

**GHENT UNIVERSITY**

**FACULTY OF ECONOMICS AND BUSINESS  
ADMINISTRATION**

**ACADEMIC YEAR 2012 – 2013**

**Financial Reporting of Small Nonprofit  
Organizations**

Thesis submitted for the award of  
Master of Science in Applied Economics

Lode Lanckswaert

Under the guidance of

Prof. J. Christaens



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Lode Lanckswaert

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May 2013,

Lode Lancksweerd

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# Acronyms used in the study

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## A

ACFE Association of Certified Fraud Examiners

## C

CI Compliance Index

## G

GAAP Generally Accepted Accounting Principles

GDP Gross domestic product

## N

NPM New Public Management

NPO Nonprofit organization

## R

RD Royal Decree

RDT Resource Dependence Theory

## S

SPSS Statistical Package for Social Sciences

## U

US United States

## V

VAT Value added tax



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*"Si ventus non est, remiga." [If there is no wind, row.]*

*- Latin Proverb (Anonymous)*

# Introduction

---

The demand from various stakeholders for improved transparency regarding the financial data of nonprofit organizations has increased during the latest decades (Verbruggen, Christiaens & Milis., 2011). A reason for this increased demand for financial transparency might be that the impact of the nonprofit sector on the Belgian economy has increased drastically since 2000. This is a result of a vigorous growth that, in terms of average growth per year, surpassed the growth of the rest of the economy. This trend can also be observed in other European and non-European countries.

This leads to the implementation of certain rules and formal practices for nonprofit organizations by the legislator. In Belgium this resulted in the approval of a new law in 2002 by the government, that radically changed the nonprofit sector in Belgium. These regulations were investigated by students of the master in Business Economics and indicated that they did not reach their pre-defined goals of transparency (Andries & Heirman, 2011).

Financial accounting and reporting compliance in the nonprofit sector has been the subject of many research. However, in most academic literature, the focus is on the public sector and only little research focuses on the (private) nonprofit organizations. Moreover, most studies focus only on one aspect, one measure or one sector and not on a general indicator of the compliance of the financial statements. Compliance with the accounting standards of large and very large nonprofit organizations was investigated by Verbruggen et al., in 2011. However, in this master thesis, the focus will be mainly on small nonprofit organizations (*de kleine vzw*) who have to deposit their financial statements in paper format at the registry of the Commercial Court. This is different from the large and very large organizations that have to deposit their financial statements in electronic format at the *balanscentrale*, a publicly accessible database.

Only little attention has been paid to the compliance of the small nonprofit organizations. The fact that their financial statements are in paper format and thus not directly available might be a reason. However, in this master thesis it is calculated that there are over 60 000 active small nonprofit organizations in Belgium, so their importance for civic life cannot be neglected. Exploratory studies by students of the Master in Public Management (UGent) regarding the compliance of small nonprofit organizations in Belgium, in both 2011 and 2012, already indicated severe inadequacies and errors in the financial statements. Nevertheless, this master thesis is the first research that focusses in depth on the financial reporting of these small nonprofit organizations on such a large scale and over different registries. In this dissertation it

is tried to develop a general image of the compliance of the small nonprofit organizations with the regulations, which also answers the first research question.

Archival research is the only way to obtain the necessary data. Different registries were included in this fieldwork where the data was manually collected, both from the Flemish and Walloon regions. Further analysis is performed on the small organizations that deposited their financial statements according to the simplified model that was designed specifically for them. In order to calculate to what extent a small nonprofit organization satisfies the requirements as set forward by the legislator, a compliance index is needed. A compliance index can be defined as an instrument to measure compliance with regulations or accounting standards. It consists of a number of items for which organizations receive a score. The compliance index in this master thesis is then subjected to six hypothesis which might explain the level of compliance and give an answer to the second research question; determining which variables influence the level of compliance.

The remainder of this master thesis is built up as follows: first, the background and literature review gives insight in the evolution of the increased demand for financial transparency. The section 'research method' focuses on the compliance index and the hypotheses that might explain the level of compliance. This is followed by a description of the population, the sample and the data collection. The next chapter starts with a general descriptive analysis of all the nonprofit organizations that were in the sample, followed by a more in-depth analysis of the organizations that submitted their financial statements according to the simplified model. Moreover, for this last group of organizations the level of compliance is discussed, followed by the analysis and regression results. The last section reports the discussion, limitations and issues for further research, which is followed by a general conclusion marking the end of this master thesis.

# 1 Background and Literature Review

---

## The need for more financial transparency

The demand from various stakeholders for improved transparency regarding the financial data of nonprofit organizations has increased during the latest decades (Verbruggen et al., 2011). At the turn of the century, society did no longer accept that nonprofit organization have no regulation at all concerning the financial reporting towards their stakeholders. The good intentions of nonprofit organizations are not solely acknowledged anymore by the general public (Birchard, 2005). Moreover, nonprofit accounting can no longer be subject to political whim or left to the voluntary actions of organizations, this has to be embedded in organizational convention, custom and law (Gray, 2011).

The nonprofit sector is often described as the institutions that (1) do not pursue any profit from their activities, (2) have non-commercial or mixed sources of income and (3) have a specific social ideal or socio-political concern (Andries & Heirman, 2011). An important remark is that the nonprofit sector also contains legal forms other than the nonprofit associations, such as foundations. Furthermore, literature suggests that the public services (National Health Service, government-owned corporation, etc) are also part of the nonprofit sector since they do not pursue profit as their main goal. However, in this master thesis we will not take the public services further into account.

The data was based on the definition of the nonprofit sector according to Salamon et al. (1999). They described the nonprofit sector as all the entities which are:

- (1) formal organizations
- (2) having an institutionalized character
- (3) constitutionally independent of the state
- (4) self-governing
- (5) non-profit-distributing
- (6) involving some degree of volunteerism

For Belgium, this definition means that the (private) nonprofit sector consists of the nonprofit organizations (*vzw's*), international nonprofit organizations (*ivzw's*), public benefit foundations (*stichtingen van openbaar nut*) and organizations in kind (*feitelijke verenigingen*). The nonprofit organizations are by far the largest group, however, no data is available at all concerning the organizations in kind.



The impact of the nonprofit sector on the Belgian economy has increased drastically since 2000, as a result of a vigorous growth that, in terms of average growth per year, surpassed the growth of the rest of the economy (Acx, Rigo & Vander Donckt, 2011). From 2000 to 2008 the nonprofit sector grew annually, on average, 6.8% in GDP and 4.2% in salaried employment. These numbers are impressive when comparing them to the growth rates of the global economy, which are 4.0% for GDP and 1.1% for salaried employment.

Furthermore, these numbers are an indication and probably an underestimation because educational institutions of the free net and the activity of nonprofit organizations without salaried employees are not included in the calculations. The real impact on society is much higher since a substantial part of the nonprofit organizations rely on participation of these unsalaried employees or voluntary workers.

An estimation made in 2004 and based on the satellite accounts, pointed out that in Belgium, the nonprofit organizations mobilize more than 1.166.000 volunteers (Mathou, 2010). In other words, the percentage of volunteers compared to the inhabitants in Belgium equals up to 10%. According to another study, an estimation could be found of 14% of the Belgian population that is voluntary involved in a nonprofit organization (Loose, Gijssels, Dujardin & Marée, 2007). This study also calculated that the time spent on nonprofit organizations lies between 4 to 5 hours per week, with a large variation between the volunteers, as some apparently spend more than 10 hours a week volunteering and others less than one hour per week.

This tendency is also observed in most other European and Non-European countries. For example, in the USA, the nonprofit sector constitutes 12% of the economy and 10% of the workforce and these numbers are still rising (Keating, 2003). The nonprofit organizations play a diverse and important role in the civic life of most countries (Lampkin & Boris, 2012).

Hence, an increased interest in and importance of the sector is justified (Verbruggen et al., 2011b). The increased demand for financial transparency could be seen as a logical consequence of the substantial size of the nonprofit sector.

Regarding the recent crisis, accountability became even more important for nonprofit organizations (NPOs). The worldwide slowdown of the economy means that budgets must be properly spent and reported in order to continue funding the next year. When budgets are spent, funders want to be sure they are efficiently used.

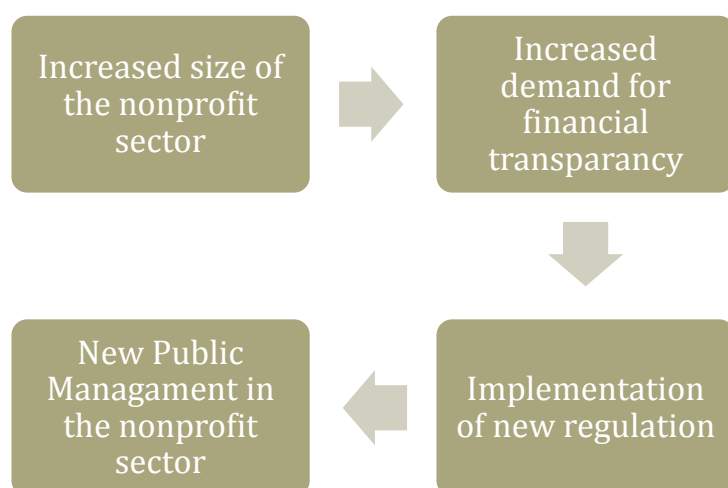
The increasing demand for transparency has resulted in the implementation of certain rules and formal practices concerning financial reporting for nonprofit organizations by the legislator. Most of the reforms for the nonprofit or governmental sector are derivatives of conventional

commercial or corporate accounting. The trend where the public and nonprofit organizations adopt concepts and management models from the corporate business world is also known as the New Public Management (NPM) reform (Hood, 1995). The NPM philosophy sometimes receives a broader perspective, the actual goal of NPM is to implement a certain management culture that results in a higher accountability of the NPOs. Given that perspective, the new Belgium law of 02/05/2002 (infra) with the accounting reform, can be seen as very closely related to the NPM philosophy (Andries & Heirman, 2011).

Traditionally, these reforms contain supplementary statements which would provide the users with more useful information. However, in this case, the reforms provide only little (if any) information on how this supplementary information is to be used or interpreted. Moreover, it is important to stress the value of solid financial reporting of the nonprofit organizations, even though the sector itself might be skeptical about it because of their attitude towards financial accounting (Andries & Heirman, 2011). After all, the goals of a NPO are completely different from the merely financial orientated corporations. As a conclusion, given the importance of the nonprofit sector in today's economy and employment, a conscious and responsible financial management is no more than an absolute necessity.

Figure 1 gives a summary of the underlying reason and consequences of the increased demand for financial transparency, as described above.

**Figure 1 Summary of the underlying reason and consequences of the increased demand for financial transparency**



## Regulation in Belgium

The reform in Belgium of the nonprofit sector was realized by a new nonprofit law (Law of 02/05/2002). Previous regulation was based on the law of 1921 and required only very limited obligations for the nonprofit organizations.

The large and very large nonprofit organizations have to report their financial statements using respectively the abbreviated or full model and must deposit in electronic format at the National Bank of Belgium. This is then available at the *balanscentrale*, an online databank with all the annual reports of all the organizations that are required to do so, both profit and non-profit organizations. How small nonprofit organizations are required to submit their annual report was regulated by the Royal Decree of 23/06/2003.

The financial statements of small nonprofit organizations should consist of a statement of receipts and expenditures and the notes (RD, 2003; De Lembre et al., 2003). Both receipts and expenditure must always be divided into four sections; receipts into membership fees, donations and legacies, grants and other receipts, while expenditures have to be divided into goods and services, remuneration, services and other goods and other expenses. The notes of the financial statements should contain the statement of assets, liabilities, rights and obligations but also additional comments and other rights and obligations<sup>1</sup>. Furthermore, the notes should contain the valuation rules, any changes in the valuation rules and additional information. This financial report has to be included in the file of the small nonprofit organization at the Registry of the Commercial Court. The statutes, the acts of appointment or dismissal of the directors or people of the executive board, a copy of the register of its members (at least those who are entitled to vote), decisions about the nullity, dissolution or liquidation of the organization and, at last, any changes made concerning all previous elements should also be found in this file. The content of the NPOs file is summarized in table 1.

---

<sup>1</sup> The 'other Rights and Obligations' are those that are not quantifiable and thus are not included in the statement of Assets and Liabilities & Rights and Obligations.

**Table 1 Summary of the content of a NPO file at the registry of the Commercial Court**

<b>Financial Statements</b>	<ol style="list-style-type: none"> <li>1) Statement of receipts and expenditures</li> <li>2) Notes to the financial statements <ul style="list-style-type: none"> <li>• Statement of assets and liabilities <ol style="list-style-type: none"> <li>I. Assets and Liabilities &amp; Rights and Obligations</li> <li>II. Additional comments</li> <li>III. Other Rights and Obligations</li> </ol> </li> <li>• Valuation rules</li> <li>• Changes to the valuation rules</li> <li>• Additional information</li> </ul> </li> </ol>
<b>Statutes</b>	
<b>Acts of appointment or dismissal of the directors, people of the executive board</b>	
<b>Copy of the register of its members</b>	
<b>Decisions about the nullity, dissolution or liquidation of the organization</b>	
<b>Changes of the elements above</b>	

A small nonprofit organization is obligated to let general assembly approve the financial statements in less than six months after the end of the book year. When the financial statements are approved by the general assembly, they should be submitted within 30 days at the Registry of the Commercial Court. Organizations have the possibility to do this in two different ways: personal deposit or by means of a registered mail. The maximum time lag between the end of the book year and the submission of the financial statements at the registry of the Commercial Court is therefore 7 months. Deposition of the financial statements has to be in paper form, it is not possible to deposit in virtual or electronic form.

## **Previous research of compliance in the nonprofit sector**

Previous research investigated the compliance with accounting regulation for municipalities (e.g. Christiaens, 1999; Falkman & Tagesson, 2008; Giroux & McLelland, 2003), hospitals (e.g. Jegers & Houtman, 1993), charity organizations (eg. Zainon, Atan, Bee Wah & Raja Ahmad, 2012) large nonprofit organizations (Verbruggen et al. 2011) and other local authorities (e.g. Christiaens & Vanslembrouck, 2010; Da Costa Carvalho, Camões, Jorge & Fernandes, 2007; Dixon, Coy & Tower, 1991).

Former research focused mainly on the public sector and the implementation of accrual accounting, that is, where revenues and costs are recognized as they are earned or incurred and not when actual money is received or paid (Falkman & Tagesson, 2008). This change towards accrual accounting is part of a bigger reform in the public sector, also known as the NPM reform (*supra*).

Moreover, most studies focus only on one aspect or one measure (such as intended misreporting) or on one sector (most often the health sector) and not on a general indicator of the compliance of the financial statements (Verbruggen et al., 2011).

The big difference between (private) nonprofit accounting and governmental or public accounting is that the latter is often monitored or controlled by elected politicians who act with a reelection in mind (Baber, 1983). The pressure to comply with the regulations comes from other politicians who demand an efficient spending of budgets. Baber & Sen (1984) already pointed out that the political process can influence the decisions on how to report financial information.

In most cases a compliance index was used in order to examine to what extent the regulations are respected. The preferred outcome of the legislator to regulating accounting practices is mainly to suppress 'creative' accounting and increase the level of comparability (Falkman & Tagesson, 2008). In most academic literature, audit supervision was always the most significant variable to explain compliance (Falkman & Tagesson, 2008; Christiaens, 1999; Verbruggen et al.; 2011).

An interesting study from students of the master in Business Economics investigated whether the management of the nonprofit organizations in Belgium experienced difficulties or obstacles with the implementation of the new accounting framework (Andries & Heirman, 2011). This study indicated that the new regulations, despite the good intentions of the government, were perceived as generally negative. The main obstacles were the lack of necessary expertise and the willingness to adapt the new regulations. In their study it was mentioned that the increased cost aspect for the organizations was, although much literature states otherwise, not perceived as an obstacle.

Recently, compliance of the large and very large nonprofit organizations in Belgium was measured by Verbruggen et al. (2011). Only little attention has been paid to the compliance of the small nonprofit organizations. The fact that their financial statements are in paper format and thus not directly available might be a reason. Compliance of small nonprofit organizations in Belgium has been investigated by students of the Master in Public Management (Ugent). In 2011

an exploratory study was performed in Ghent (Deprez, Van den Abeele & Van Driessche., 2011), in 2012 the same study was repeated but in Courtray (Van den Bergh, De Maeyer & Verlinde, 2012). Both studies emphasized the severe inadequacies and errors in the financial reporting of small nonprofit organizations. No other study has investigated the compliance of small nonprofit organizations in Belgium so far.

## **Quality of financial reporting**

The quality of the financial report is often a point of criticism in international academic literature. The accounting frameworks are often perceived as not sufficient enough to answer more profound questions (Lohmann, 2007). Moreover, the accounting standards for nonprofit organizations are based on the current standards in the private sector. The question comes to mind whether it is a good idea that nonprofit organizations have rules, methods and principles based on those applicable in the private sector (Christiaens, 1999). The recent proliferation of nonprofit accounting has given rise to a number of questions, the main one being how nonprofit organization can create an accounting framework that is relevant and achievable (Raynard, 1998). The underlying rationale behind that is the fact that a nonprofit organization is a completely different kind of organization than a private corporation, not only is their initial goal completely different but also their environment, the nature of their funding's, operational characteristics and furthermore, the nonprofit sector is confronted with an unclear relationship between the receipts and expenditures (Andries & Heirman, 2011). As a conclusion, only an accounting framework that is completely adapted toward the specific needs of the nonprofit sector can result in a qualitative, representative and useful financial report.

However, quality not only depends on the annual reports itself but also on the user of the annual report. Thus, a unified definition for financial reporting quality is not preferable since it can be defined differently for different users, sectors, countries, legislations, or research agendas (Verbruggen et al., 2011). The nonprofit organizations are confronted with a very complex stakeholder environment (Benjamin, 2008). The result is that every organization has different stakeholders who all have different interests and search for dissimilar information in the annual report.

For some nonprofit organizations that rely heavily on fundings, the funder requests augmented financial reporting (both in quantity and in quality) in order to verify whether the nonprofit organization has met the agreements or to explain certain actions. This funder will in many cases be the government, especially in countries with a high government involvement in the economic life (e.g. Belgium, Sweden, Denmark, France, the Netherlands).

Comparability with other organizations is essential to achieve a qualitative and useful financial report for those external stakeholders. In order to have the ability to make a useful comparison between two different NPOs, one should establish (1) a standardized framework which is (2) correctly submitted by the organizations (Benjamin, 2008). The standardized framework was created by the Belgian government. The second condition however, is entirely the responsibility of the nonprofit organizations. Only when these two conditions are accomplished and hence the organizations report on an adequate basis their financial information according to the regulation, a comparison with other NPOs is useful and society can form a correct opinion. Therefore, compliance is a key element in safeguarding the quality and usefulness of these financial reports.

Figure 2 gives a summary of the determinants of the quality of a nonprofit financial report.

**Figure 2 The determinants of quality of a nonprofit financial report**



## The role of the government

As shown by the limited previous exploratory studies (Deprez et al., 2011; Van den Bergh et al., 2012) it is very likely that the financial statements of small nonprofit organizations are not correctly submitted. Only limited attention is paid by the government to the compliance with the regulations.

Compliance can be seen as a choice of the nonprofit organization rather than an obligation. The only promise the government makes is that the financial statements can be consulted by the public. However, the government does not have any mechanism to verify the financial statements (Verbruggen et al., 2011). Moreover, research has shown that the most common

form of oversight in nonprofit organizations comes from the board of directors (Keating & Frumkin, 2003).

Nevertheless, governments should try to increase the level of compliance of the nonprofit organizations. The main reason is already mentioned above; only if a nonprofit organization deposits their yearly financial statements correctly, can the quality of the financial report for the users increase. If compliant, this results in the possibility to compare with other nonprofit organizations.

A second reason why governments should pay attention to compliance of financial statements is to reduce the possibility of fraud (Greenlee, Fischer, Gordon & Keating, 2012) and expense misreporting (Krishnan, Yetman & Yetman, 2006). Nonprofit organizations are particularly vulnerable to fraud because their boards may or may not have any financial expertise. According to a study of the Association of Certified Fraud Examiners (ACFE), all organizations lose about 6% of their revenues to fraud annually (ACFE, 2005). The fact that nonprofit organizations have to deposit their financial statements can work as a barrier to initiate fraud. The importance of the government cannot be neglected, nevertheless, the board of directors together with the management also has an important role in preventing fraud by creating an atmosphere for ethical behavior (Greenlee et al., 2012).

## **Self-regulation of nonprofits**

So far, only the benefits of compliance for external stakeholders have been discussed (in particular the benefits for society). However, some theories also suggest that nonprofit organizations try to regulate themselves for their own benefits. This so-called self-regulation often occurs as a substitute for or complement to the regulations that the legislator put forward. By doing so, they can enhance their nonprofit legitimacy (Bies, 2012).

In general, three theories can be found that explain the self-regulation of nonprofit organizations. First of all, the principal-agency theory. This theory is based on the relationship between an agent and a principal, and which techniques are used by the principal to get agents to be compliant (Eisenhardt, 1985). In the nonprofit context, the nonprofit organization can be seen as an agent, while other third-party entities are viewed as the principal (Bies, 2012). These principals can take many different forms: the board of directors, the funders (note that this funder can also be the government) or other external entities who serve as a financial watchdog.

The resource dependence theory is the second. The resource dependence theory contributes to the understanding of self-regulation by focusing on the fact that organizations seek resources for



their survival and therefore interact with their stakeholders in order to gain or maintain control over necessary resources (Pfeffer & Salancik, 1978).

Thirdly, there is the institutional theory (DiMaggio & Powell, 1983). This concept suggests that “organizations are best understood as embedded within communities, political systems, industries, or coordinative fields of organizations” (Feeney, 1997, p.490). One can only obtain the necessary legitimacy by being completely adapted to the institutional environment (Bies, 212).

## **Research question development**

A major irregularity in the compliance of nonprofit organizations seems to exist when investigating the available literature. However, what is even more remarkable is the fact that there is no literature nor data available about the small nonprofit organizations in Belgium at all. Inspired by a large dose of curiosity and based on the two exploratory studies (Deprez et al., 2011 and Van den Bergh et al., 2012), the following research questions will be investigated in this master thesis:

- To what extent are the small nonprofit organizations compliant with the regulation concerning the financial statements?
- Which variables play a determinant role in explaining compliance?

It is clear that in order to answer the first research question some kind of measurement will have to be performed. This measurement system should investigate to what extent the regulations are being respected by the small nonprofit organizations in Belgium. Important to note is that this information is not yet available in electronic format and therefore, the data will have to be collected by means of fieldwork at the registries of the Commercial Court.

The second research question will try to explain why some small nonprofit organizations are more compliant than others. For this aspect it is crucial to develop a correct model with correct explaining variables based on the literature that exist for other nonprofit organizations.

## 2 Research Method

---

### Measuring Compliance: Defining a Compliance Index

In order to calculate to what extent a small nonprofit organization satisfies the requirements as set forward by the legislator, a compliance index is needed. A compliance index can be defined as an instrument to measure compliance with regulations or accounting standards. It consists of a number of items for which organizations receive a score. These items are directly related and observable in the financial statements and the organizations file. The compliance index combines elements that are explicitly put forward by the legislator with other, more implicit requirements.

The compliance of small NPOs will be rather low since there is little to no government supervision to monitor these regulations.

In the present study, the index is a simple disclosure index, which means that all the elements have an equal weight contributing to the index (Christiaens, 1999). In academic literature both weighted and unweighted indices were used. However, no significant difference was found between both methods (for example Ingram & De Jong, 1987).

Table 2 gives the items that are measured in this dissertation. Furthermore, in the compliance index we can find seven main criteria or principles. The first one being timeliness, whether an organization respects the time periods allowed by the legislator. The second, completeness, how complete are the financial statements. The third one, relevance, refers to the level of detail provided and whether errors were made in the financial statements. Classification relates to whether the assets and liabilities have the correct sign. Fifth, the mechanical accuracy, controlling whether there are wrong calculations in the financial statements. Sixth, adequacy and usefulness, measuring whether it is easy for external stakeholders to read and understand the financial statements. And finally, comparability, refers to which amount the current financial statements are comparable with previous years.

Finally, table 2 also provides an overview of the methods of measurement of all the elements in the compliance index. Most items are measured dichotomously (D), that is, they received a score of 1 if in compliance and received a score 0 if not. Some elements are measured qualitatively (QL) or quantitatively (QT). However, both qualitatively and quantitatively scores are translated in binary scores. Since there are 29 elements in the compliance index, a maximum score of 29 can be achieved. A higher score indicates a higher level of compliance with the legislation.

<i>Principle</i>	<i>Items Compliance Index</i>	<i>Code</i>	<i>Measure</i>	<i>Background</i>
<b>Timeliness</b>				
	Timeliness Approval General Assembly	1. TIMEAPP	QT	Christiaens, 1999 Verbruggen et al., 2011
	Timeliness Registry	2. TIMEREG	D	
	Made public within 7 months after the end of the book year	3. TIMEPUB	D	Verbruggen et al., 2011
<b>Completeness</b>				
<u>Statement of Receipts and Expenditures</u>				
	Expenditures disclosed (according to the legally predefined categories)	4. EXPENDIT	QL	
	Receipts disclosed (according to the legally predefined categories)	5. RECEIPT	QL	
<u>Notes</u>				
	Statement of assets and liabilities disclosed (according to the legally predefined categories)	6. ASSLIA	QL	
	Statement of rights and obligations disclosed (according to the legally predefined categories)	7. RIGOBL	QL	
	Valuation rules disclosed	8. VALRUL	D	
	Changes to the valuation rules disclosed	9. CHAVAL	D	
	Additional comments disclosed	10. ADDCOM	D	
	Other rights and obligations disclosed	11. OTHER	D	
<b>Relevance</b>				
	Disclosure of the exact date of the book year	12. DATEBOOK	D	
	Disclosure of the exact date of approval	13. DATEAPP	D	
	Bank account disclosed	14. BANK	D	Dixon et al., 1991

Totals and subtotals disclosed	15. TOTSUB	D	Dixon et al., 1991
All amounts disclosed	16. AMOUNT	D	
Calculation of net result	17. NETRES	D	
No use of pro memory	19. PROMEM	D	
No suspense accounts	19. SUSPENSE	D	
No accruals disclosed	20. ACCRUAL	D	
<b>Classification</b>			
Sign assets disclosed	21. SIGNASS	D	Christiaens, 1999 Verbruggen et al. 2011
Sign liabilities correct	22. SIGNLIA	D	Christiaens, 1999 Verbruggen et al. 2011
<b>Mechanical accuracy</b>			
Correct subtotals and totals of statement of receipts and expenditures	23. CORRECT	D	Jegers & Houtman, 1993
<b>Adequacy and usefulness</b>			
Typed or handwritten	24. TYPED	D	
Name of the NPO on every page	25. NAMEPAG	D	
Pages consecutively numbered	26. NUMBER	D	Christiaens, 1999
Different lay-out for titles and subtitles	27. LAYOUT	D	Christiaens, 1999
Visualization	28. VISUAL	QL	Dixon et al., 1991
<b>Comparability</b>			
Use of a standardized template compared to previous year	29. TEMPLATE	D	

**Table 2 Elements and composition of the compliance index**

## **The components of the Compliance Index**

Timeliness (1.-3.): The first item (Christiaens, 1999; Verbruggen et al., 2011) is defined as the time lag between the end of the book year and the approval of the financial statements by the board of directors. Legislation explicitly states that this should not exceed the time period of 6 months after the end of the book year. If compliant, they received a score of 1, if they were less than one month late, they received a score of 0.9, two months late was a score of 0.8, etc. The second timeliness is defined as the time lag between the approval of the financial statements by the general assembly and the submission at the Registry of the Commercial Court. Regulation states that approved financial statements have to be submitted in less than 30 days. If compliant they received a score of 1, otherwise 0. If previous measures are interpreted less strictly, the maximum period for deposit at the Registry is seven months after the end of the book year, which is measured by the third item (Verbruggen et al., 2011).

Completeness (4.-11.): 'Receipts and Expenditures' have to be divided both into four different subcategories (see Appendix A). If it was done correctly, a score of 1 was given, 0.5 if partly disclosed and 0 if no compliance, which means that the statement of Receipts en Expenditures was not included. Consequently, this score can be seen as an indicator of the degree of detail. The statement of 'Assets, Liabilities, Rights and Obligations' has to be correctly categorized, if so, a score of 1 was given, 0.5 if partly disclosed and 0 if no compliance. Concerning all the other elements a score of 1 was given if it could be found in the small NPOs file, a score of 0 if not. Important to note is that if an empty field was shown without further explanation a score of 0 was given. As an example, even if there were no 'Additional comments', leaving the field blank was not sufficient. In order to obtain a score of 1, the organization had to mention explicitly that there are no additional comments. Another example, for 'changes to the valuation rules', a score of 1 could be obtained by simply mentioning that there are no changes in the valuation rules this year.

Relevance (12.-20.): If a small NPO specified what the exact time period is of the book year they received a score of 1 for the first item of the relevance principle. The same for specifying when the financial statements were approved by the board. If they disclosed any reference to their bank account (which they are supposed to have as a nonprofit organization), totals and subtotals in their statement of receipts and expenditures, all amounts and a calculation of their net result, the organizations could receive a score of 1 for each of these elements. All amounts disclosed means whether they disclosed a number for each category in their statement of receipts and expenditures, assets and liabilities and rights and obligations. If the amount for a certain category was empty they received a score of 0. If all categories had a number (this can be

a simple 0) they received a score of 1. The items 18, 19 and 20 are for testing whether no errors were made in the financial statements.

Classification (21.-22.): These items check whether the sign of assets and liabilities is correctly reported according to the Belgian GAAP (1 if correct, 0 if incorrect) (Christiaens, 1999; Verbruggen et al. 2011).

Mechanical accuracy (23.): Recalculation of the sum of the expenditures and the receipts (Jegers & Houtman, 1993). If the stated sum was correct for both expenditures and receipts a score of 1 was given. This logical test aims to assess the mathematical correctness of the financial statements.

Adequacy and usefulness (24.-28.): For the element Typed (24.) it was verified whether the financial statements were handwritten or typed, with a score of 1 in favor of a typed version. If the name of the NPO was on every page of the financial statements, if the pages were consecutively numbered (Christiaens, 1999) and/or if there was a different lay-out for titles and subtitles (Christiaens, 1999), an organizations could receive a score of 1 for each item respectively in the compliance index. Visualization (28.) is a subjective score based on how the nonprofit organizations' financial statements are presented. If the documents have an outstanding lay-out the maximum score of 1 was given. If I felt the need for only little improvement, a score of 0.9 was submitted. A score of 0.8 was given if the document has a good and solid lay-out,... Finally, a score of 0 was given if the lay-out is far below standard.

Comparability (29.): If the same template was used for the financial statements compared to the previous year, a score of 1 was given.

## **Explaining the Compliance Index: Defining Hypotheses**

In order to respond to the necessity of transparency in terms of compliances, which was clearly demonstrated by the lack of data in the literature research, the method to tackle the second research question was based on a measurement of various factors influencing the compliance index. To answer my second research question, that is, finding which variables play a determinant role in explaining compliance, a number of factors influencing the level of compliance are measured.

Possible determinants of the compliance index:

### **Organization size**

One of the most frequently used explanatory variables in the explored empirical research is size. In this dissertation, organization size is defined as the total assets of the nonprofit organization.

Another possibility to measure organization size is the total number of employees in a company or organization. This has a long intellectual tradition and is still most often used in academic literature (Kumar, Rajan & Zingales, 2001). However, based on the NPOs file at the Registry it is not possible to determine the number of salaried employees. A third possibility to measure size is by total revenues (Verbruggen et al., 2011).

Although some authors defend the opposite, the assumption in most academic literature is that large firms have many advantages over their smaller rivals. Large firms can benefit from economies of scale and scope, from specialization and from their stronger bargaining power (Jónsson, 2007). This will result in increased rates of profitability. Furthermore, larger companies can also create certain barriers in order to prevent other companies from entering their market. Therefore, larger companies are believed to be more resistant against possible market changes and to have little fluctuations in their profit rates (Maçãs, Serrasqueiroa & Sequeirab, 2009). As a conclusion, larger organizations are more consistent over time, leading to a bigger economic impact than small organizations. This bigger economic impact and higher profit rate will lead to a lower relative cost of producing high quality financial statements.

Also, it is easy to assume that the size of an organization influences the amount of jobs it will offer. Since their impact on the economy and employment is bigger, society will put more pressure on larger organizations to comply with the regulations. If nonprofit organizations are closely monitored by mass media they will also experience pressure from that side. Moreover, it is likely that larger organizations will receive more media attention than smaller ones. The financial statements of larger organizations will be thoroughly scrutinized.

Furthermore, larger organizations have more possibilities to hire an accountant or consult professional expertise in order to comply with the regulations (Falkman & Tagesson, 2008). Finally, they have more knowledge and experience to ensure correct financial reporting (Verbruggen et al., 2011).

Therefore, hypothesis 1 is formulated as follows:

*Hypothesis 1: The level of compliance will increase with the size of the nonprofit organization.*

## **Region**

In this research, data was collected from different regions. It is hypothesized that the region will have a large influence on the compliance. There is a small difference between the average number of salaried employees per thousand inhabitants in the nonprofit organizations in Flanders and Wallonia in 2002 (Marée et al., 2005), respectively 36.3%, and 31.4%. However,

the smaller role for the nonprofit organizations in Wallonia is countered by a significantly higher proportion of average number of salaried employees per thousand inhabitants for the public sector, almost 30% for Wallonia and only 24.6% for Flanders. Nevertheless, because of the higher societal participation in the nonprofit organizations in Flanders, this can be an indication that the compliance of the nonprofit organizations in Flanders is higher than the compliance in Wallonia.

The differences in compliance of the financial statements can also be partially rooted in cultural differences in attitude towards regulations (Jegers & Houtman, 1993). Wallonia has a typical bureaucratic culture with more centralization, similar to the bureaucratic culture as seen in France. Flemish regions on the other hand, can be categorized under the Anglo-Saxon business culture with less formalization as seen in countries such as the UK and the USA as most notable examples. This, however, can be an indication that the Walloon regions are more compliant.

The combined effect of the above stated elements is difficult to predict. To see whether difference exist in the first place, following hypothesis is formulated:

*Hypothesis 2: The level of compliance will be different between Flemish NPOs and Walloon NPOs.*

### **Age of the organization**

Age of the organization is often used in academic literature to explain the level of compliance (Zainon et al., 2009). Age can be seen as a proxy for experience with financial reporting. Older organization have more experience with the regulation and thus would have a higher compliance. However, since the regulations for the small nonprofit organizations are quite new it is assumed that experience effects will not yet have occurred. Instead, it is argued that when an organizations was founded before 2003 (and thus before the royal decree where the simplified model was described), they will be less compliant with the new regulations. Reasons for this might be that they experience problems in adapting the new regulations (Andries & Heirman, 2011) or the organizations might simply be reluctant to change (Falkman & Tagesson., 2008).

*Hypothesis 3: The level of compliance will be lower when an organization was founded before 2003, or consequently, the age of the organization is older than 10 years.*

### **Subsidized**

Based on the Resource Dependency Theory (Verbruggen et al., 2011; Pfeffer & Salancik., 1978), organizations that are relying heavily on fundings from the government will be more compliant. These organizations seek resources for their survival and therefore they interact with their



stakeholders in order to gain or maintain control over necessary resources. Organizations that depend heavily on subsidies from the government will show a higher willingness to be compliant with the regulations imposed by the government. Therefore, hypothesis 4 is formulated as follows:

*Hypothesis 4: The level of compliance will be higher with the level of subsidies an organization receives from the government.*

### **Supervision by an auditor or professional**

In previous research, audit supervision was almost always a significant explanatory variable. An audit control will determine most errors and presumably less inadequacies will be generated in the financial statements (Falkman & Tagesson, 2008). However, we also argue that a yearly audit control will put pressure on the organization to try and be compliant with the regulation. Note that an audit supervision for the financial statements of a small NPO is not obligatory. An important note is that auditors who are familiar with the financial statements of private corporations, might find it difficult to understand the financial statements of a nonprofit organization (Bowen, 2012).

An audit supervision equal to one of the large or very large nonprofit organizations is probably too expensive for a small nonprofit organization. That is why we also included professional advice or supervision in this variable. Professional advice or supervision can take place in a lot of different formats. Supervision of an auditor or a professional was approached categorically, a score of 1 was submitted if the NPO has any form of professional advice or audit control, if not, they received a score 0.

We argue that audited financial statements will display a significantly higher level of compliance (Verbruggen et al., 2011) and thus the hypothesis is defined as follows:

*Hypothesis 5: The level of compliance will be higher when small nonprofit organizations' financial statements are subjected to an external audit or any form of professional control.*

### **Board size**

Research has indicated a significant relationship between nonprofit boards and organizational performance (Bradshaw, Murray & Wolpin, 1992). However, these boards did not have an active role but acted in a passive, reactive and controlling function. Consequently, these boards played a limited role, mostly as trustees or financial watchdogs rather than entrepreneurs, and are largely risk averse. Therefore, if the size of the board of directors is rather larger, more control will be exercised on the correctness of the financial statements.

However, a recent study suggests that boards who are smaller in size are more effective than larger ones. Beasley (1996) even found a positive relationship between the board size and the chance of committing fraud. Members of a small board might feel the urge and pressure to be responsible for the small nonprofit organizations than members of a larger board of directors. Furthermore, these boards might be less coherent, which might result in less internal pressure and deliberation between the board members. This might lead to a lack of profound control of the financial statements (*someone else will do it*).

Nevertheless, board size can be seen as a proxy for internal control of the financial statements. Hence, because of the reasons stated above, hypothesis 6 is formulated as follows:

*Hypothesis 6: The level of compliance will be different between the size of the board of Directors.*

## **Population**

A nonprofit organization is defined as small when, on the closing date of the fiscal year, none or at most one of the following three criteria are exceeded (NBB, 2012):

1. An annual average of five employees, expressed as full-time equivalents (volunteers, temporary staff and special employers temporarily assigned to the organization do not qualify for calculation)
2. A total revenue, other than exceptional revenue, of 312 500 EUR (excl. VAT)
3. A balance sheet total of 1 249 500 EUR

The normal duration of the book year is 12 months. The beginning of the book year can be chosen on a free basis. Nevertheless, many organizations choose to coincide with the calendar year. Is the duration of the book year different than 12 months, a pro rata calculation is necessary concerning the second criterion (revenues of 312.000 EUR).

As mentioned before, the nonprofit sector has become quite substantial in the recent decades. In 2008 the nonprofit sector represented 5.1% of the Belgian GDP and was responsible for 11.5% of the total salaried employment in 2008 (Acx et al., 2011).

The nonprofit sector can be divided in 7 categories: agriculture and industry, services, education, healthcare, social action, miscellaneous non-profit activities and leisure, culture and sports.

**Table 3 Overview of the different activity groups in the nonprofit sector according to Marée et al. (2005)**

Activity	GDP (on average per organization)
<b>Agriculture and industry</b>	1 325,4
<b>Services</b>	1 112,2
<b>Education</b>	546,0
<b>Healthcare</b>	9 406,4
<b>Social action</b>	1 145,4
<b>Miscellaneous non-profit activities</b>	279,4
<b>Leisure, culture and sports</b>	287,5

Table 3 illustrates clearly that healthcare dominates the economic activity of the sector, which is not unexpected since the organizations in that field of activity are generally large, covering many hospitals for example. Furthermore, this branch is the most funded by the government, basically 79% of the total resources are coming directly or indirectly from the government.

However, an organization that belongs to a very specific sector usually has special, sectorial rules and do not fall under the category of small nonprofit organizations (e.g. hospitals, schools, children day care centers). These sectorial rules include a different accounting framework, in most cases this means an abbreviated or full model with double booking standards similar as the regulations for the large and very large nonprofit organizations. Those financial statements are not deposited at the Registry of the commercial court but at the *balanscentrale*, and therefore will not be part of my data. Furthermore, based on the NPOs file at the Registry of the commercial court it is very difficult to know the sector since they don't have to indicate to which sector they belong. One could try to divide the organizations into sectors based on the name of the NPO, but this would only be possible for a few organizations and would probably contain a lot of errors.

Nevertheless, the expectation is that the organizations that have to deposit their financial statements at the registry of the Commercial Court (the small nonprofit organizations) will in most cases be part of the group 'miscellaneous non-profit activities'. Moreover, the organizations that are part of the activity group 'leisure, culture and sports' and 'social action' are expected to be rather small organizations and to deposit their financial statements at the registry. Although quite insignificant in terms of GDP, in absolute numbers, the miscellaneous non-profit activities account for 38% of the total amount of nonprofit organizations in Belgium. If we take a look at the number of volunteers in these sectors, the biggest group is by far 'leisure, culture and sports'

adding up to 51.8%, 29.1% for ‘miscellaneous non-profit activities’ and 15.1% for ‘social action’. This stresses the social importance of these sectors.

I would like to point out again that in the above data of the *Koning Boudewijnstichting* and the National Bank of Belgium the organizations without salaried employment are not included. I assume that those organizations that do not have any salaried employment will in most cases be a small nonprofit organization who have to deposit their financial statements at the registry.

The total size of nonprofit organizations was estimated by the National Institute for Statistics in 2004 at 113.513 organizations (Marée et al., 2005). Only 15.170 organizations employed personnel paid from their own funds. Based on information from the National Bank of Belgium (NBB, 2008) we know that there are 1.388 large nonprofit organizations and 5.463 very large nonprofit organizations, bringing the total of organizations that have to deposit electronically their financial statements at the *balanscentrale* at 6.851 organizations. This brings the total amount of small nonprofit organizations at 106.662. However, in order to find the correct size of the active small nonprofit organizations, we should deduct from that amount those organizations that have ceased their activities without deposing an act of dissolution. Based on a poll by the University of Liège in 1995, the estimation of active nonprofit organizations is 62 percent. This brings the total size or population of the active small nonprofit organizations at 66.131. This is summarized in 4.

**Table 4 Calculation of the active small nonprofit organizations in Belgium based on Marée et al. (2005) and NBB (2008)**

	2004
<b>Very large nonprofit organizations</b>	1 388
<b>Large nonprofit organizations</b>	5 463
<b>Small nonprofit organizations</b>	106 662
<i>Active organizations (62%)</i>	<i>66 131</i>
<b>TOTAL</b>	<b>113 513</b>

## Sample

For this master thesis, a total of 386 files were collected at six different registries of the Commercial Courts. However, a document of dissolution was found in some files. In most cases this dissolution was voluntary, in only a few cases this was a juridical dissolution (see Appendix B). These dissolved organizations are not part of the population since they are not expected to deposit any financial statements and therefore are excluded from the sample.

This brings the total sample size for this cross-sectional study at 353 organizations.

The choice which Commercial Courts were subjected to my master thesis was mainly a geographical choice. However, since this is a federal matter, I tried to diversify as much as possible. Therefore, two registries (Mons and Tournai) from the French speaking part of Belgium were also included in this study. The other four registries are part of the Dutch speaking part of Belgium and covered three out of the five Dutch speaking provinces.

In total, 100 files or 28.3% were investigated from Wallonia and 253 files or 71.7% from Flanders as shown in table 5. This distribution is almost equal to the civil population distribution between the Flemish regions and the Walloon regions; 64.2% and 35.8% (based on STATBEL, 2013). Furthermore, table 6 shows large differences between the amount of organizations that were investigated as this depended heavily on the registries and their willingness to cooperate (infra). For graphical statistics, see Appendix B.

**Table 5 Frequency table of the sample by region**

	Frequency	Percent
Flemish	253	71,7
Region Walloon	100	28,3
Total	353	100,0

**Table 6 Frequency table of the sample by city**

	Frequency	Percent
Brugge	108	30,6
Gent	64	18,1
Leuven	30	8,5
City Mons	42	11,9
Oostende	51	14,4
Tournai	58	16,4
Total	353	100,0

## Data Collection

### Clusters

In order to handle with methodological issues the total sample is divided in four cluster (table 7). The fourth cluster is the one with all the sleeping organizations. In order to determine whether an organization is sleeping I searched for a sign of activity in the NPOs file at the Registry of the Commercial Court. This meant checking if there is a recent financial report. If not provided, I searched for any other sign of activity in the file (eg. a change in the board of

directors has been reported in the file). If there was not a single sign of activity found for the last 5 years (last sign of activity dated before 1/1/2008), the NPO was categorized as a sleeping organization.

If an organization, according to these logical tests, is still active they are part of the active organizations. The first cluster is the cluster with all the active organizations that submitted their financial statements according to the simplified model that was created for the small NPOs (see Appendix A). This is the cluster which is most important for this master thesis. Organizations which are part of this clusters will be subjected to the compliance index and regression analysis.

However, if an organization is still active according to these logical tests but has not submitted any financial report within the last five years they are part of the second cluster. That is the cluster with all the nonprofit organization that are still active but not submitting their financial statements.

Finally, the third cluster is the one with all the organization who are still active but voluntary used an abbreviated or full model for their financial statements. These two models are used for respectively the large and the very large nonprofit organizations.

The sum of clusters 1, 2 and 3 represent the total sample population of active nonprofit organizations. The sum of cluster 1, 2, 3 and 4 represent the total sample population that are obligated to deposit their financial statements.

**Table 7 The different clusters**

Cluster	Name	Description
<b>Cluster 1</b>	ACT CI	Active organizations submitting financial statements
<b>Cluster 2</b>	ACT NO	Active organizations but not submitting financial statements
<b>Cluster 3</b>	FULL	Reduced or full model with double booking method
<b>Cluster 4</b>	SLEEP	Sleeping organizations

### **Method of data collection**

Archival research was used to collect the data. The small nonprofit organizations have the obligation to deposit their financial statements in paper format at the Registry of the Commercial Court where it ends up in the organizational file. As a deposit in electronic format is not allowed, these documents must be a written copy. Since no electronic database is available to retrieve data, all the data used in this study was manually collected in the Registries of the

Commercial Courts. Following Commercial Courts were subjected in this master thesis: Ostend, Bruges, Ghent, Leuven, Mons and Tournai.

Prior to the actual collection of the data, several visits were made to the registry of the Commercial Court. Those exploratory visits were particularly interesting since they provided insight in the files of the nonprofit organization. This insight was, next to academic literature and professional guidance, used to develop the compliance index that was used in this master thesis.

Contact by telephone or email was always made prior to the archival research. A disturbing remark here is that only one registry had an email address. Furthermore, in most cases, the telephone number provided on the internet was not correct. Although the law states that the files can be found at the registry of the Commercial Court, the correct administration where the files could be found was at the trade register (*handelsregister*). This resulted in numerous transfer by telephone to other departments. In the French speaking registries the language barrier was a factor that had an important influence and is not to be underestimated. In most cases, the end point was the chief registrar of the Commercial Court because the staff of the registries could not give me the official permission to receive individual access.

In some cases, an invitation followed from the chief registrar to further explain in real life the goal and purpose of my master thesis. In all the other cases an appointment was scheduled for my first visit in order to collect the data. After the first consultation, in most cases a second or even a third visit had to be scheduled.

The selection of which files of nonprofit organizations to be used in this study, was different between the Registries and shown in detail in Table 8. It depended heavily on the willingness and cooperation of the Registries of the Commercial Court and to what extend (if any) I was given individual access to the Registry.

**Table 8 Overview of the different sample methods and degree of access by city**

City	Access	Sample
<b>Bruges</b>	Individual access to the full archive	Simple random sample
<b>Ghent</b>	Access to one pre-defined filing cabinet in the archive	Restrictive non-probabilistic sample
<b>Leuven</b>	No access to the archive, only based on the name of an NPO a file could be obtained	Restrictive non-probabilistic sample
<b>Mons</b>	Individual access to the full archive	Simple random sample
<b>Ostend</b>	Individual access to the full archive	Simple random sample
<b>Tournai</b>	No access to the archive	Simple random sample (files were randomly selected by the staff of the Registry)

It is important to mention that this method of data collection, archival research, can lead to accidental errors by incorrectly giving in the data. In this study Microsoft Excel was used to give in the data. In this program some logical test were performed to check for errors. Furthermore, since these errors occur because of tiredness or fatigue by the researcher, the following rules were strictly followed in order to reduce the possibility of such errors: (1) after every hour a short break and (2) not working longer than four consecutive hours without a break of at least one hour. Based on own calculations, the average time spend to analyze a file of a nonprofit organization was 9 minutes. This depended heavily on the different registries and the related work atmosphere.

### **Differences between the Commercial Courts**

Contact was made with the clerks of several commercial courts in order to collect the data. Based on previous research (Deprez et al., 2011; Van den Bergh et al., 2012) there seems to be a big difference between the commercial courts.

- Bruges: Very open and friendly approach. Before the actual archival research was performed, there was an invitation at the office of the chief registrar of the Commercial Court. He showed a lot of interest in my master thesis and personally guided me around in the archive.



- Ghent: Very open approach. The staff was very friendly and asked several times if they could help with anything. Very useful for my data collection and unique compared to the other registries, they separated the nonprofit organizations from the for-profit companies by given the NPOs a blue colored map which was different from the orange colored maps.
- Leuven: Over the telephone, from the beginning they told me that the only way to consult the files of the nonprofit organizations was to give me the name or organization number. Explaining the goal of my master thesis and stressing that this method would increase the workload for the staff had no positive result. Another restriction was that only 10 files could be demanded at once. Furthermore, from the names that were asked, they found the related file in only 50% of the cases.
- Mons: Direct contact was made possible thanks to the guidance of the registrar of the commercial court in Tournai. This resulted in an invitation at the office of the chief registrar of the Commercial Court. He guided me around and showed great interest in my study. Initially a private office was provided to me to work in the best conditions, however, to increase the speed of the data collection the actual research took place in the archive itself. Very unique and remarkable was the fact that it is the only registry of the Commercial Court that has a complete archive solely for the nonprofit organizations. The new, modern and very spacious building might be an important factor that resulted in an individual archive. Furthermore, they were the only Commercial Court that had judicial dissolution (*dissolution judiciaire*) of nonprofit organizations.
- Ostend: At arrival there were some communication problems between the different administration, but full individual access was gained thanks to the chief registrar of Bruges. An interesting remark is that they are the only registry that ordered the documents in the file different from the other registries. They ranked the documents from oldest to most recent causing the oldest documents to be found in the front of the file, while the most recent documents were at the back of the file.
- Tournai: Although no individual access was given, a random selection of files was received. The staff was very friendly, showed interest in my master thesis and also in the results of the study. The registrar of the commercial court also contacted the registry of Mons and explained the purpose of my study directly.

A general remark is that in all the registries there was no list available of which nonprofit organization are obligated to deposit financial statements. Due to the latter, it was not possible to check whether nonprofit organizations deposited their financial statements and which did not.

Furthermore, it is important to stress the lack of cooperation between the different registries. The registries do not cooperate in order to become more efficient, a simple coming together of the different work methods might be interesting to learn from each other. Moreover, the lack of a similar policy resulted in the very diverse working methods depending on the different registries.

## 3 Analysis and Results

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First, descriptive statistics about the sample will be followed by a more in-depth analysis of all the active organizations (i.e. the sample minus all organizations that were categorized as sleeping). This is then followed by descriptive statistics about each cluster individually.

Second, the level of compliance of the financial statements is reported of the first cluster (*cluster ACT CI*; the cluster with all the organizations that submitted their financial statements according to the simplified model). It is important to notify the reader that the other clusters will not be further investigated from this point since only that particular cluster was subjected to the compliance index that is used in this master thesis.

Third, the level of compliance of the organizations of the first cluster is explained. Starting from the description of the model, this is followed by descriptive statistics of the independent variables. Finally, correlation and regression result mark the end of this chapter.

### Descriptive statistics about the different clusters

#### General descriptive statistics

The sample contains a total of 353 organizations that are supposed to deposit their financial statements. As can be seen from table 9, 18.4% was categorized as still active but did not hand over any financial statement at the registry of the Commercial Court. Furthermore, a remarkable 30.6% was classified as a sleeping organization, meaning that their last sign of activity dated before 1/1/2008. This brings the total number of small NPOs that are not respecting the law at an impressive number of no less than 173 organizations or 49.0% of the total sample.

Only a disappointing 51.0 % submitted their financial statements either according to the abbreviated or full model (16.4% of the total sample) or according to the simplified model (34.6% of the total sample) which are represented respectively the third cluster (FULL) or the first cluster (ACT CI).

Moreover, this gives us 69.4% of the total sample that is still active, i.e. they are part of the first cluster (ACT CI), the second cluster (ACT NO) or the third cluster (FULL). This is consistent with the poll that was organized by the University of Liège in 1995, which estimated the percent of active nonprofit organizations at 62%.

**Table 9 Frequency table of the sample by cluster**

	Frequency	Percent
ACT CI	122	34,6
ACT NO	65	18,4
Cluster FULL	58	16,4
SLEEP	108	30,6
Total	353	100,0

Furthermore, a large difference of the distribution of the sample over the four clusters can be observed between the cities (table 11) and the regions (table 10). There are less sleeping organizations in the Walloon regions as can be seen from table 10. A possible reason might be that in the Walloon regions, NPOs submit more often their document of dissolution than their Flemish counterparts. This less amount of sleeping organizations in the Walloon regions results in almost 10% more nonprofit organizations that submit their financial statements at the registry compared to the NPOs from Flanders. There is no big difference between the percentage that chooses for the abbreviated or full model nor is there a difference for the active NPOs that are not submitting their financial statements.

**Table 10 Crosstabulation of the sample: cluster \* region**

		Region	
		Flemish	Walloon
Cluster	ACT CI	32,0%	41,0%
	ACT NO	18,6%	18,0%
	FULL	16,6%	16,0%
	SLEEP	32,8%	25,0%
Total		100,0%	100,0%

% within Region

Table 11 gives us more insight in the distribution over the different clusters by city. Remarkable is the high percentage of small nonprofit organizations in Mons that submit their financial statements according to the small nonprofit organizations' model (47.6%). Except for Leuven the rest lies between 31 and 37 %. Leuven has a only a deplorable 13.3% who submit their financial statements according to the model that was created for the small NPOs. However, this is somewhat countered by the high number of nonprofit organizations that submitted their financial statements according to the abbreviated or full model (36.7%). Furthermore, another noteworthy remark is the high number of sleeping organizations in Ghent (40.6%). This is in

large contrast compared to the low amount of sleeping organizations in the Walloon regions, 21.4% for Mons and 27.6% for Tournai.

**Table 11 Crosstabulation of the sample: cluster \* city**

		City					
		Brugge	Gent	Leuven	Mons	Oostende	Tournai
Cluster	ACT CI	36,1%	31,2%	13,3%	47,6%	35,3%	36,2%
	ACT NO	17,6%	18,8%	20,0%	11,9%	19,6%	22,4%
	FULL	15,7%	9,4%	36,7%	19,0%	15,7%	13,8%
	SLEEP	30,6%	40,6%	30,0%	21,4%	29,4%	27,6%
Total		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

% within City

### Active organizations

Now, descriptive statistics are reported of the active organizations, that is, cluster 1 (ACT CI), 2 (ACT NO) and 3 (FULL). As stated above, the active organizations accounted for 69.4% of the total sample. More accurate information was available of these organizations, which led to the opportunity for a more detailed analysis.

Because of the smaller amount of sleeping organizations in the Walloon regions, this led to the following distribution over the regions; 69.4% Flemish organizations and 30.6% Walloon organizations.

From table 9 and as it can also be seen in table 20 and 21 in appendix D, it can be deducted that 26.5% of the active nonprofit organizations do not submit any kind of financial statements. Almost 50% submits their financial statements according to the specific model that was developed for the small NPOs. Another 23.7% of the active nonprofit organizations choses for the full model.

There are only little differences between the Flemish and the Walloon regions. The Flemish organizations are somewhat less compliant than there Walloon counterparts. From those who submitted some kind of financial statements, the Flemish opted more often for the full model than the Walloon organizations.

If attention is paid to the distribution over the different clusters by cities there are some remarks. Concerning those organizations that are supposed to deposit their financial statements but where nothing was found, the most remarkable is the very low percentage (15.2%) in the registry of Mons. Another remarkable fact is the very low percentage (19.0%) in Leuven that submitted their financial statements according to the simplified model and the very high

percentage (52.4%) that chose to deposit their financial statements according to the full model (see Appendix D).

The average age of active nonprofit organization is 19 years old, ranging from a minimum of 1 year old to 89 years old. The average age of investigated Flemish organization was 22 years old, while for an organization from the Walloon region this was 13 years. The nonprofit organizations that opted for the full model were on average 22 years old. This is slightly above the average age of the organizations that chose for the simplified model, 18 years old (see Appendix E).

The average board of directors counted 6 members, ranging from a minimum of 1 to a maximum of 31. Important to note is that the minimum required by the legislation is three board of directors. Six organizations had 1 or 2 board members and thus were in violation of the law. About 32% had a board of directors that consisted of 3 persons, which is the officially allowed minimum. Furthermore, somewhat logical, the average board size of an organization that chooses for the full model is larger than those who chose for the simplified model (see Appendix F).

However, it is important to stress that in this master thesis no further attention is given to which influence both age and board size might have in explaining why some organizations are not compliant or why some choose for the simplified or the full model. Moreover, this is clearly an issue that needs further investigation (*infra*).

### **Cluster 1**

Cluster 1 is the cluster of all the nonprofit organizations that submitted their financial statement according to the special model that exists for small NPOs (*supra*). This cluster contains 122 organizations, of which 66.4% are Flemish and 33.6% are Walloon. An interesting remark is that 5.7% had a book year that did not coincide with the calendar year. This is the only cluster where a compliance index was used to measure the financial reporting and therefore a more in-depth analysis can be found further in this chapter.

### **Cluster 2**

Cluster 2 was defined as all the active organizations that did not submit any financial statements for the last five years. This cluster consists of 65 organizations, 72% from Flanders and 28% from Wallonia. Interesting fact about this cluster is that only 20% have submitted at least once in their lifetime some sort of financial statements. Furthermore, the last year of contact with the registry of the Commercial Court is wide-spread over the range of five years.

### Cluster 3

This clusters contains all the small nonprofit organizations that voluntary chose to use the abbreviated or full model. This clusters contains 58 organizations, 72.4% are Flemish and 27.6% are Walloon. An interesting remark is that almost 23% of these organizations had supervision by an auditor or a professional.

A disturbing fact is that two of the nonprofit organizations that submitted their financial statements under as a small nonprofit organization actually exceed the legal criteria and are in fact a large nonprofit organization. They should deposit their financial statements electronically at the *balanscentrale*.

The average size of an organization in cluster 3 is € 1.672.775,37. The size ranged from a minimum of 0 to a maximum of € 42 050 497. The total receipts ranged from 0 to a maximum of € 4.225.909,80 and a mean of € 531 388. Furthermore, the average degree of being subsidized was 17%. Subsidized was measured by the total subsidies divided by the total receipts. Table 12 summarizes the previous. Since cluster 3 is part of the active organizations, age and board size are already discussed (*supra*).

**Table 12 Descriptive statistics of cluster 3 (Full model)**

	Size	Total receipts	Subsidized
Mean	1 672 775,37	531 387,89	17%
Median	229 700,05	143 038,60	12%
Std. Deviation	5 769 017,23	991 670,68	,282
Minimum	,0	,0	0%
Maximum	42 050 497,00	4 225 909,8	100%

Furthermore, in contrast with the organization that do not deposit any kind of financial statement (cluster 2), the last contact with the registry was in 88% of the cases the current year (2013) or previous year (2012). Moreover, 59% of these organizations already submitted their financial statements for the book year 2011, and already even 11% submitted their financial statements for the book year 2012.

### Cluster 4

Cluster 4 contains all the sleeping organizations, that is, all the organizations that did not pass the logical tests to check whether they were still active or not (*supra*). The mean age of these

organizations is 23 ranging from a minimum of 6 years to a maximum of 73 years old. Furthermore, their years of inactivity ranged from a minimum of 6 years to a maximum of 67 years (see Appendix H). Indeed, there is one organizations that officially still exists but where the last contact with the government dates from 1946. However, in 61.8% of the cases, the last contact with the registry dates from after 2003, meaning that almost 40% of these organizations never had contact with the registry since the new regulations.

A notable observation is that only 18.5% of these organizations deposited a financial statement once in their lifetime, meaning that the sleeping organizations are not equally to those organizations that never deposited some kind of financial statements. This research also indicates that for only 10.2% the deposit of their last financial statements was also the last time the organization had contact with the registry of the Commercial Court, meaning that for almost 90% a period of not reporting financial statements is prior to the period of inactivity. It might be stated that not depositing any form of financial statements leads to a higher chance of becoming a sleeping organization. However, further research is necessary regarding this matter.

The high number of sleeping organizations is at least alarming, after all, as long as there is no document of dissolution deposited at the registry, the board of directors remains responsible and liable for the organization.

## **The level of compliance**

As discussed earlier, a compliance index was developed containing 29 elements to test the level of timeliness, completeness, relevance, classification, mechanical accuracy, adequacy & usefulness and comparability of the financial reporting process. Table 13 summarizes the results on each of different parts. For every part the following is given: the number of items, the possible minimum and maximum score, the observed minimum and maximum score, the mean, median and finally the standard deviation. The score for the compliance Index in terms of percent, which is the score in points multiplied by 100 and divided by the maximum total score of 29, showed a mean of 65.90% with a standard deviation of 14.34%. The lowest minimum score was 29.31% and the highest 96.21%. Note that this mean level of compliance is more than 10% lower compared to the mean level of compliance that was measured in Verbruggen et al. (2011). It can be noted that no single principle does not have a mean of less than the possible half, meaning that at least more than half of the sample meets at least 50% of the criteria per principle.

A more detailed overview of the score on the compliance index is put forward in table 14. It can be noted that only 33% of the NPOs submit their financial statements within 7 months after the end their book year. Also very remarkable is that there seems to be a big difference within the completeness; 95.9% submitted their receipts and expenditures but only 47.5% reports their

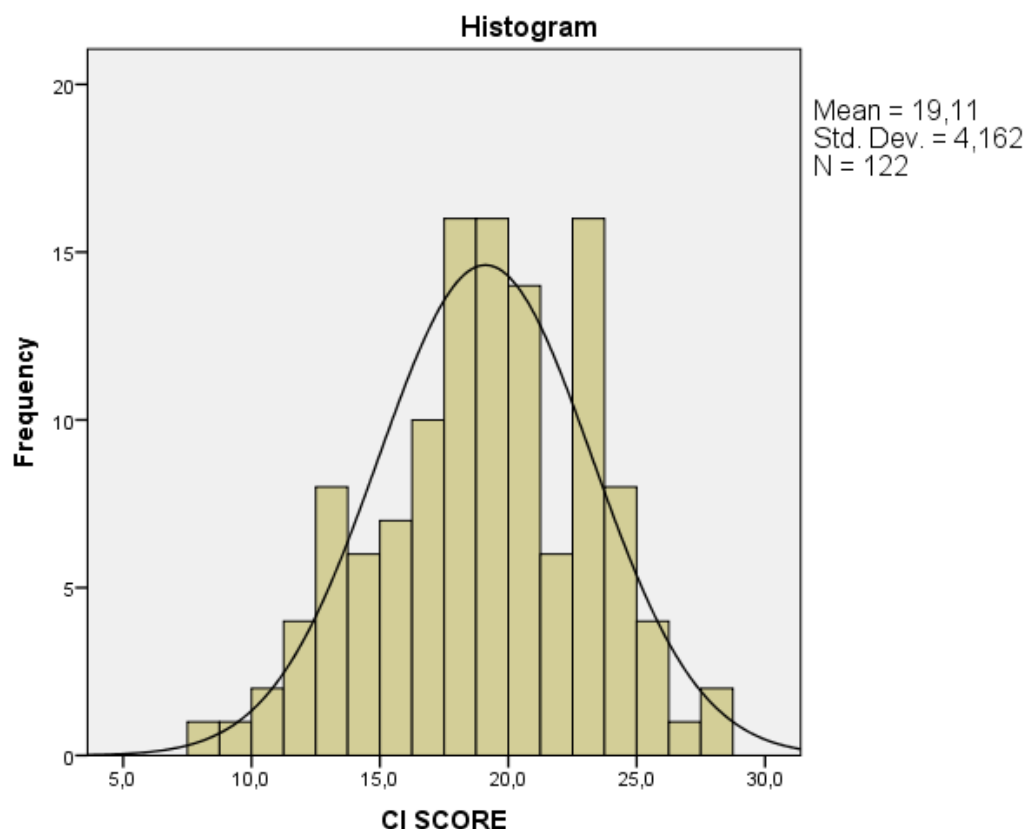


valuation rules and only 34.4% disclosed their other rights and obligations. A possible explanation might be that organizations do not use the pre-defined model that was put forward by the legislator (Appendix B), although this can be easily found on the internet. Also remarkable is the fact that only half of the organizations explicitly mentions the exact starting and end date of their book year.

**Table 13 Summary of the results of the Compliance Index**

	No. of items	Possible min/max score		Observed min/max score		Mean	Median	Std. Deviation
Timeliness	3	0	3	0	3	1.79	2.00	1.07
Completeness	8	0	8	0	8	4.50	4.75	2.79
Relevance	9	0	9	3	9	6.27	6.00	1.44
Classification	2	0	2	1	2	1.98	2.00	0.13
Mechanical accuracy	1	0	1	0	1	0.93	1.00	0.26
Adequacy and usefulness	5	0	5	0.40	4.90	3.50	3.70	1.01
Comparability	1	0	1	0	1	0.89	1.00	0.32
Total Compliance Index	29	0	29	8.50	27.90	19.11	19.65	4.16

**Figure 3 Graphical presentation of compliance index scores**



**Table 14 Details of the Elements of the Compliance Index**

	Observed min/max score		Mean	Median	Std. Deviation
<b>Timeliness</b>					
Timeliness Approval by the General Assembly	0	1	0,74	1,00	0,42
Timeliness handover at the Registry	0	1	0,38	0,00	0,49
Made public within 7 months after end of bookyear	0	1	0,67	1,00	0,47
<b>Completeness</b>					
Expenditures disclosed (according to the legally predefined categories)	0	1	0,79	1,00	0,29
Receipts disclosed (according to the legally predefined categories)	0	1	0,79	1,00	0,29
Statement of assets and liabilities disclosed (according to the legally predefined categories)	0	1	0,67	1,00	0,42
Statement of rights and obligations disclosed (according to the legally predefined categories)	0	1	0,61	1,00	0,46
Valuation rules disclosed	0	1	0,48	0,00	0,50
Changes to the valuation rules disclosed	0	1	0,41	0,00	0,49
Additional comments disclosed	0	1	0,41	0,00	0,49
Other rights and obligations disclosed	0	1	0,34	0,00	0,48
<b>Relevance</b>					
Disclosure of the exact date of the book year	0	1	0,52	1,00	0,50
Disclosure of the exact date of approval	0	1	0,55	1,00	0,50
Bank account disclosed	0	1	0,32	0,00	0,47
Totals and subtotals disclosed	0	1	0,90	1,00	0,30
All amounts disclosed	0	1	0,62	1,00	0,49
Calculation of net result	0	1	0,54	1,00	0,50
No use of pro memoria	0	1	0,93	1,00	0,25
No suspense accounts	0	1	0,93	1,00	0,25
No accruals disclosed	0	1	0,94	1,00	0,23
<b>Classification</b>					
Sign assets correct	0	1	0,99	1,00	0,09
Sign liabilities correct	0	1	0,99	1,00	0,09
<b>Mechanical accuracy</b>					
Correct subtotals and totals of statement of receipts and expenditures	0	1	0,93	1,00	0,26
<b>Adequacy and usefulness</b>					
Typed or handwritten	0	1	0,95	1,00	0,22
Name of the NPO on every page	0	1	0,81	1,00	0,39
Pages consecutively numbered	0	1	0,31	0,00	0,47
Different lay-out for titles and subtitles	0	1	0,76	1,00	0,43
Visualisation	0.1	0.9	0,67	0,70	0,15
<b>Comparability</b>					
Use of standardized template compared to previous year	0	1	0,89	1,00	0,32
<b>TOTAL Compliance Index</b>	8.5	27.9	19,11	19,65	4,16

## Explaining the level of compliance

### Model specification

Ordinary least squares regression is used to explain the level of compliance of the small nonprofit organization with the regulations. The following model was developed where the depend variable (score on the compliance index) is explained by six variables based on the hypothesis described in previous chapter;

*Score Compliance Index =*

$$\beta_0 + \beta_1 SIZE + \beta_2 REGION + \beta_3 CATEGORYAGE + \beta_4 SUBSIDIZED + \beta_5 SUPERVISION + \beta_6 BOARD + \varepsilon$$

### Descriptive statistics on the independent variable

The variable SIZE represents the natural logarithm of the total assets (Keating & Frumkin, 2001). The second variable, REGION, is a dummy to indicate whether the organization is part of Flanders (=0) or Wallonia (=1). To test hypothesis 3, the variable CATEGORYAGE is created, which is a proxy for the problems that might occur in adapting a new regulation. This variable is also a dummy, indication whether the organizations is younger than 10 years (=1) or older (=0 =their year of foundation lies before 2003 which was the year the new regulations were introduced). The variable SUBSIDIZED measures to what extent the organization depends on governmental resources. This variable is measured by dividing the total subsidies from the government by the total receipts. The impact of any form of supervision by an auditor or a professional is measured by the variable SUPERVISION (Verbruggen et al., 2011), which is also a dummy, indicating a 1 if any form of supervision was perceived. Whether the size of the board has an influence on the score of the compliance index is measures by the variable BOARD, representing how much members the board of directors count.

Table 15 gives a brief summary of the characteristics of the independent variables. Nonprofit organizations have a mean size of € 232.096,34. This is almost € 1.500.000 less compared to the organizations that chose for the full model (=cluster3), which might indicate that larger organizations chose more quickly for a full model. The nonprofit organizations rely for an average of 9.1% on governmental resources. This is a lot less than the 17% for the organizations that submitted their financial statements according to the full model. The average age is 19 years old and the average board size is six (supra). Only 6.6% had an auditor or professional to supervise the financial statements. This is also significantly less than the almost 23% compared to the organizations that chose for the full model.

**Table 15 Descriptive statistics on the Independent Variables**

			Mean	Median	Std. Deviation	Percentage of 0/1		Min.	Max.
H1	SIZE	In Total Assets	9.34	9.88	3.59			0.00	15.08
H2	REGION	Flemish (0), Walloon (1)				33.6	66.4		
H3	CATEGORYAGE	Foundation before 2003 (0), in or after 2003 (1)				32.8	67.2		
H4	SUBSIDIZED	Subsidies / Total revenues %	9.1%	0.0%	18.4			0.0%	100.0%
H5	SUPERVISION	No (0), Yes (1)				6.6	93.4		
H6	BOARD	Number of board members	5.79	4.00	4.06			2.00	30.00

### Correlation and data analysis

Pearson correlation coefficients are shown in table 16. All pair wise correlations are below 0.5, indicating that problem of multicollinearity are not likely to occur. Important to note is that these findings are somewhat contradictory to Green et al. (2007), who reported a strong correlations between organization size and age with audit supervision. Also, Spearman's Rho correlation matrix resulted in the same conclusion. Furthermore, the Variance Inflation Factors (VIFs) for all the independent variables are all below two, confirming that there is no significant indication of multicollinearity. Other tests revealed no distortion from the assumptions for the multiple regression model (see Appendix I).

**Table 16 Pearson Correlations of Independent Variables**

	Size	Subsidized	Supervision	Region	Board	Category Age
Size	1					
Subsidized	-.039	1				
Supervision	.237	-.068	1			
Region	-.315	-.056	-.118	1		
Board	.293	.115	.295	-.019	1	
Category Age	-.268	.162	.027	.427	-.147	1

## Regression results

The adjusted  $R^2$  of .240 ( $R^2$  is .279) is rather low but satisfactory and similar to Verbruggen et al. (2011). Furthermore, the observed F-statistic of the regression is 7.168 and significant at  $p < .000$ , meaning that the model is well specified.

The regression model is shown in table 17. The significant variables are Supervision, Region, Board and Category Age, all significant at  $\alpha = 1\%$ . Size and Subsidized are not significant at  $\alpha = 5\%$ .

**Table 17 Lineair Regression Results**

	B	Std. Error	t	Sig.
(Constant)	16,054	1,164	13,786	,000 ***
Size	,175	,105	1,667	,098
Subsidized	,222	1,905	,117	,907
Supervision	4,182	1,446	2,893	,005 **
Region	-2,257	,827	-2,729	,007 **
Board	,209	,092	2,273	,025 **
Category Age	2,274	,835	2,725	,007 **

a. Dependent Variable: CI SCORE

b. \* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$

The findings show that Size is not significant in explaining the level of compliance. This is somewhat contradictory to the existing studies. Size has been proxied by total revenues and total expenses but led to the same conclusion.

Furthermore, Subsidized is not significant in explaining the level of compliance of the small nonprofit organizations. This is contrary to Verbruggen et al. (2011). Even when subsidized was transformed into a dummy variable taking 5% and 20% of subsidies in total revenue as cut-off points, it did not change the results nor significance. This method was inspired on the relative low amount of subsidies being distributed among the NPOs. However, this insignificance might be explained by the fact the small nonprofit organizations are far less depending on governmental resources than the large and very large organizations. In this master thesis the small Organizations that submitted their financial statements according to the simplified model had a mean level of subsidized of 9.1%, this is in high contrast with the average level of the large and very large organizations (40%) as measured in Verbruggen et al. (2011). If it is seen in this perspective, although the RDT does not hold in this sample, it still might hold for *all* the nonprofit organizations, the small, large as well as the very large NPOs.

In line with previous research (Falkman & Tagesson, 2008; Christiaens, 1999; Verbruggen et al.; 2011), audit or professional supervision is also the most significant variable in this study. This confirms the importance of an external auditor or professional supervision of the financial statements in order to create more qualitative financial statements.

The results also indicate that Regions have an important role in explaining the level compliance. However, somewhat unexpected, the results show a negative relationship between the Walloon regions and the score on the Compliance Index, meaning that the Flemish organizations are more compliant than their Walloon counterparts. However, based on the descriptive statistics above the reader has to be reminded that the Walloon registries have a lot less organizations that were categorized as sleeping organization (cluster 4) or as an active organization that is not submitting any kind of financial statements (cluster 1). It might be argued that in Wallonia more organizations are willing to deposit some kind of financial statements although they might lack the expertise and knowledge, whereas those type of organizations in the Flemish regions decide to simply not deposit any kind of financial statements and therefore ended up in different clusters (meaning that only the somewhat more experienced Flemish organizations are in cluster 1 and subjected to the regression).

Category Age, the variable that divided the sample in two groups, the group of organizations that were founded before 2003 we find that this variable becomes highly significant and in or after 2003. This variable is highly significant meaning that the small nonprofit organizations seem to experience difficulties with adapting a new financial framework. This is consistent with Andries & Heirman (2011), where it was argued that especially these small nonprofit organizations might lack the willingness to adapt new regulations.

Finally, Board shows a significant contribution in explaining the level of compliance. It shows that the larger the board of directors is, the more compliant the organization is. This is in line with Bradshaw et al. (1992), but contradictory to Felo et al. (2003) who suggested that a smaller board leads to more control.

## 4 Discussion, Limitations and Issues for Further Research

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This master thesis shows that the nonprofit organizations are not compliant with the regulation to an acceptable level. The government has to ask itself whether their initial goals are met (Andries & Heirman, 2011). Their initial goals, increase the transparency and comparability, are at least to be seriously questioned. Research shows that because of the great variety in the financial statements, comparing a nonprofit organization with another organization is almost never satisfying. Another goal was to decrease the formality, however, based on experience with the staff of the registry, a lot of registries lack the knowledge to comply correctly with the new regulations. For the small nonprofit organizations this even resulted to an increased formalization (Andries & Heirman, 2011). Furthermore, another goal was to make it possible to sanction those organizations that do not fulfill the obligations. If only in one registry documents of juridical dissolution were found, one might sincerely ask the question whether the government ever took this goal seriously into account. This master thesis provides a first indication that the government lacks the necessary control. Although, more thorough investigation should bring clarity in this regard.

As a conclusion, although the initial idea of the government was noble, the government fails to achieve its goals. The control of the federal government over the financial reports is at the very least beneath an acceptable level. At this very moment, the government might still benefit from the *fear effect*; the small NPOs do not know that there is little (if any) control concerning their financial statements. To a certain extent, this effect will vanish as organizations will find this out. The implementation of the new law was a first step towards better transparency. However, building up towards a more reliable accounting framework and adequate financial reporting for the nonprofit sector should be seen as a process. In this process, the starting point was the new law, nevertheless, the follow-up is equally important, which the Belgium government clearly lacks.

Also, further research might want to focus on the cluster of the sleeping organizations, since they are probably related to the level of overview and control of the government. In the first place it should be investigated whether the organizations that were classified as a sleeping organizations are actually inactive and second, it should be focusing on the reasons why these organizations became inactive (Lampkin & Boris, 2002). What causes organizations to die? What is the role of the members in the life cycle and eventually the end of an organization?

Another issue for further research might be finding an explanation why some small NPOs voluntarily chose for a full model. In the descriptive statistics of the active NPOs (supra) some differences between the board size and the age were already mentioned. There also seemed to be a difference in the size and dependency on governmental resources of the organizations that voluntarily chose for a full model compared to those who submitted their financial statements according to the simplified model. However, further research should investigate these variables more profoundly and focus on more variables to determine what type of organization chooses voluntary for a full model. Is it because they depend more heavily on funding? Or do they have more expertise which allows them to report those kind of financial statements?

Another issue that might be investigated is the gender diversification in the nonprofit sector and the link with financial reporting compliance. Gender diversification is a topic that recently gained a lot of attention. In this master thesis data was also collected about the gender of the president of the board of directors. This indicated that only a disappointing 13.9% of all the presidents are female. However, no conclusions were made since this topic was not further investigated.

It is also important to remark that there was not a unified policy whether or not to grant access to the registry of the Commercial Court. The procedures that had to be followed was very different in the registries. The question arises to what extent their policy concerning the consultation of these files is unified at all. A side remark is that this resulted in different sample methods for the data that is used in this dissertation, resulting in this being the most obvious limitation of the study. Further research, in case the dataset is extended with new data, should try to unify the sampling methods over the different registries. Another limitation concerning the choice of the registries is that, albeit serious efforts, due to time restrictions not all the ten provinces in Belgium were subjected in this study. Driven by the serious difference between the registries, further research should try to include at least one registry per province to develop a more general image.

Furthermore, the question arises whether digitization of the submission might lead to more favorable outcomes (Keating & Frumkin, 2003; Lampkin & Boris 2012), instead of the paper deposit at the registry. On the one hand, it is clear that an electronic system certainly has its benefits. Electronic versions of the financial statements might result in a lower barrier for people to consult them. Furthermore, data transmission over the web might eventually lead to automatically created performance indicators. On the other hand however, an electronic system costs a lot of money. Not only should they develop specified software but also the upkeep of the server is an expensive cost. Indeed, this option includes expensive follow-up from



the government. As a conclusion, digitization would mean a large cost for the government, nevertheless, the cost for the society might be substantially lower. Not only does it increase the accessibility of the financial statements, it also increase the comparability (if the digitization includes a standardized framework) and it increases the likelihood of compliance with the regulations by NPOs (eg. all information and documents could be bundled at one virtual place and incorrect financial statements could be recognized by the registries and reported back to the organizations, furthermore, a simple automatic system might remind the in compliant organizations that they still need to deposit their financial statements).

Therefore, it might be interesting for further research to focus on the cost aspect of the implementation of the new regulations and whether a virtual solution is more beneficial. The costs should be compared to the benefits (i.e. increased transparency of the financial statements, better adequate financial reporting and higher level of comparability), and then it can be questioned whether it is efficient enough and if the budgets that flow to the upkeep cannot be spent more effectively in other public departments. In addition it is interesting to point out that cost of fraud for the society might be significantly lowered by adequate financial reporting of the nonprofit organizations (Greenlee et al., 2007).

Finally, the differences between the registries of the Commercial Court was shortly described in this master thesis. Nevertheless, a more profound screening and analysis of the different registries and their working methods with a simple SWOT analysis might be promising in order to create a framework for the registries to develop themselves to become more efficient.

## 5 General Conclusions

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This master thesis focused on the financial reporting of the small nonprofit organizations. The new law that was implemented in 2002 by the government has drastically changed the nonprofit sector. However, only very few studies have investigated this matter, moreover, this is the first study that has empirically examined in depth and on such a large scale the compliance of the small NPOs according to those new regulations. Data was manually collected at six different registries. A large difference was experienced between the different registries concerning their work method and willingness to cooperate.

The sample was divided in four clusters, the first cluster contains all the organizations that deposited their financial statements according to the simplified model which was created specifically for the small NPOs, the second clusters contains all the active organizations that did not deposit any kind of financial statements, the third cluster is the cluster with all the organizations that chose voluntary for an abbreviated or full model which is obligatory for the large and very large nonprofit organizations, finally the last cluster contained all the sleeping organizations.

The data indicated that almost half of the small nonprofit organizations do not deposit their financial statements although they are obligated to do so. The other half submitted their financial statements either according to the full model or according to the simplified model. The cluster of the organizations that deposited their financial statements according to the latter accounted for almost 35% and were further investigated.

In order to explain cross-sectional differences the descriptive statistics were discussed in depth indicating that the Walloon regions have less organizations that tend to deposit no financial statements at all compared to those with Flemish origin. Furthermore, significantly less sleeping organizations were found in Wallonia. A possible reason might be that the Walloon government has a higher level of legally prosecuting those in compliant organizations.

The cluster with the organizations that deposited their financial statements according to the simplified model at the registry were subjected to a compliance index which contained 29 elements on which the organizations could receive a score. The compliance index indicated a mean score of 65.90% of the small NPOs.

In order to explain the level of compliance several hypothesis were formulated and empirically tested. Supervision of the financial statements was found to be the most important factor in explaining compliance. Furthermore, the region and the size of the board of directors was

significant in explaining compliance, in favor of Flemish organizations and organizations with larger boards of directors. Finally, whether the organizations was founded before or after the Royal Decree of 2003 was also significant, meaning that small organizations are reluctant to change or experience difficulties in adapting a new accounting framework.

Somewhat unexpected, the resource dependency theory does not hold in this research. A possible explanation might be that small nonprofit organization are only very little subsidized by the government. Furthermore, size measured by total assets does also not seem to affect the level of compliance.

As a conclusion, it might be argued that the government fails to achieve its pre-defined goals of increasing transparency and comparability and decreasing formality. The control of the federal government over the financial reports is at the very least beneath an acceptable level. Nonetheless, the initial idea of the government was noble and indicates the governments sees the need for more regulated financial reporting standards. However, building up to a more reliable accounting framework and adequate financial reporting for the nonprofit sector should be seen as a process. In this process, the starting point was the new law, nevertheless, the follow-up is equally important, which the Belgium government clearly lacks.

The contribution of this master thesis is that it gives an insight in the compliance of the small nonprofit organizations and the distribution over different clusters. Furthermore, the collection of the data is an element that should not be underestimated, since all data was manually collected at the registries of the Commercial Courts.

Finally, numerous issues are discussed for further research which are all very interesting topics since academic literature concerning the small nonprofit organizations is scarce. Examples are the cost aspect, the effect of digitization, explanations why organizations become inactive or why organizations voluntary chose for a full model.

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# Appendices

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## Appendix A: Simplified accounting framework for the small NPOs

### BIJLAGE B: GENORMALISEERD MINIMAAL SCHEMA VAN DE S TAAT VAN DE ONTVANGSTEN EN UITGAVEN

UITGAVEN	BEDRAG	ONTVANGSTEN	BEDRAG
Goederen en diensten		Lidgeld	
Bezoldigingen		Schenken en legaten	
Diensten en diverse goederen		Subsidies	
Andere uitgaven		Andere ontvangsten	
Totaal Uitgaven		Totaal Ontvangsten	

### BIJLAGE C: INVENTARIS VAN ACTIVA, RECHTEN, SCHULDEN EN VERBINTENISSEN

1. SAMENVATTING VAN DE WAARDERINGSREGELS (art. 6)

2. AANPASSING VAN DE WAARDERINGSREGELS (art. 7)

3. BIJKOMENDE INLICHTINGEN (art. 14)

<b>4. GENORMALISEERD MINIMAAL SCHEMA VAN DE STAAT VAN HET VERMOGEN (art. 14)</b>			
<b>BEZITTINGEN</b>	<b>BEDRAG</b>	<b>SCHULDEN</b>	<b>BEDRAG</b>
Onroerende goederen (terreinen, ...) - behorend tot de vereniging in volle eigendom - andere		Financiële schulden	
Machines - behorend tot de vereniging in volle eigendom - andere		Schulden ten aanzien van leveranciers	
Roerende goederen en rollend materieel - behorend tot de vereniging in volle eigendom - andere		Schulden ten aanzien van leden	
Stocks		Fiscale, salariële en sociale schulden	
Schuldvorderingen			
Geldbeleggingen Liquiditeiten			
Andere activa		Andere schulden	

<b>RECHTEN</b>	<b>BEDRAG</b>	<b>VERPLICHTINGEN</b>	<b>BEDRAG</b>
Beloofde subsidies		Hypotheken en hypotheekbeloften	
Beloofde schenkingen		Gegeven waarborgen	
Andere rechten		Andere verbintenissen	

<b>5. BELANGRIJKE RECHTEN EN VERPLICHTINGEN DIE NIET IN CIJFERS KUNNEN WORDEN WEERGEGEVEN (art. 14)</b>



## **Appendix B: Files with a document of dissolution**

From the 386 files that were investigated, 33 or 8.5% contained a file of dissolution (see table 18). What is remarkable from table 19 is that the Walloon regions have more than twice as many files of nonprofit organizations where there was a document of dissolution to be found.

In only 9.1% this dissolution was a judicial and even more, these judicial dissolutions were only to be found in the Walloon registries. In all the other cases this dissolution was voluntary. When the dissolution was juridical this results in a fine for the nonprofit organization. To avoid this fine, the NPOs in the Walloon region might be more tempted to hand over the documents of dissolution to the registry of the Commercial Court in contrary to their Flemish counterparts. Moreover, this might be an explanation for the fact that there are almost 10% less sleeping organizations in the Walloon regions. Furthermore, the generally low amount of dissolution and the rather high amount of sleeping organizations might be explained by the fact that a document of dissolution costs over € 100. Another notable comment is that in only 12.1% the last year that financial statements were deposited was the year of dissolution. Moreover, in only 30.3% there were any financial statements at all to be found in the file for the last 5 years, indicating that organization do not have the intention to report adequate financial information until their dissolution.

However, since these dissolved organizations are not part of the sample they were not taken further into account in this master thesis and further investigation is necessary.

**Table 18 Frequency table of all the investigated files (sample and dissolved organizations)**

	Frequency	Percent
Cluster ACT NO	65	16,8
Cluster ACT CI	122	31,6
Cluster DIS	33	8,5
Cluster FULL	58	15,0
Cluster SLEEP	108	28,0
Total	386	100,0

**Table 19 Crosstabulation of all the investigated files: cluster \* region**

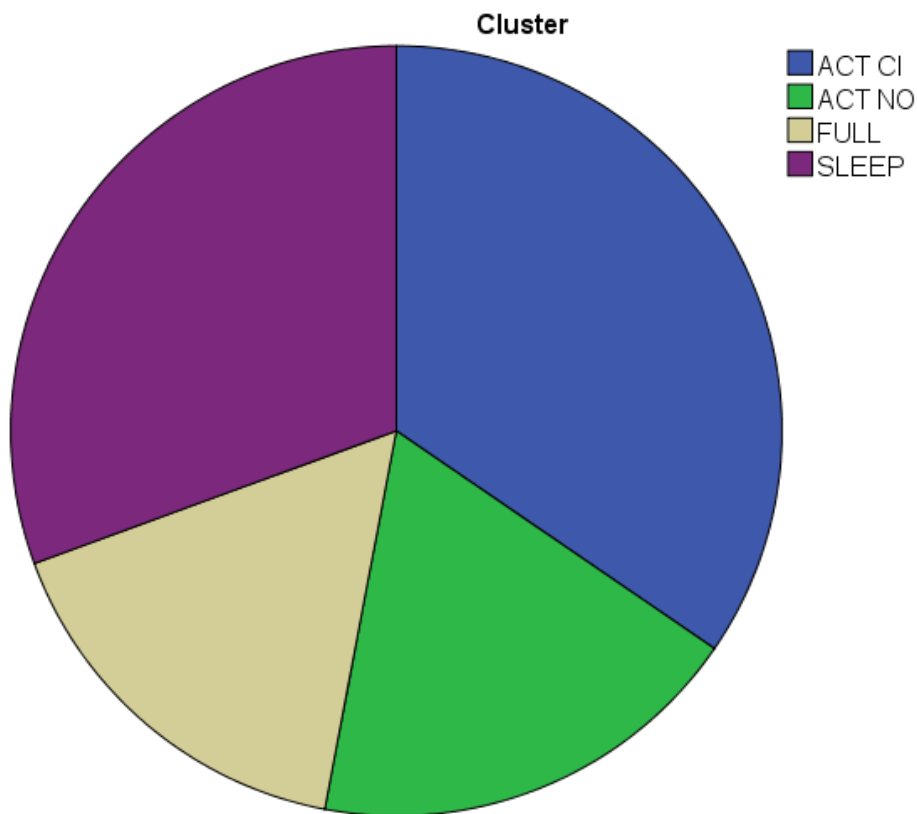
Cluster * Region Crosstabulation					
			Region		Total
			Flemish	Walloon	
Cluster	ACT CI	Count	81	41	122
		% within Region	30,0%	35,3%	31,6%
	ACT NO	Count	47	18	65
		% within Region	17,4%	15,5%	16,8%
	DIS	Count	17	16	33
		% within Region	6,3%	13,8%	8,5%
	FULL	Count	42	16	58
		% within Region	15,6%	13,8%	15,0%
	SLEEP	Count	83	25	108
		% within Region	30,7%	21,6%	28,0%
	Total	Count	270	116	386
		% within Region	100,0%	100,0%	100,0%

The files with a document of dissolution are grouped under the name 'DIS'. The other names represent the clusters that are used to describe the sample (supra)

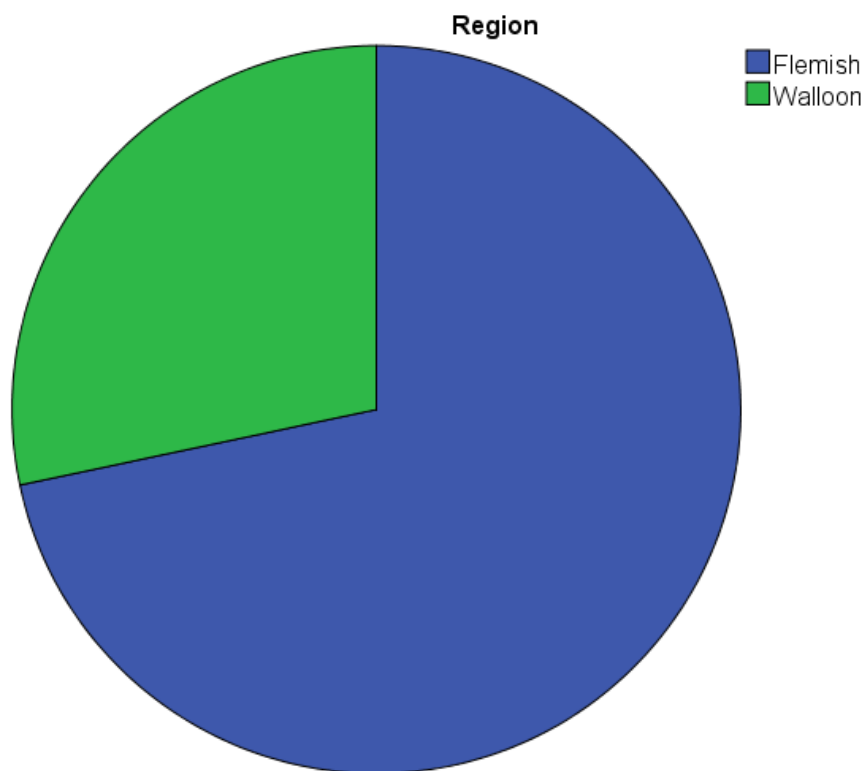
## Appendix C: Graphical statistics about the sample

Distribution of all the organizations that are supposed to submit their financial statements at the registry of the Commercial Court by cluster (figure 4), by region (figure 5) and by city (figure 6)

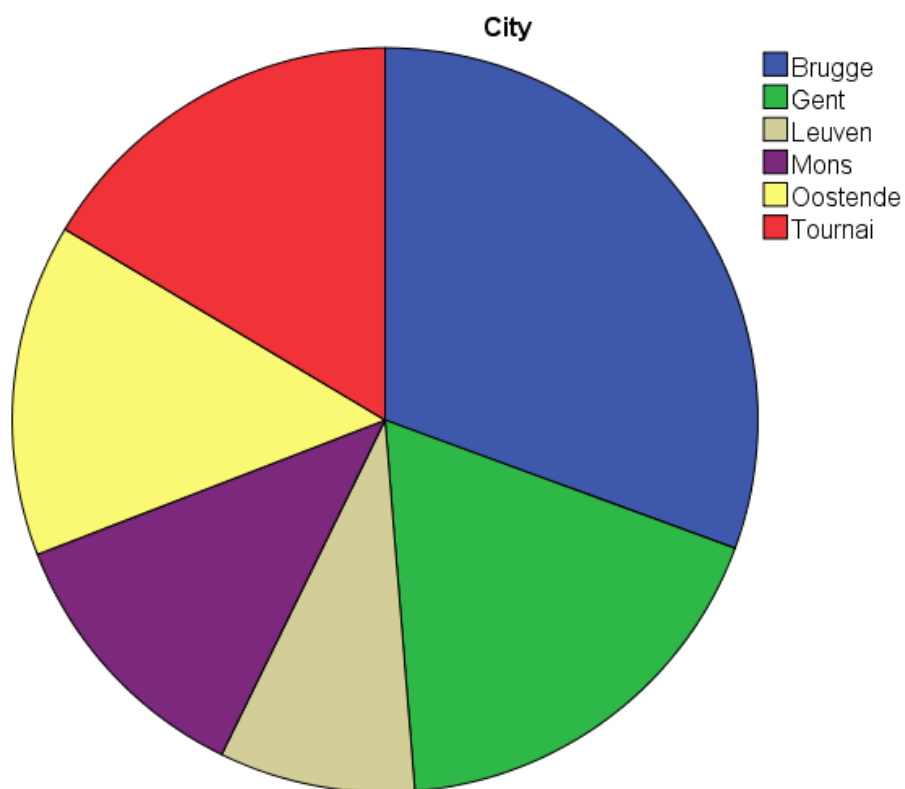
**Figure 4** Graphical representation of the sample distribution over the different clusters



**Figure 5 Graphical representation of the sample over the different regions**



**Figure 6 Graphical representation of the sample over the different cities**



## Appendix D: New interpretation of table 10 and 11

Appendix D gives two important crosstabulations, one between clusters and region (table 20) and one between cluster and city (table 21). These crosstabulations are similar with table 10 and 11, but are now more easily read to refer to percentages of the active organizations.

**Table 20 Crosstabulation of the active organizations: cluster \* region**

Cluster * Region Crosstabulation			Region		Total
			Flemish	Walloon	
Cluster	ACT CI	Count	81	41	122
		% within Region	47,6%	54,7%	49,8%
	ACT NO	Count	47	18	65
		% within Region	27,6%	24,0%	26,5%
	FULL	Count	42	16	58
		% within Region	24,7%	21,3%	23,7%
	Total	Count	170	75	245
		% within Region	100,0%	100,0%	100,0%

**Table 21 Crosstabulation of the active organizations: cluster \* city**

Cluster * City Crosstabulation			City						Total
			Brugge	Gent	Leuven	Mons	Oostende	Tournai	
Cluster	ACT CI	Count	39	20	4	20	18	21	122
		% within City	52,0%	52,6%	19,0%	60,6%	50,0%	50,0%	49,8%
	ACT NO	Count	19	12	6	5	10	13	65
		% within City	25,3%	31,6%	28,6%	15,2%	27,8%	31,0%	26,5%
	FULL	Count	17	6	11	8	8	8	58
		% within City	22,7%	15,8%	52,4%	24,2%	22,2%	19,0%	23,7%
	Total	Count	75	38	21	33	36	42	245
		% within City	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

## Appendix E: Age of the active NPOs

Appendix E gives more insight in the age of the active small nonprofit organizations. Descriptive statistics are shown for the different regions (table 22), cities (table 23) and clusters (table 24).

**Table 22 Descriptive statistics of the age by region**

Age * Region				
Age				
Region	N	Mean	Median	Std. Deviation
Flemish	170	22,27	17,00	15,359
Walloon	75	12,61	9,00	8,949
Total	245	19,31	14,00	14,407

**Table 23 Descriptive statistics of the age by city**

Age * City				
Age				
City	N	Mean	Median	Std. Deviation
Brugge	75	23,93	18,00	15,569
Gent	38	23,71	19,00	16,926
Leuven	21	18,19	14,00	14,400
Mons	33	8,67	9,00	2,780
Oostende	36	19,67	13,50	13,421
Tournai	42	15,71	15,50	10,776
Total	245	19,31	14,00	14,407

**Table 24 Descriptive statistics of the age by cluster**

Age * Cluster				
Age				
Cluster	N	Mean	Median	Std. Deviation
ACT CI	122	18,59	13,50	14,806
ACT NO	65	18,02	15,00	12,573
FULL	58	22,29	18,00	15,284
Total	245	19,31	14,00	14,407

## Appendix F: Board size of the active NPOs

Appendix F gives more insight in the size of the boards of the active small nonprofit organizations. Descriptive statistics are shown for the different regions (table 25), cities (table 26) and clusters (table 27).

**Table 25 Descriptive statistics of the board size by region**

Board Size* Region				
Board Size				
Region	N	Mean	Median	Std. Deviation
Flemish	168	5,79	5,00	3,700
Walloon	74	6,30	4,00	5,764
Total	242	5,94	4,00	4,428

**Table 26 Descriptive statistics of the board size by city**

Board Size* City				
Board Size				
City	N	Mean	Median	Std. Deviation
Brugge	75	5,55	4,00	3,542
Gent	36	5,86	5,00	2,919
Leuven	21	7,76	6,00	6,074
Mons	32	4,81	4,00	4,020
Oostende	36	5,06	4,00	2,484
Tournai	42	7,43	4,50	6,626
Total	242	5,94	4,00	4,428

**Table 27 Descriptive statistics of the board size by cluster**

Board Size* Cluster				
Board Size				
Cluster	N	Mean	Median	Std. Deviation
ACT CI	120	5,79	4,00	4,060
ACT NO	65	5,45	4,00	4,153
FULL	57	6,82	5,00	5,339
Total	242	5,94	4,00	4,428

## **Appendix G: Gender diversification in active nonprofit organizations**

In this appendix, gender is briefly investigated. Gender diversification is a topic that recently gained a lot of attention and has been the subject in many research. Some has indicated gender differences in risk aversion, trust, deception and leadership (Ergun, García-Muñoz, Rivas, 2012). One could argue that risk aversion might increase the need for correct financial statements and compliance. Therefore, women in charge of a nonprofit organization are ought to have financial statements who are significantly more compliant. However, since there is no academic literature to support this conclusion this hypothesis is not included in the model. Nevertheless, data was collected about the gender of the president of the board of directors because it might be interesting to show the gender diversification in the nonprofit sector.

As can be seen in table 28, only a disappointing 13.9% of all the presidents are female and from two board of directors it was not clear whether they were male or female. Furthermore, female presidents of the board were more often found in younger organizations, with slightly larger board sizes (table 29) and in organizations that submitted their financial statements using a full or abbreviated model instead of a simplified model (table 31). Also, in Wallonia there were relatively more female presidents (table 30).

However, this appendix only shows some descriptive statistics of gender diversification. Gender was included in this study to bring gender diversification in the nonprofit sector to the attention. Further research should investigate gender diversification in the nonprofit sector more profoundly.



**Table 28 Frequency table of the gender diversification of the active organizations**

		Frequency	Percent
Gender	Female	34	13,9
	Male	209	85,3
	Missing	2	,8
Total		245	100,0

**Table 29 Gender differences in the descriptive statistics of the active organizations concerning age and board size**

Gender		Age	Board size
Female	Mean	16,65	6,32
	N	34	34
	Std. Deviation	11,375	6,049
Male	Mean	19,68	5,89
	N	209	206
	Std. Deviation	14,842	4,136
Total	Mean	19,26	5,95
	N	243	240
	Std. Deviation	14,425	4,444

**Table 30 Crosstabulation of the active organizations: gender \* region**

**Gender \* Region Crosstabulation**

% within Region

		Region		Total
		Flemish	Walloon	
Gender	Female	10,7%	21,3%	14,0%
	Male	89,3%	78,7%	86,0%
Total		100,0%	100,0%	100,0%

**Table 31 Crosstabulation of the active organizations: gender \* cluster**

**Gender \* Cluster Crosstabulation**

% within Cluster

		Cluster			Total
		ACT CI	ACT NO	FULL	
Gender	Female	12,5%	13,8%	17,2%	14,0%
	Male	87,5%	86,2%	82,8%	86,0%
Total		100,0%	100,0%	100,0%	100,0%

## Appendix H: Sleeping organizations

Appendix H gives insight in the age (table 32) and years of inactivity of the sleeping organizations (table 33).

**Table 32 Descriptive statistics of the age of the sleeping organizations**

Statistics		
Age		
N	Valid	105
	Missing	3
Mean		23,08
Median		18,00
Std. Deviation		16,98
Minimum		6
Maximum		73

**Table 33 Descriptive statistics of the years of inactivity of the sleeping organizations**

Statistics		
Years Of Inactivity		
N	Valid	105
	Missing	3
Mean		16,06
Median		9,00
Std. Deviation		16,55
Minimum		6
Maximum		67

## Appendix I: Testing the assumptions of the multiple regression model

Table 34 gives the Spearman Rho's Correlation matrix, leading to the same conclusion as the the Pearson correlation test that multicollinearity is unlikely to occur. Furthermore, the VIF factor are presented in table 35.

**Table 34 Spearman Rho's Correlation matrix**

	Size	Subsidized	Supervision	Region	Board	Category Age
Size	1.000					
Subsidized	.077	1.000				
Supervision	0.271	.026	1.000			
Region	-0.276	-.148	-.118	1.000		
Board	0.335	0.21	0.335	-.075	1.000	
Category Age	-0.268	.016	.027	0.427	-.083	1.000

	Collinearity Statistics	
	Tolerance	VIF
Size	.789	1.268
Subsidized	.907	1.102
Supervision	.844	1.185
Region	.727	1.376
Board	.797	1.255
Category Age	.714	1.401

To test autocorrelation among the error terms, the Durbin-Watson d-test was performed. The value of the Durbin-Watson statistic is 1.942, therefore, because it is approximately equal to two, the conclusion is that residuals are uncorrelated.

Another assumption of the regression model is the normal distribution for the residuals. Figure 7 shows a histogram of the residuals. Nonetheless the histogram is satisfying at first sight, statistical test for normality were also executed. In table 35, the p-value for the Sharpiro-Wilk test is 0.321, therefore the alternative hypothesis can be rejected and the conclusions is that the data comes from a normal distribution.

**Table 35 Tests of normality**

Tests of Normality		
	Kolmogorov-Smirnov <sup>a</sup>	Shapiro-Wilk

	Statistic	df	Sig.	Statistic	df	Sig.
CI SCORE	.074	122	.094	.987	122	.321

a. Lilliefors Significance Correction

**Figure 7 Histogram of the residuals**

