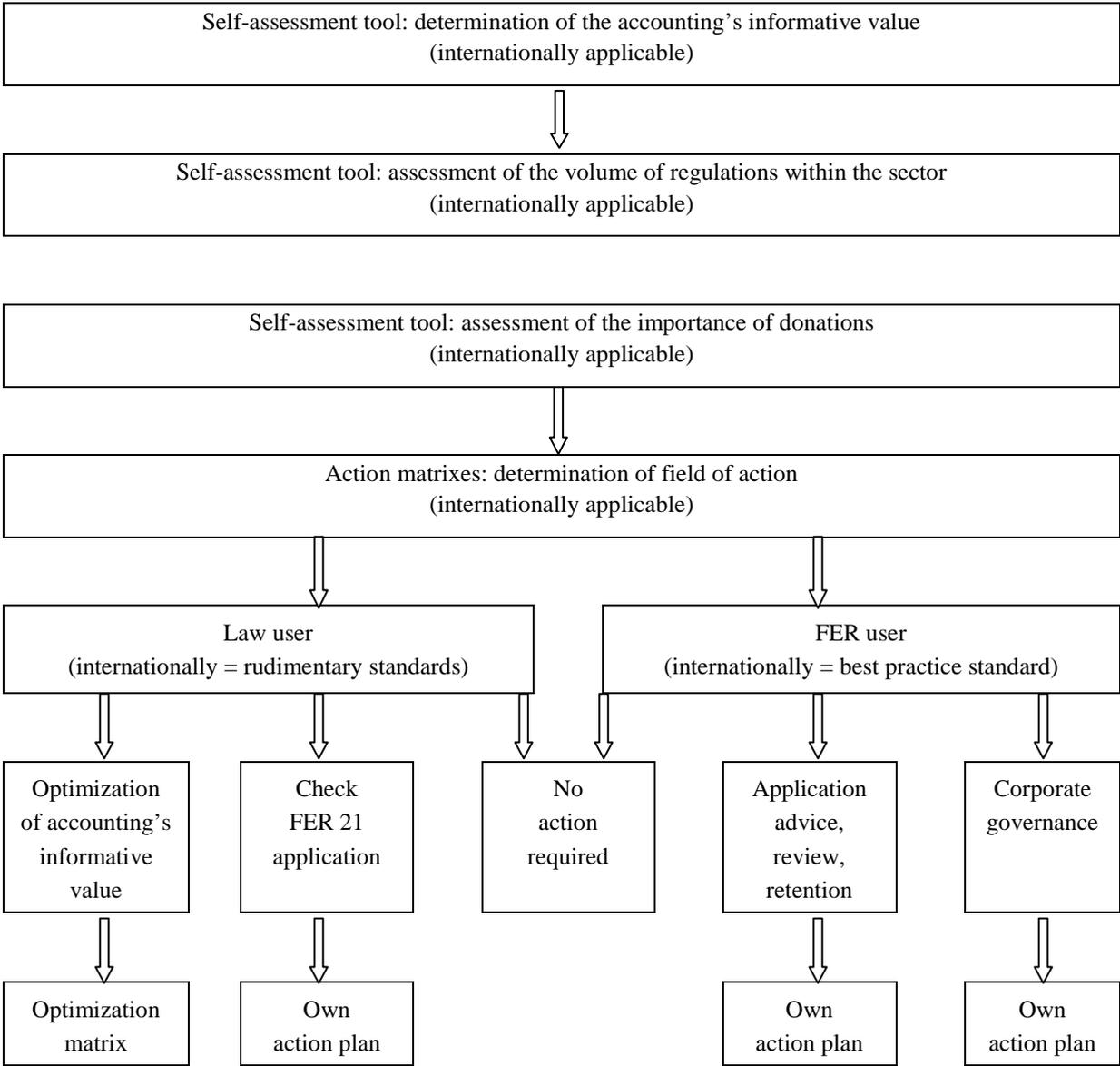
In addition, it is also apparent that the following criteria, which are important for transparent accounting both for users of the law and FER, have a high potential for optimization (feasibility in parentheses): (i) financial report (easy), (ii) impact assessment (challenging) (iii) disclosure of non-existing states of affairs in the appendix to the financial statements by issuing negative confirmations (easy). In particular, the high potential for improvement in financial reporting is surprising. This is because it is assumed that the governing body typically analyzes the financial statements. Therefore, an adequate disclosure should be achievable with relatively little effort in order to significantly increase the transparency. The majority of the social NPOs examined is not subject to stock corporation laws, and therefore must not create an appendix. However, in this case a voluntary disclosure of certain facts in an appendix is recommended. This concerns criteria 10 to 13 (see Table 4). Due to the fact that no statutory minimum information is required, negative confirmations are necessary to achieve transparent reporting. It is admittedly difficult to implement an appropriate impact assessment. Given the fact that the significance of this topic is expected to strongly increase, social NPOs should face this challenge.

From a management perspective, it is especially interesting to know how informative the accounting of one's own NPO is, and how improvements in terms of an increase in the accounting's informative value may be achieved.

Implications

Against the backdrop of the high potential for improvement identified with regard to the accounting's informative value, a proprietary tool has been developed to determine the status quo of reporting and to implement the potential for optimization economically and within a short period of time. This instrument set consists of (i) a self-assessment tool, (ii) action matrixes and (iii) an optimization matrix (see Table 4). The resulting recommendations for action can be implemented in most cases with a reasonable income and expense ratio in a timely manner. In the figure below, the procedure is shown schematically. The set of instruments (available in German and English) can certainly be applied internationally as well.

Table 8: Flowchart of the tool to increase the accounting’s informative value within one’s own NPO.



Meaningful accounting undoubtedly provides better management information within the NPO, and is also a precondition that provides external stakeholders with all the information that is relevant to the assessment of the organization. As a result, the confidence of all stakeholders should be strengthened in order to win the favor of interest groups.

For some time now there have been concerns that the economic situation and public authorities’ associated savings efforts will adversely affect the financing of social non-profit organizations. Due to resulting financing gaps it is also to be expected that there will be increasing competition for the donor’s favor. In addition, cost savings will be partly unavoidable, even if appropriate measures are taken. From the perspective of accounting, there are two courses of action in the third sector: large-scale use of resources in order to achieve high informative value in the accounting, or using less effort and accepting less transparency. The set of instruments presented should help to ensure that in the second case as well, it is possible to achieve the most optimal informative value within one’s own financial reporting.

It is likely that the findings apply at least partially to charitable NPOs in other German-speaking countries, and can be transferred indirectly to other European countries as well. Likewise, the tools developed can also be used internationally. In contrast, use with for-profit

companies is generally limited, since they do not depend on donations, and the definition of success is usually completely different from that of NPOs.

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