

Title of Project:

(English) Determinants and consequences of nonprofit voluntary disclosure in Hong Kong

(Chinese) 香港非營利組織自願披露的決定因素和後果

(a)

Abstract of Research Comprehensible to a Non-specialist

Nonprofit organizations enrich our lives by providing a multitude of goods and services in areas such as health care service, education, religion, poverty alleviation, etc. The nonprofit sector is a significant and growing part of the Hong Kong economy. For example, private charitable donations as a percentage of gross domestic product increased from 10 percent in 1980 to 45 percent in 2018. As our society evolves and changes over time, nonprofit organizations face critical challenges associated with accountability and transparency. Although nonprofits in Hong Kong are not legally required to publish annual reports, many nonprofits use them as a key information channel to communicate with donors and grantors about a nonprofit organization's efficiency, effectiveness, and performance. However, relatively little is understood about what motivates nonprofit organizations to share more information through annual reports with stakeholders and whether the public and stakeholders use nonprofit disclosure in deciding where to donate.

To fill these gaps, this project adopts an explanatory sequential mixed methods approach to understand nonprofit voluntary disclosure behavior in Hong Kong. Firstly, it quantitatively examines the determinants and consequences of nonprofit voluntary disclosure in Hong Kong. Specifically, it investigates characteristics of nonprofit organizations providing more information, whether nonprofit disclosure affects the level of charitable contributions nonprofits attract, and whether the relationship between information disclosure and contributions changes during the COVID-19 pandemic period. In so doing, the project develops disclosure indices that capture the extent of information disclosures of financial, performance, and governance information in annual reports of nonprofits in Hong Kong. Secondly, it qualitatively explores the perceptions of nonprofit managers about the costs and benefits of voluntary disclosure through interviews.

While a large body of theoretical and empirical research over the years has investigated disclosure practices of for-profit organizations, there has been limited evidence in the nonprofit setting and even the existing evidence has been mostly documented for U.S. nonprofits. Given that institutional environments for US nonprofits are different from those for Hong Kong counterparts in terms of reporting requirements and the size of nonprofits, it is worthwhile to examine nonprofit voluntary disclosure in a Hong Kong setting. First, the proposed project will develop and test a determinants model of nonprofit disclosure by drawing on previous research on voluntary disclosure in for-profit and nonprofit settings. Specifically, we hypothesize that nonprofit voluntary disclosure is associated with the following three main factors: (1) the strength of governance, (2) the organizational performance of a nonprofit, and (3) the funding source. Second, the project will examine the consequences of nonprofit disclosure for the level of charitable contributions. We will document systematic variation in responses of stakeholders to voluntary disclosure across information type, donor type, and time. Third,

the project will present the views of nonprofit managers on voluntary disclosure. The findings from this project will be of interest to regulators and stakeholders. Given that the global Pandemic together with the associated economic downturn has made competition among nonprofit organizations for limited resources more intense, the proposed project is timely and has the potential to provide new insights into the development of public policy on nonprofit disclosure and transparency. In sum, the findings will expand our understanding of how information disclosure in nonprofit annual reports may play a role in enhancing the relationship between the nonprofit sector and its stakeholders and how nonprofit organizations can be operated more efficiently and effectively.