

TRANSPARENCY IN ITALIAN NON PROFIT ORGANIZATIONS

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Abstract: *The aim of the paper is to evaluate the accountability and transparency of Italian non profits organizations. The main goal is to understand if a general accountability or transparency problem, or a systematic publicity deficit, exist in the third sector in Italy. Non profit organizations have an ethical obligation to their stakeholder and to the public to conduct their activities with accountability and transparency. Non profit organizations should regularly and openly convey information to the stakeholder about their vision, mission, objectives, activities, accomplishments, decision-making processes and organizational structure. Information from a non profit organization should be easily accessible to the stakeholder and should create external visibility, public understanding and trust in the organization, conditions necessary to find donors. Non profit organizations work with communities and community donors need to know how their money is used. In the first part the analysis of the definition of transparency and accountability is made and the sustainability report like an important instrument of communication is considered. In the second part an empirical research is presented. The Italian law allows taxpayers to devote 5 per thousand of their income tax to non profit organizations, choosing between charities, social promotion associations, recognized associations, entities dedicated to scientific research and health care, universities, municipal social services and other non profit organizations. The present study present a quantitative research and it's based on an empirical analysis of non-profit organizations that receive this donation in Italy in the year 2010 and 2011. In the paper we analyze the transparency and the accountability of the top 100 non profit organizations that have received the contribution of 5 per thousand, checking whether they prepare their Sustainability Report or any other kind of report for communicate the use of funds received. The new research was based on one previous research (Gazzola and Ratti, 2013) but we compared the data of the year 2010 with the date of 2011. Statistical method is applied for the purpose of this study. The analysis on the transparency and accountability in non profit organizations clearly requires further study, yet the results obtained in this study allow us to offer various reflections and encourages us to continue in this research because non profit organizations must increase their transparency.*

Key words: Transparency; Accountability; Non Profit Organization; Sustainability Report

JEL Classification: M14; M41; L31

1. Introduction

Non profit organizations provide important opportunities for people to combine their energy, talents and values for community improvement and enrichment (Minnesota Council of Nonprofits, 2010). They have the role of entities that engage and inspire individuals and communities for public benefit. Non profit organizations have also an ethical obligation to conduct their activities in a way that is accountable and transparent because normally they work for the community (Carroll, 1991). In the non profit sector we consider transparency (Behn, DeVries and Lin, 2010) and accountability as the great

availability of relevant, reliable information about the performance, the financial situation, and the governance of the organization. They are the amount of information that an organization provides to the stakeholders about itself and how honestly and quickly it reveals this information. Public availability to the economic, social and financial information of non profit organizations is important because the non-accessibility may result in the loss of public confidence. A non profit organization has an obligation to responsibly use the resources toward its mission and to benefit the community. It has also a responsibility to establish and regularly determine clear performance measurements and to share the results with the stakeholder (Ebrahim, 2010).

In the research we highlight the importance for a non profit organization to give to the community the correct information on the activity and on the management. The particular socio-economic function can not be highlighted effectively using information tools designed to meet the needs of business. The management for the increase of the collective well-being can not be valued in economic terms. It is necessary to carry out a process of social information that can be both a public relations tool, communication, dialogue and coordination of the different social areas (Browne and Nuttall, 2013).

The opportunity for the stakeholder to access the financial and operational information of the non profit organizations who receive the 5 per thousand of the income tax of the donors is fundamental. Open access is important for efficient capital flow and for well-informed donation decisions. The non profit sector is a vital component of the world economy and of many national economies. Social systems complement the activity of the governmental and business sectors in supplying the public services and improving quality of life . We can understand the importance of this information if we consider that Italian non profit organizations represent an estimate of 4,3% of PIL and 2,5% of Italian jobs (Unicredit Foundation, 2012).

2. Literature review

According to Salamon and Anheier (1997), the term "non profit organization", utilized in the research, expresses that the organization does not aim primarily to make a profit, in reality, profits are often achieved. However, these profits are not distributed to the shareholders, but are usually used to realize the organization's purpose or are retained. The definition is integrated by Badelt (1999) that considers, among the number of different viewpoints, there is only one common denominator namely to try to consciously distance oneself from the for-profit world of the private sector.

The acceptance of stakeholder theory (Freeman, 1984) has meant that organizations have had to redefine their competitive strategies and the way they manage social issues, since these are evaluated by stakeholder and determine how new groups of subjects judge the non profit legitimization. As a result outside communication represents an important opportunity for the organization to increase its social acceptance and offer its own point of view, supported by information that, as much as possible, is understandable, objective and verifiable.

The idea of transparency is the idea adopted internationally, it is clear that it meant that organizations were open to public scrutiny whether through formal structures such as freedom of information acts or document availability and open meetings (Piotrowski and Van Ryzin, 2007 and Roberts, 2006). Transparency began to be used side by side with good governance and accountability to the stakeholder and openness to public scrutiny. With the help of the web, it has been possible to make more and more aspects of an organization's management available to the stakeholder. Taylor (1996) mentioned the

need for transparency in voluntary organizations, but the idea hasn't had wide circulation in the United States.

Nonprofits "need to be trustworthy and need to be trusted to succeed [in their missions] (Ortmann and Schlesinger, 2003). " One way to create trust is to be transparent in the administration of the organization by use of a website.

Understanding trust in nonprofits is even more important as government reduces the direct provision of services in favor of contracting with nonprofits to provide those services. Further, given a number of highly visible scandals and corruption, some see a "crisis of confidence" occurring for nonprofits, although, for example, O'Neill (2009) disputes this.

Following recent crises in the for-profit, nonprofit, and government sectors, the public has called for increased openness and transparency from organizations. Kelleher (2006) encouraged practitioners to use the Internet and social networking sites to advocate for their organizations and causes; however, the practitioners should be transparent in their online communication activities. For full disclosure, organizations must make sure to provide a detailed description of the organization and its history, use hyperlinks to connect to the organization's Web site, provide logos and visual cues to establish the connection, and list the individuals who are responsible for maintaining the social networking site profile (Berman, Abraham, Battino, Shipnuck, and Neus, 2007).

Waters, Burnett, Lamm and Lucas (2009) argue that non profit organizations could use Facebook for the communication. The research indicate that the nonprofits on Facebook wanted to be open and transparent by disclosing who maintained the site and what they sought to accomplish. However, they failed to take advantage of the interactive nature of social networking. They rarely provide information in forms other than external links to news stories, photographs, and discussion board posts, and they only attempted to get interested parties involved by providing them with a contact e-mail address to obtain more information

3. Methodology

This study is focused on accountability and transparency in non profit organizations. The research design in the first part is theoretical. In the second part predominantly employs the quantitative methods; authors present an empirical analysis based on observed and measured phenomena and derives knowledge from actual experience rather than from theory or belief. It describes and synthesizes, with the use of statistical data, the dynamics and the evolution of the transparency in non profit organizations.

The research questions are:

- Are Italian non profit organizations transparent?
- Transparency is useful for fundraising?

The empirical analysis in about Italian non profit organizations that receive 5 per thousand of the income tax of taxpayers. In the paper the authors analyze the transparency and the accountability of the top 100 non profit organizations that have received the contribution of 5 per thousand, checking what kind of information they public on the web site and whether they prepare their Sustainability Report, the information document for excellence, or any other kind of report.

This article reviews the meaning of trust and transparency in the nonprofit literature and examines the websites for date of transparency and accountability.

The main contribution of this line of research is the analysis of the transparency about use of donated funds, and sources of funding in the Italian non profit organization who received the contribution of 5 per thousand from the public. The research demonstrate that transparency helps to inspire confidence with donors as well as board and staff. It is

in every non profit's best interest to engage in practices that raise the level of accountability and inspire donors' trust and confidence.

4. Transparency and accountability

It's possible to define the transparency as the widespread availability of relevant, reliable information about the performance, financial position, and governance of a non profit organization. Transparency allows stakeholders to gather information that may be critical in detecting and defending their interests (Burch Adiloglu, 2012). It differs from disclosure in going beyond following the standards of reporting to provide users with all the information needed to help them taking rational decisions.

The transparency depends on the amount of information that an organization tells to the stakeholder about itself and it is related to the honest and quick revelation of this information. Donors today want to understand the need and how the non profit organization meets that need. Being able to quantify the impact of an individual donation helps secure donors, shows transparency, and supports the organization's overall mission (BSR, 2011).

The need thus arises for the organization to communicate, to make its actions visible to the outside, and as a result to obtain social legitimization for these actions (Gazzola and Meo Colombo, 2011). One common way to make public the organization is to put the information on the web. Facebook, YouTube, Twitter and LinkedIn are the four social media technologies that are highest in use. The Web has changed our world dramatically, and nonprofits are experiencing this change as well. For example, recent studies on the non profit organizations in Australia indicate that well over 97% of non profits have some type of Web presence (Wirth, 2012). This survey indicates that just over 26% of respondents do not have the financial records available on their Web site or readily available for donors. More and more donors are requesting this type of information early in their decision process to support an organization.

For non profit organizations is fundamental explain the mission, but it is not enough. They have to communicate the outcomes of their actions to the outside world. Donors today want to understand the need and how the organization meets that need and explain the quantitative impact of donations. Being able to quantify the impact of an individual donation helps secure donors, shows transparency, and supports the organization's overall mission.

Nowadays public and donors look to measure a non profit organization's trustworthiness. The current trend for funders and donors is to examine carefully overhead expenses; the ratio of spending on programs and services versus spending on administration and management; the costs of fundraising. There are wide discrepancies in how this information is reported; some non profit even reporting no fundraising costs. Being accountable means ensuring these figures are reported accurately. When overhead percentages are low or high it doesn't necessarily mean that anything is wrong but it means that it should be reviewed closely.

All non profits provide some type of community benefit (Colombo and Gazzola, 2012); that is why the organization gets the advantage of being a nonprofit entity. Accountability includes ensuring that you are effectively providing this benefit service (be it feeding the homeless, protecting the environment, offering a cultural endeavor, etc). Organizations need to evaluate their services impartially and perform a needs assessment of their stakeholder, making changes if needed. This often happens as part of a strategic planning process and it is a critical part of being an accountable organization (Anheier et al, 2011). Until several decades ago it was thought sufficient to declare to be non profit; today, instead, there is a general interest that is revealed not only as the sum of the expectations

of the individuals with whom the organization has direct relations but also as a collective interest.

A comprehensive way to be transparent is to produce an annual report (Meyer, Ferrari and Zoebeli, 2012; Zainon et als, 2013). The organization can lay out in a more compelling document the highlights of achievements, services and financial records with photos and graphics and make these readily available to the stakeholder by posting it on the website.

This, however, can be a costly administrative expense for a smaller non profit.

The more the organization can assure that is accountable and transparent the more trustworthy the organization will be viewed by the public, donors, constituents and regulators.

5. Transparency in Italian non profit organizations

The first dates of the research are the funds collected from the top 100 non profit organization with the 5 per thousand of the income tax. The total amount collected in the tax year 2010 is € 97.250.812,20 (Table 1). The dates refer to the lists of admitted and excluded to the 5 per thousand in 2010 published on 28/12/2012 (Agenzia delle Entrate, 2012).

Table 1: Funds collected 2010

Funds collected from the top 100 non-profit organizations thanks to 5 per thousand	€ 97.250.812,20
Funds collected from the top 10 non-profit organizations ranging from a maximum to a minimum of	€ 10.699.131,30 € 2.237.380,75
The organization is located at number 22 , has collected more funds equal to a value of	€ 1.036.597,69
From position 23 up to 39 descend up to a value of	€ 501.656,19
Only the last 4 organizations that are in the top 100 positions in the collection of 5 per thousand, receive donations of less than	€ 200.000,00

Source: Authors' elaboration

In the year 2011 the amount of founds is increased, in fact it is € 100.048.590,40 (table 2). The dates refer to the lists of admitted and excluded to the 5 per thousand in 2011 published on 09/05/2013 (Agenzia delle Entrate, 2013) and updated on 14/03/2014.

Table 2: Funds collected 2011

Funds collected from the top 100 non-profit organizations thanks to 5 per thousand	€ 100.048.590,40
Funds collected from the top 10 non-profit organizations ranging from a maximum to a minimum of	€ 11.023.415,46 € 2.486.828,35
The organization is located at number 22 , has collected more funds equal to a value of	€ 1.017.434,38
From position 23 up to 39 descend up to a value of	€ 515.409,09
No organization in the top 100 positions in the collection of 5 per thousand, receives donations under	€ 200.000,00

Source: Authors' elaboration

In 2011 the total of funds collected is increased. If we compare the different non profit organizations and their position in the top 100 lists we can see that 33% improve the position, but 51% worsened the position (Figure 1)

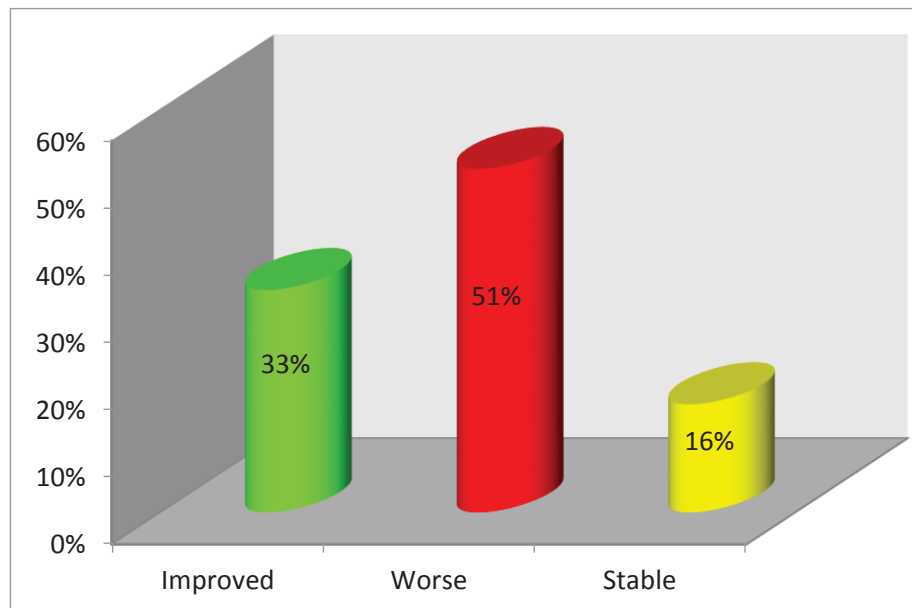


Figure 1: What non profit organizations have improved or worsened the position

Source: Authors' elaboration

In the research, for the evaluation of the transparency of non profit organizations, we have analyzed for the year 2010 e 2011 if organizations have published one kind of report on the web (Figure 2 and 3).

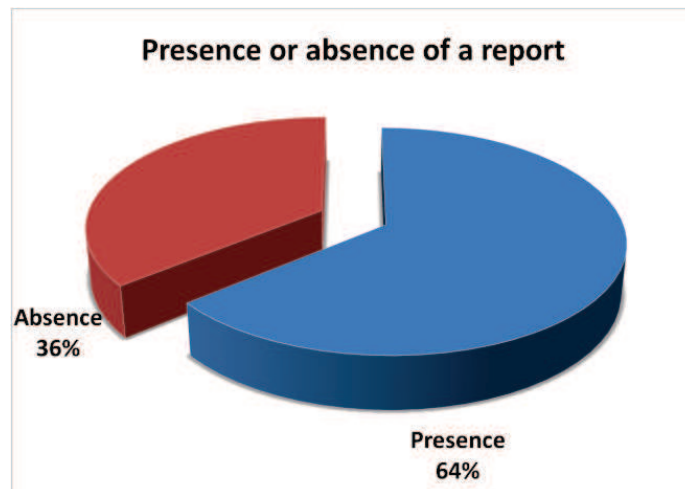


Figure 2: Presence of reports 2010
Source: authors' elaboration

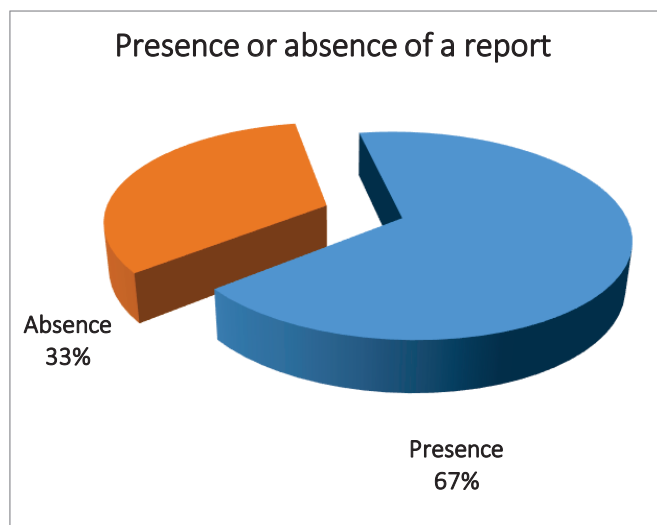


Figure 3: Presence of reports 2011
Source: authors' elaboration

From 2010 to 2011 the number of Italian non profit organization, of the sample, that has a kind of report is increased: in 2010 they are 64% and in 2011 they are 67% . Then we have divided the non profit organizations in 3 groups: non profit organizations that improve the position, that worsened the position and that have the same position. We analyze in these 3 groups the percentage of the non profit organizations that has one kind of report (Figure 4, 5 and 6).

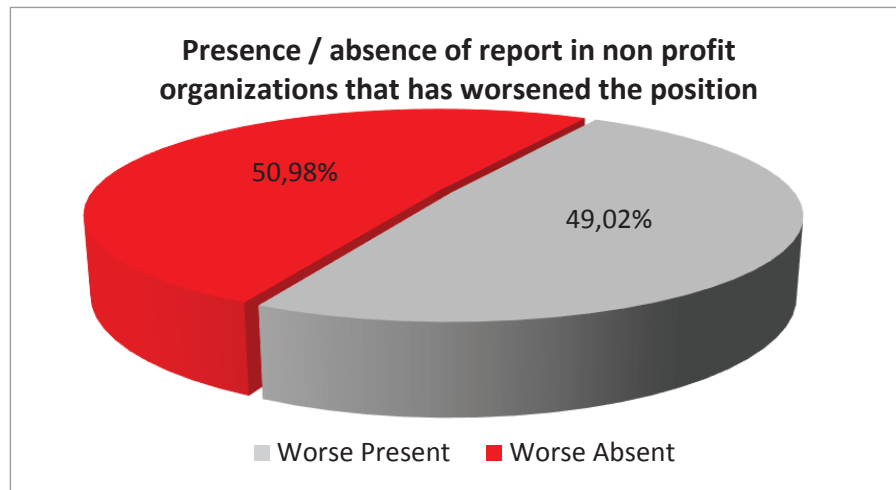


Figure 4: Presence of reports 2011
Source: Authors' elaboration

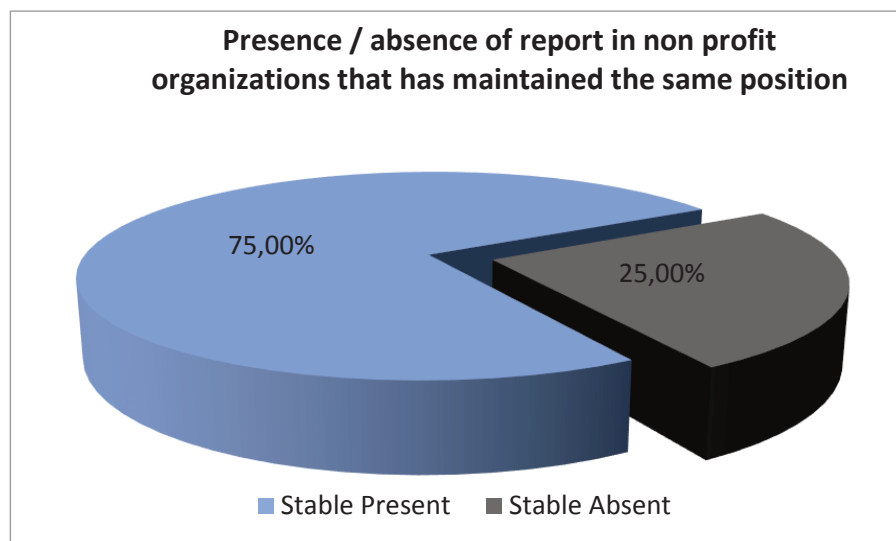


Figure 5: Presence of reports 2011
Source: Authors' elaboration

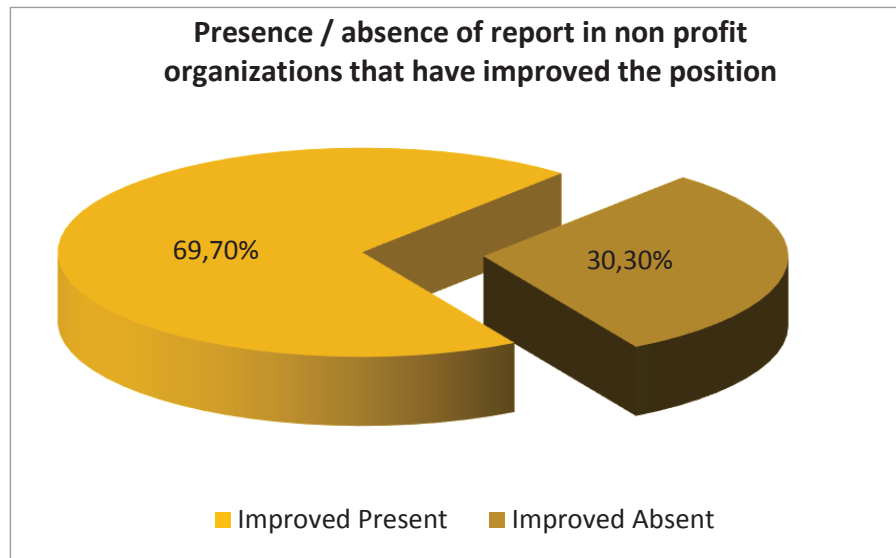


Figure 6: Presence of reports 2011

Source: Authors' elaboration

From the date it's possible to see that the non profit organizations of the second group (Figure 4), who have worsened the position, have the lowest percentage of reports.

6. Conclusion

Increased transparency on behalf of non profits and better information available on the Internet would achieve more confidence in the sector. Transparency works as a trust-building tool; the more accountable and transparent the organization becomes, the more trustworthy the organization will be viewed by the stakeholder.

Transparency involves how much the organization tells the public about itself. Increased transparency on behalf of non profits and better information available on the Internet would achieve more confidence in the sector.

The sustainability report is a perfect instrument for the transparency (GRI, 2011). Non profit sustainability reporting will attract the right talent and donors (Bolton and Guest-Jelley, 2012) save money; reduce the collective footprint and give the non profit organization greater leverage when working with big business.

Though issuing a sustainability report requires a lot of work, there is strong evidence that transparency offers a number of financial and social advantages that make it more than worth its costs. Respondents from organizations who issue a sustainability report most often identified data-related issues as among their challenges in the reporting process (Boston College Center for Corporate Citizenship and Ernst & Young 2013 survey).

The research show how it's important for a non profit organization to be accountable and transparent using sustainability report and the internet as a search tool. This study examines website material to determine levels of accountability and transparency and in the top 10 organizations, 9 have one report on the website. With the 5 per thousand non profit organizations have a responsibility to "give confidence" to donors and demonstrate that the figures have been donated a good investment of solidarity. The donors have the right to know and understand, before, during and after, the destination and the traceability

of donations; the organizational and functional reliability of the non profit organization; the value of projects to be financed and the ratio between investment donation and expected results. Sustainability report meets this needs.

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