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A Comparative Analysis of Financial Performance of Funded and Non-Funded Charity Organizations

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Abstract**—**The primary objective of this study is to test whether there is any difference in performance between funded and non-funded registered charity organizations. In this study, performance as the dependent variable is measured using total donations. Using a sample of 101 charity organizations registered with the Registry of Society, analysis of variance (ANOVA) results indicate that there is a difference in financial performance between funded and non-funded charity organizations. The study provides empirical evidence to resource providers and the policy makers in scrutinizing the decision to disburse their funds and resources to these charity organizations.

Keywords**—**charity organizations, donations, funded, non-funded

I. Introduction

NONPROFIT organizations (NPOs)[1] in Malaysia include societies, associations, foundations, clubs and companies limited by guarantee (CLBG). The statutes dealing with the establishment and regulation of NPOs in Malaysia are the Societies Act 1966 and Regulations Act 1984, the Companies Act 1965 and the Income Tax Act 1967. Other than CLBG which are under the oversight of the Companies Commission of Malaysia (CCM), the constitutional form may be in the form of clubs, societies and associations governed by the Societies Act (Act 335) & Regulations Act 1984, under the oversight of the Registry of Society (ROS). [1] stated NPOs as collections of committed individuals that pursue a cause and channeling their attention and work to the mission. NPOs are incorporated by the founders with various reasons or causes. The reasons may be different for each organization. Some of the reasons are related to political, social or religion of the founders. The founders may be the one who runs the activities or they may be part of the management.

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[1] The terms NPOs and charity organizations are used interchangeably in this study.

Meanwhile in some cases, there are volunteers who handle the management of the organizations. NPOs can be classified into various classifications such as according to its basis of incorporation, locality or its size [2]. However, this study attempted to analyze the NPOs into different categories based on its sources of fund either funded (public or private) and non-funded charity. This can be determined by their sources of fund reported in the Statement of Receipts and Payments through their annual returns submitted to the ROS.

NPOs activities are mainly to provide services in order to achieve their different purpose of incorporation. Different NPOs have different characteristics. Even though NPOs have different characteristics and can have different categories, still it is possible they have common characteristic which is they were not incorporated for profit reason. If NPOs are not incorporated for revenue or profit reasons, then the main question would be how do they get fund for the operations and how can they survive in maintaining the services and operations?

[3] stated that NPOs provide their services based on three various sources of revenue which are fees, donations, as well as, government grants and contracts. [1] studied three sources of funds in NPOs which are private contributions, government funding and commercial activities. It is further stated that NPOs must rely on variety of activities and resource providers to support its activities. These examples of resources or funds are gathered externally either from government or public at large. Subsequently this will give rise to the issue of whether these funds are being used or managed properly by the NPOs.

For public firms which raise its fund through issue of stocks or bonds from the public, they are held accountable for the public money and required to publish its annual financial statement for the public. This is related to the stakeholder theory. According to this theory, the stakeholder (public who bought shares of the firms) is the owner of the firm. Therefore the firm has a duty to increase the value of the stakeholders and make sure the going concern of the firm. This is in line with the concept of business ethics where the management is responsible to the firm. Therefore, for public firms, performance can be measured and scrutinized from the financial statements in terms of its profit or loss and its financial performance.

On the other hand, NPOs performances do not show profit or loss. There were reports on its performance but most were not easily accessible by the public and lack of consistency in the reports [4]. NPOs are providing service so as to cater the social responsibility and not for increasing wealth or value of its owners.

Nevertheless, performances of NPOs need to be measured as they still receive money from public through donation and grants from government. Management of NPOs still will be held liable for the management of the funds in providing the social services. The concept of business ethic is not only applicable to profit making businesses, but also to the NPOs. Even NPOs cannot be measured through profit or loss, but still financial performance measure is not totally absent in measuring NPOs performance. NPOs still can be measured in different ways but not through profit or loss. In this study total donation is used as the financial performance measure in measuring NPOs performance.

II. Review of Literature

A. Financial Performance

Financial performance measures or objective measures is an essential component in assessing overall organizational effectiveness [5]. However, there is not an easy way to measure performance of NPOs due to the absence of profit motive, difficulties in measuring outputs, lack of similar objectives and lack of consensus in evaluating performance. Hence, these have resulted in a serious gap in the financial performance measures. The purpose of a charity organization is not to maximize income, but to carry out the mission of the organization, which usually focuses on the provision of services. In addition, organizational performance is complicated by the absence of single end product and the presence of multiple stakeholders group [6, 7].

Despite the gap, there are many tested financial performance measures in the NPOs literature [8]. Financial performance measures or financial health of the charity organizations is important in making resource allocations decisions and further understanding of this financial health crucial in achieving the long-term success and survival of these organizations [9]. For NPOs, these financial measures or indicators are signals used to convey evidence that assessment of whether the desired missions are being achieved. Financial performance measures have also been recognized as essential components of NPOs as they are accountable to the use of donors' money in pursuing social missions [10].

There were numerous discussions with regards to specific financial performance measures for NPOs because the variety of the performance measures used. High level financial performance indicators were interpreted to be ratios. Financial indicators (ratio analysis) were also commonly used as one form of financial performance measurement used in assessing the organizational strengths and weaknesses in NPOs studies [8, 11, 12]. Using data gathered from university foundations for the period 1990 to 1999, [8] evaluated financial performance ratios –fundraising efficiency, public support and fiscal performance by using factor analysis. The study provided a viable model of performance ratios that can be used by the researchers and practitioners of NPOs. [13] focus on ratios measuring the availability and use of financial resources to support the organizational mission. They used five ratios for financial resources availability in five types of NPOs: Arts, Culture and Humanities, Education, Human Needs, Community Services and Health.

The effect of financial ratios, particularly the efficiency ratios on donations (as a measure of financial performance) has been studied by several authors. [14] and [15] document the effect of "price" (low price indicates high efficiency) on donations. They presume donors use an accounting ratio from the latest available financial statements to evaluate the organizational efficiency. [16] concludes that accounting efficiency ratios affect the donation decision of large donors, but not for small individual donors. Recent study on charity from National Center for Charitable Statistics (NCCS) for the period from 2001 to 2003 conducted by [17] found mixed significant evidence between donations and revenues streams. Overall, previous studies proof the usefulness of financial performance measures (in ratios) as the valuable information to donors in their decision making process.

Despite the use of ratios as measures of financial performance in NPOs, many of previous studies provide evidence that donations were commonly used as proxies of financial performance measures [14, 18-21]. Financial performance measured by donations that have been used in many NPOs disclosure studies [16, 22, 23]. In addition, a considerable literature has developed which examines the disclosure levels with performance efficiency[15, 24], and financial reporting information studies [20, 25, 26]. The data on the amount of donations in this study is obtained through financial reports issued by the NPOs. The information on donations is very useful for the stakeholders to assess and evaluate the performance efficiency of the organization. and financial performance of charity (donations as a proxy of financial performance). Prior studies have found positive relationship between the extent of disclosure levels and the amount of future donations received [4, 27-30]. These studies used the extent of voluntary disclosures based on annual reports that are hypothesised to impact the charitable donation decisions. It was also found that accounting information play its role in donors' donation decision making [31]. The studies on donations, disclosures, and performance efficiency were presented in Table I.

TABLE I
Summary of Studies on Donations, Disclosure and Performance Efficiency

Study	Theme	Dependent Variable	Independent Variables
[4, 23, 28, 29, 32, 33]	Disclosure and Donations	Disclosure	Total Donations
[15, 16, 22, 24]	Performance efficiency and Donations	Performance Efficiency	Total Donations

B. Organizational Type

A major difference between the public, private and charity organizations is the sources of their income. This is noted by [34] when most private organizations generate their income from sales to customers, and the government's income, mostly from taxes, either direct or indirect taxes. The charity organizations, however, rely on a wide range of funding sources for their income. [35] classify the sources of non-

profits' income into three categories: (i) private contributions, (ii) public support and (iii) private sector payments. Private contributions, for example, individual donations, corporate gifts and foundation grants provide a measure of legitimacy for the organization [1]. Public support is the government grants and private sector payments include user fees, membership fees, government contracts and the sale of product or service. Each of this funding sources of income is shaped by opportunities and limitations, that forces the charity management to secure and manage the resources properly [3].

Consistent with resource dependency theory assertions that each source of revenue has its own pros and cons, and each has different level of dependency on other organizations or external actors. Although 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 hard pressures than others. For instance, organizations that receive grants funding might experience stronger pressures on accountability than those which do not receive any grants funding. As [36] notes, dependence on government funding has a very significant implication on the organization's board.

Previous research has suggested that greater dependence on government funding can cause isomorphism, i.e. the missions and programs of the NPOs to change [37]. This argument is in line with organization theory which states that the external environments can influence organizations' structural and strategic decisions [38]. On the other hand, resource dependence theory justifies the organizations' dependency on the funding to support its activities and services [39]. The external resource dependency perspective developed by [40] provides a good framework for understanding the government-NPOs partnership from an external source perspective.

Several previous research studies have started funded studies on government funding of religious NPOs or faith-based organizations (FBOs) [41-43]. [44] reviewed the shift in government funding from religious NPOs to social services NPOs. [42] surveyed 587 organizations receiving government funding totaling $124 million for social service program in 15 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. [45] 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 [37]. The organizational age, size, government funding levels and percentage of revenues from direct public support were tested as the function of organizational characteristics. [46] 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 [46], the results show that the government funding of FBOs is affected positively by age of the FBOs, and negatively affected by its size in [37].

Governments have come to depend on the non-profit sector as a community-based vehicle through which they can expand their social services [47] and this governmental funding impacts the operations of NPOs in many ways including the operations and the accountability of NPOs [48]. The NPOs of education sector also rely on the government for access to resources such as funding and networks [49]. In the education sector, financial reporting for the sector is regulated by two different entities. For example, in the United States, the Financial Accounting Standards Board (FASB) is responsible for private no-for-profit institutions and GASB is responsible for public institutions. The FASB's primary focus is on providing information that is useful to resource providers in making rational decisions about the allocation of scarce resources to business and non-profit organizations. The Government Accounting Standards Board (GASB) also endorses decision usefulness but states *"accountability is the cornerstone of all financial reporting in government"* [50].

Empirical studies have generated diverse results on the effect of the organizational type from the not-for-profit education sector

The influences of the organizational type, between the public and private-funded organizations were also examined in varying United States legal rules on the performance of public charities and foundations. The results found a difference in the extent of reporting for public charities and foundations [54, 55]. In contrast, the results of no difference between the public and private-funded charity organizations were found with the amount of financial data in museum annual reports [4].

III. Methodology

Form 9 submitted to the ROS annually is the major source of data for NPOs. Form 9 consists of the Statement of Receipts and Payments of the last financial year, together with a balance sheet showing the financial position closely of the last financial year to the ROS within sixty days after holding its annual general meeting (AGM).[2] Through financial statements provided in the Form 9, the data on NPOs sources of funding in order to determine the type of organizations were obtained by content analysis. Content analysis is a well-established research method used throughout the social sciences which utilizes a systematic procedure to make inferences and identify characteristics within text [56-59].

[2] Section 14(1) of the Societies Act 1966 (Act 335) & Regulations.

It involves classifying text units into categories. The dependent variable of the financial performance of total donations was also obtained in the annual returns.

IV. Results

The analysis in this study is conducted using ANOVA. ANOVA was utilized to determine if there any differences existed in funded and non-funded charity organizations. ANOVA was applied because it *"is a statistical method for determining the existence of differences among several population means"* [60]. Population in this study means different types of charity organizations existed. For detailed analysis, the funded organizations were break up into two further groups of public-funded and private-funded charity organizations. It was therefore expected that there will be more than two different groups identified from the data collected. The descriptive statistics of the three different groups by category of funded (public and private), and non-funded charity organizations is presented in Table II.

TABLE II
Mean Scores and Standard Deviations of Organizational Type

Type Of Organizations	n	Mean Financial Performance	Standard Deviation Financial Performance
Non-Funded	63	24.58	36.15
Public-Funded	28	36.87	45.65
Private-Funded	10	27.8	32.83
Total	101	89.25	114.63

Table II shows the average score for financial performance of the charity organizations (mean=89.25) categorized into public-funded, private-funded and non-funded charity organizations. Low average score was found in non-funded charity organizations (mean=24.58). 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. [60] 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" [60]. The significance value in Levene's test for homogeneity of variances found to be .668 financial performances. The value is greater than .05 showing that no violation is made in respect variance homogeneity for assumptions. The result of ANOVA in Table III shows the financial performance across the type of organizations, F=(2, 98) =17.830, p=0.000.

TABLE III
Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Between groups	1376.859	2	488.429	17.830	.000
Within groups	4262.013	98	33.490		
Total	5638.871	100			

The results from the one-way ANOVA 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 means that cause the null hypothesis to be rejected. Results that show a significant difference under the Tuckey method is shown in Table IV.

TABLE IV
Organizational Types differences with Financial Performance

Types Of Organizations		
Non-funded	Public-funded	Private-funded
31.87_{a} [20.32, 23.42]	40.14_{b} [27.18, 33.11]	36.80_{ab} [22.46, 31.14]

The subscript "ab" under private-funded indicates that this level does not differ from either the mean with an "a" (non-funded) or the mean with a "b" (public-funded). Because non-funded and public-funded have different subscripts, they do differ significantly at $p < .05$. M= mean, CI=Confidence Interval.

As shown in Table IV, there are three organizational types of comparisons under 5% level of significance.

Organizational types differences differed significantly across the three types of organizations, F=(2, 98) =17.830, p=0.000. Tukey post-hoc comparisons of the three types of organizations indicate that the public-funded charity organization gives significantly higher differences (M=40.14, 95% CI [27.18, 33.11]), p =.000. Comparisons between the private-funded charity organizations (M=36.80, 95% CI [22.46, 31.14]) and another two types of charity organizations; public-funded and non-funded charity organizations are statistically significant at $p < .05$. These results imply that a basic difference does exist between a public-funded charity organization, a private-funded charity organization and a non-funded charity organization. Consistent with results from prior research [51, 52, 54, 61, 62], the difference in the extent of disclosures appears to be partly due to government control. This is empirically confirmed that organizations rely on governmental funding are more performed in attracting their sources of funding. This is completely in line with resource dependence theory.

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 charity organizations sought to include information on activities and projects undertaken during the year. Their financial performance was deemed important as it directly communicates to the government, as a local resource funder. Based on the amount of their total donations, different organization has different achievement. The public-funded charities can be assured that the government will continue to grant them the next year's budget allocation for their activities.

Hence, they have more funds to organize fundraising activities to attract more donations from the donors. The above results are consistent with [48], where in this situation the government control as a local funder was a significant control of the performance of the charity organizations.

V. Directions for Future Research

This study demonstrate there is difference between funded (either public or private funded) and non-funded charity organizations. This study shows that NPOs registered with the ROS can be categorized into the funded (either public or private funded) and non-funded charity organizations. Furthermore this difference shows the effect it has on the performance of different categories of NPOs. However this study is limited only to NPOs registered with ROS in Malaysia. There may be NPOs out there which are not registered with any regulatory body [63].

Future studies can include NPOs registered with other regulatory body such as CCM. NPOs can also be analyzed according its size and locality[2]. Further elements to be considered in future studies are the non-financial performance as a measure of NPOs performance, NPOs management effectiveness and effect of various revenue strategies in NPOs [1] and growth. According to [64] factors influencing the growth of NPOs in social services were social cohesion, demand heterogeneity, market failure, resource dependence and philanthropic culture theories. These future studies can be conducted based on different categories of NPOs.

As NPOs normally being incorporated to cater for social responsibility toward public at large, it is hoped that the management of these NPOs will tag along the good path of providing good services to those in need. Good performance measures need to be illustrated in order to increase general public interest in providing continuous help either in terms of financial or non-financial in order to ensure continuous existence of these NPOs.

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