An Investigation on Practical Information Disclosures by Non-Profit Organizations in China

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ABSTRACT

Changes in the social environment have made the people’s needs of public services present-day in China. However, the needs are so large that the government cannot always answer such needs on its own account. Therefore, a non-profit organization (NPO) is expected to solve this problem. Here, NPOs should appropriately provide the information that meets the needs of their stakeholders. Such information could establish trust in their management just like the business enterprises. Most of items regard the Foundation Transparency Index (FTI) as an indicator concerning the quality of NPOs’ information disclosure. However, the quality should be embodied not only in the completeness but also in the accuracy and the timeliness. The article deals with the case of China Charities Aid Foundation for Children (CCAFC) which got the full-mark of FTI. It focuses on researching the information disclosure practice by CCAFC from 2010 to 2017. It finds out that though the CCAFC got the full-mark, the information disclosure still has problems not only in the completeness but also in the accuracy.

KEYWORDS

Accuracy, CCAFC, Completeness, Foundation Transparency Index, Government, Information Disclosure, NPO, Stakeholders

INTRODUCTION

The changes in the social environment have made the people’s needs of public services present-day in China. However, the needs are so large that the government cannot always answer such needs on its own account. Here, in order to solve this problem in place of the government, many non-profit organizations (NPOs) have been established in recent years. According to the data of the Ministry of Civil Affairs (2018), the annual growth rate of the number of NPOs has continued to exceed 10 percent since 2010.

It is important for NPOs’ stakeholders to be informed about how NPOs are operating. An appropriate set of financial accounting reports is necessary to inform their economic realities. In China, in 2004, the Ordinance of the Ministry of Finance No.7: Minjian Feiyinglizuzhi Kuaiji Zhidu民间非营利组织会计制度, the Accounting Standards of Private Non-Profit Organizations (hereafter “the Standard”), which took effect in 2005, was enacted. However, there still exists some serious problems with it. In practice, it is difficult to apply them. Some of the stipulations are too miscellaneous to
be carried out by small NPOs. The accounting treatments in accordance with the Standard are not normative, and the Standard lacks the power to implement (Yu, 2017).

On the date of January 28th, 2019, the result of the online search, the China National Knowledge Infrastructure, indicated that there were 63 items on “NPO” and “information disclosure.” There is scant literature on information disclosure of Chinese NPOs, and, besides, so far little attention has been paid to the actual situation of NPOs. Financial accounting information can have a direct impact on the potential donors’ decisions. In addition, information disclosure not only about financial information but also about non-financial information may have an impact on a donor’s view of an NPO (Parsons, 2007). There is a significant relationship between the quality of information disclosure and the amount of donations (Atan, Zainon & Wan, 2012). Similarly, in China, the quality of information disclosure plays an active role in a donation (Liu, 2018; Qi, Liu & Ge, 2018; Xie, 2014). The basic information, financial information and the future information carry the highest weight which the institutional donors concern (Zainon et al., 2011). On the other hand, the non-financial information such as the organization’s goals and descriptions of its projects is more important than financial information for individual donors (Waniak-Michalak & Zarzycka, 2015). Because most of the individual donors have a lack of the necessary knowledge in assessing the financial information.

The size and age of NPOs are significant drivers of information disclosure in Belgium (Hulle & Dewaelheyns, 2014). As for the size of NPOs, the same result was also obtained in China, that is, the size of NPOs plays an active role in information disclosure. On the other hand, whether NPOs be audited by top 100 accounting firm did not determine the quality of information disclosure of NPOs (Liu & Li, 2015). The higher the educational level of regional citizens is, the higher the transparency of the regional NPOs is (Jiang, 2017). Internal management and external collaboration are a very important part of NPOs’ work. The paid staff (professionalization) and the business partners (business-nonprofit partnerships) have positive effects on the voluntary transparency in NPOs (Sanzo-Perez, Rey-Garcia & Alvarez-Gonzalez, 2017). The paid staff not only establishes a better internal control in a corporation, but also brings professional standards which are beneficial for the information disclosure of the NPOs. And the NPOs want to get more external resources from their partners, so they would like to show professional governance and efficient management.

Foundation Transparency Index (FTI) which indicates the quality of information disclosure was designed by the China Foundation Center in 2012. The China Foundation Center is a legally registered public charity as described in the regulations of the Chinese Ministry of Civil Affairs and it is an independent non-governmental information disclosure platform of foundations in China. It covers the information of 100% of registered foundations in China.

FTI follows the six design philosophies: openness, scientifcacy, advocacy, non-governmental, developmental, and internationalism. The foundations were graded according to three aspects: ① basic information, ② financial information, ③ item information. About these three aspects, there are 40 impact factors, 16 basic information indicators (36.8), 16 financial information indicators (27.6) and 8 item information indicators (35.6). And the following is the calculation of FTI.

\[
\text{FTIn} = \sum (Ti \times Wi \times Si \times Ci)
\]

\(n\): serial number of foundations  
\(i\): serial number of indicators  
\(Ti\): whether indicator \(i\) is disclosed  
\(Wi\): the weight of indicator \(i\)  
\(Si\): a source of indicator \(i\)  
\(Ci\): the integrity of indicator \(i\) disclosure

Source: China Foundation Center (2018)
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