



Research on Transparency of Philanthropic Foundation in Hubei Based on Stakeholder Approach

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Abstract. While the philanthropic foundation has made great contributions to social development, some scandals has jeopardized their credibility, which makes research on information disclosure of foundation necessary. From the perspectives of internal and external stakeholders, a foundation transparency model was constructed to explore the relevant factors of transparency of Hubei Foundation. The results showed that the board size, years of foundation establishment, net assets, founder type, donation dependency, donor type, public benefit expenditure, and number of projects were significantly correlated with foundation transparency. Suggestions to improve disclosure of foundation were proposed from both internal and external governance perspective.

Keywords: philanthropic foundation · information disclosure · transparency · stakeholder theory

1 Introduction

With the development of philanthropy, philanthropic foundations is playing more and more prominent role in social affairs. During the outbreak of COVID-19 in Wuhan, the philanthropic foundations in Hubei province actively raised donations and distributed supplies. Meanwhile, some scandals involving charity foundations broke out, which greatly undermined the credibility of charity organizations. The mistrust of the public to the foundations partly results from the lack of persistent and well-regulated information disclosure. Without adequate information, especially some financial information, it is impossible for public to understand the use of non-profit organizations' funds and to effectively supervise the performance of fiduciary responsibilities [1]. Hence, information transparency enables and sustains the trust between charity foundations and the public [2], and is also an important cornerstone for foundations to achieve their mission and social value [3]. Therefore, this paper will take foundations in Hubei as an sample to explore the factors related to foundation transparency and accordingly identify feasible paths to promote foundation transparency.

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Y. Chen et al. (Eds.): ICMETSS 2022, ASSEHR 693, pp. 199–207, 2023.

https://doi.org/10.2991/978-2-494069-45-9_25

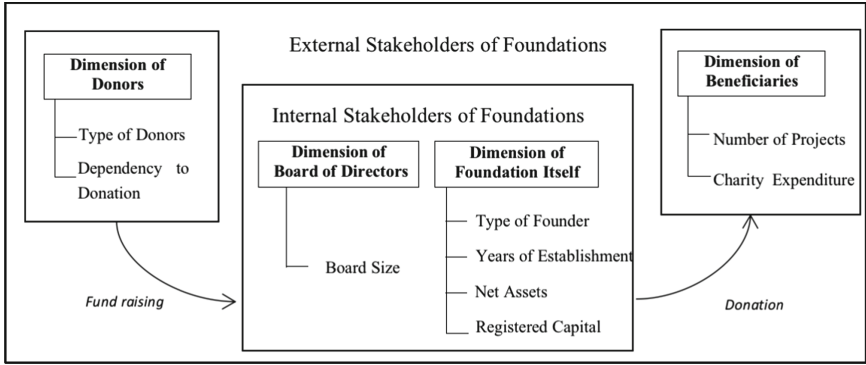


Fig. 1. A model of factors related to foundation transparency from stakeholder theory perspective

2 Research Framework of Foundation Transparency Based on Stakeholder Theory

2.1 Foundation Transparency Model from Stakeholder Theory Perspective

The term “stakeholder” was first introduced by the Freeman, who believed that the development of an organization is dependent on the input and participation of all stakeholders, and that the organization pursues overall interests of all stakeholders. Stakeholders are not only the beneficiaries of organizational development, but also supervisors of the organizational administration. Thus their characteristic and behavior can directly influence the information disclosure of organizations [4].

From the external perspective of organization, donors and beneficiaries are the most important two stakeholders of philanthropic foundations. Foundations and the donors form a principal-agent relationship and they all aim to help the recipients with donation. Donation income and reputation promote the motivation of the foundations to respond to the requirement of disclosure [5].

Within the foundation organization, governance capability of the board of directors plays a crucial role in information disclosure. And the characteristics of the foundation itself will also have an impact on its transparency. Voluntary disclosure by the internal stakeholder is largely required to improve its transparency due to the lack of external incentives for non-profit organizations to make disclosures [6].

To sum up, this paper would analyze the relationship between the transparency of the foundation and the behavior characteristics of its stakeholders, selecting two dimensions of board of directors and foundation organizational characteristics from internal organization and two dimensions of donors and beneficiaries from external organization (Fig. 1).

2.2 Literature Review and Research Hypotheses

2.2.1 Board of Directors

From the perspective of governance of foundation boards, Yan and Xue found that boards which were larger, younger, or with directors who had held leadership positions

at provincial institutions or above, achieved better financial performance of foundations, thereby presenting higher transparency [7]. According to Drucker, due to the specific mission and nature of non-profit organizations such as foundations, the size of their boards of directors is generally larger than that of corporate boards to make sure of its fairness and democracy [8]. Therefore, we predicted that foundation with larger size of board would make better information disclosure [9].

Hypothesis 1: Foundation transparency is positively correlated with the number of board members.

2.2.2 Organizational Characteristics of Foundation

Liu et al. verified that foundations with larger financial resources had higher-quality online information disclosure, using the sample of 730 foundations in China [10]. With more sufficient registered capital and net assets, boards can get more resources to operate the foundations and are more likely to run influential activities and gain attention of society, thus they are more likely to take the initiative to disclose information for the sake of the their reputation.

Furthermore, a positive correlation between years of establishment and foundation transparency was found based on the data of 5470 foundations nationwide in 2017 [3]. The longer a foundation is established, the more skillful management becomes and the better information disclosure presents.

Besides, who established the foundation may be another factor related to transparency of foundation. The founders with different background of government institutions, school, corporation, community, and individual or group in civil may have different inherited working style and management competence, thus it was speculated that there would be significant differences in the transparency of different types of foundations.

In summary, four hypotheses about organizational characteristics were proposed:

Hypothesis 2: Foundation transparency is positively correlated with the amount of net assets.

Hypothesis 3: Foundation transparency is positively correlated with the amount of registered capital.

Hypothesis 4: Foundation transparency is positively correlated with the length of time a foundation has been established.

Hypothesis 5: There are significant differences in the transparency of foundations founded by different entities.

2.2.3 Donors

Donors, the sources of funds, are the most powerful of external stakeholders to demand the foundations improve their information disclosure. As reputation model in agent market and signaling theory argued, foundations would proactively facilitate disclosure to maintain good reputation in order to obtain more endowment income [11]. Therefore, we hypothesized that the more dependent a foundation was on donations, the more pressure and impetus it would have to disclose information [12].

The type of donors would also affect transparency of foundations. Compared to non-public foundations, public foundations are bound to be subject to more public supervision and control, and their responsibility to disclose information is heavier. In addition, as non-public foundations in China started later, their administrative capacity is far less mature than public foundations, and their own awareness of proactive information disclosure is relatively weaker [13].

Therefore, two hypotheses are proposed:

Hypothesis 6: Foundation transparency is positively correlated with its reliance on donations.

Hypothesis 7: Transparency of public and non-public foundations is significantly different.

2.2.4 Beneficiaries

The extent to which beneficiaries are helped is an important aspect in evaluating the performance of foundations. Better performance makes them have good news to share and leads to better disclosure [14], so the amount of public benefit expenditure and the number of charity projects, which are two primary performance indicators, would be both positive predictors of foundation transparency.

Hypothesis 8: Foundation transparency is positively correlated with its public benefit expenditure.

Hypothesis 9: Foundation transparency is positively correlated with the number of charity projects.

3 Empirical Study

3.1 Variables and Data Sources

Foundation Transparency Index (FTI) reported by the China Foundation Center (CFC) was used to measure the transparency of foundations as the explanatory variable in this study. FTI is a comprehensive index system to evaluate the self-discipline and transparency level of foundations in China based on the public information of foundations that has been approved by relevant government departments, which has 40 indicators from three dimensions of basic information, project information and financial information, with the full score of 100 points [15]. FTI of 148 foundations in Hubei was reported on the China Foundation Center in 2019, which was used as the sample for this paper.

This paper used foundation board size, net assets, registered capital, years of establishment, founding entity, donor dependency, donor types, public benefit expenditure and number of projects as explanatory variables. Donor dependency was measured by the ratio of donor income to total income. The types of founding entities included system (with institutional background), civil, school, enterprise, community, and unknown (information not available for classification), coded as 1, 2, 3, 4, and 5 respectively. Donor types were classified according to public and non-public funding, coded as 1 and

Table 1. Descriptive statistics

	N	Mean	Median	Mode	SD	Minimal	Maximum
Explained variables							
Transparency	148	46.26	51.20	49.60	24.43	0	100
Explanatory variables - internal perspective							
Board size	143	11.09	10	5	5.71	0	25
Net assets	132	3093.85	739	201	8000.79	-148	71,633
Registered capital	148	432.58	200	200	656.65	200	5,000
Years of establishment	148	9.95	8	6	6.29	3	31
Type of founder	148	1.73	2	2	1.46	0	5
Explanatory variables - external perspective							
Donor types	148	0.15	0	0	0.36	0	1
Donor dependency	132	0.67	0.95	0	0.41	0	1
Public benefit expenditure	132	1,425.56	143	0	4,818.11	0	45,907
Number of projects	143	5.95	3	1	7.07	0	39

0 respectively. The data for explanatory variables was collected manually from the information related to Hubei foundations disclosed on China Social Organization Network and China Foundation Center, as well as the official website of each foundation.

3.2 Descriptive Statistics

The average FTI of Hubei foundations was 46.26, which was relatively lower than that of all foundations nationwide (51.34). Only three foundations achieved a full score. The participation rate of foundations in Hubei province was also low. By 2019 there were 176 foundation in Hubei Province, only 148 of which participated in rating, with a participation rate of 84.09%. The descriptive statistics was displayed in Table 1.

3.3 Correlation Analysis

Pearson correlation coefficient was used to test whether there was a strong linear relationship between continuous numerical variables and foundation transparency. The results showed that foundation transparency was significantly correlated to the number of board members ($r = 0.383$ $p = 0.000$), years of foundation establishment ($r = 0.355$ $p = 0.000$), net assets ($r = 0.446$ $p = 0.000$), donor dependency ($r = 0.281$ $p = 0.001$), public benefit

Table 2. FTI for different founder types of foundations

	Total sample	Systemic	Civil	School	Corporation	Community	Unknown
Mean	46.26	48.51	43.53	57.14	42.39	2.93	22.57
SD	24.43	20.06	24.58	20.05	25.22	2.57	24.19
N	148	36	31	47	18	3	13

Table 3. FTI for different donor types of foundations

	Total sample	Public foundations	Non-public foundations
Mean	46.26	56.46	44.48
SD	24.43	12.28	25.59
N	148	22	126

expenditure ($r = 0.244$ $p = 0.005$) and number of projects ($r = 0.486$ $p = 0.000$), but not significantly correlated to registered capital ($r = 0.155$ $p = 0.060$).

The result of One-way ANOVA showed that FTI of the different types of foundation types differed significantly ($F(5, 142) = 7.943$, $p < 0.001$, $\eta^2 = 0.219$). Among them, school foundations and systemic foundations got higher scores than average, and FTI of others was below average (Table 2).

An independent samples t-test was used to explore the difference in FTI between public and non-public foundations. Due to uneven variance ($F = 15.076$, $p < 0.001$), the results of the adjusted t-test showed that FTI of public foundations was significantly higher than that of non-public foundations (adjusted $t = -11.983$, adjusted $df = 59.226$, $p < 0.001$, Cohen’s d coefficient = 0.497) (Table 3).

3.4 Discussion

Hypotheses of the research on factors related to foundation transparency based on internal and external stakeholders were verified except for hypothesis 3. According to the data, the majority of foundations in Hubei province set up a foundation with registered capital of 2 million, which is the minimum requirements for a local foundation in the Regulations on the Administration of Foundations. Registered capital is a response to policy rather than a predictor of financial capacity.

4 Conclusion and Implication

4.1 Research Conclusion

In conclusion, foundation transparency is positively correlated with number of board members, amount of net asset, years of duration, donor dependency, public benefit expenditure, and number of projects. Foundations which is established by founders

with government institution and school background make better information disclosure than others. And public foundations are more transparency than non-public ones.

4.2 Suggestions on Transparency Improvement of Hubei Foundations

From the perspective of internal governance, governance structure of foundations should be improved to strengthen its management capacity. As data shows, the mode of the board size of Hubei foundations is 5, indicating that most foundations may established their boards only in accordance with the minimum requirement of at least 5 members in the Regulations on the Administration of Foundations. The scale and structure of the foundations should determined by the needs of operational target. And professional directors and supervisors should be recruited to strengthen self-regulation and improve transparency of the foundation.

Moreover, foundations should shift role positioning to enhance their motivation to proactively disclose information. Hubei foundations need to make it clear that information disclosure is not only for the purpose of complying with policies and regulations, but for the purpose of “self-service” to ensure promising and sustainable development. Hubei foundations should build brand awareness, which means treating donors as customers and obtaining their trust and favor by proactive disclosure in order to increase donation income.

From the perspective of external governance, philanthropic culture is needed to be cultivated continuously so as to increase the public’s attention to charitable foundations and form a strong external accountability mechanism. Generally speaking, public in Hubei care less about philanthropic, which contributes to the lack of external pressure on foundations to disclose information. Besides the traditional channels, the government should make full use of new media channels, such as operating official account, releasing short video, etc., to spread charity culture, thereby fostering potential public scrutiny.

Last but not least, regulations and its enforcement should be improved to optimize the monitoring and governance environment. Strong regulations from government make disclosure of charity organizations more efficient [16]. One the one hand, the information disclosure requirements in Hubei should be further clarified and the information technology should be used to improve the management platform, so as to facilitate the foundation’s work of information disclosure. On the other hand, the disciplinary mechanisms should be strengthened to ensure that foundations complete information disclosure in a timely and compliant manner.

4.3 Limitation and Forecast

Due to the limitation of data, some factors correlated with transparency of foundation were not included in this study. For example, since the sample of the study were in the same province, government which was an important external stakeholder was not studied. And without detail information about human resource and decision-making process of foundations, the structure of foundation boards and the member of decision-making were not included, which were crucial factor influencing foundation transparency. All the variables above can be considered in the future studies.

Acknowledgments. Financed by Hubei NPO Research Center Open Fund 2020 (HBNPO2020YB06).

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