

Board of Trustees' Functions and Accountability as Drivers of Performance in Charities: Does Reputation Matter?

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The board of trustees is an internal mechanism tasked with managing a charity. Irrespective of how the trustees are chosen or designated, they have a formal duty for their institution and should act to its greatest advantage. As a voluntary organisation, a charity's success is defined by the achievement of its goal and mission. Hence, the purpose of this research is twofold: to study the relationship between both the boards of trustees' functions and boards of trustees' accountability, with the performance of charities; and whether the reputation of charities mediates the said relationships. Using data from a survey of 73 charities, established to care for disabled persons, the aforesaid relationships were empirically studied. The findings provided that the respondents to the survey, who were responsible for managing the charities, perceived there to be significant and positive associations between boards of trustees' accountability with the charities' performance. However, the relationship between the boards of trustees' function and the charities' performance was positive but not significant. It was interesting to note that they also perceived that the charities' reputation mediated the said relationships and thus, led to significant relationships between both the independent variables and the dependent variable. The research was limited by the fact that it was cross-sectional and focussed on charities with a common purpose. Nevertheless, the findings contributed to the body of knowledge in the area of charities' performance, by testing the research model in the context of charities in Malaysia, and by incorporating the reputation of charities, as a mediator, into the said research model.

Keywords: *Board of trustees, Accountability of board of trustees, Functions of board of trustees, Charities, Reputation of charities, Governance of charities.*

Introduction

The third sector comprises organisations that are non-profit-seeking in nature, with a private structure, that vary in purpose, legal form, size, and scalability. Consequently, multifarious terms have been used to describe them: charities, social enterprises, voluntary groups, community groups, co-operatives, and mutual benefits (Hodges & Howieson, 2017). The nature of the relationship (e.g., adversarial, co-operative) between the third sector and governments, the world over, is influenced by a country's existing political, social and economic environment. Hence, the way non-profits operate in the developed and developing world might differ (Salamon & Anheier, 1997).

Charities fall within the third sector and have been established for diverse purposes (e.g., giving relief to the indigent, advancing education and religion, promoting healthcare, protecting the animals and the environment) that address social concerns (Moulvi & Nakhid, 2016; Yetman & Yetman, 2012). As a result, the burden of government might be reduced from having to address them solely, given its prevailing financial and human resource constraints. Hence, would charities, as non-profit organisations, be facilitated from a legal and regulatory perspective? Perhaps in developed countries such as Australia and the United Kingdom, that have a recognised regulatory body in the form of a charity commission, such might be the case (Australian Charities and Not-for-Profit Commission [ACNPC], 2016; Charity Commission for England & Wales [CCEW], 2016). However, in developing countries, their regulations relating to the ease of establishment and functioning of charities, might reflect a mixed scenario, with some countries imposing fewer restrictions for their establishment and provision of numerous tax incentives. Whereas, for other countries, the converse might be true (Inland Revenue Board of Malaysia [IRBM], 2015; Internal Revenue Service [IRS], 2016).

Charities in Malaysia

Charities in Malaysia might assume three types of legal forms: company limited by guarantee (CLBG), society and trust. Hence, the laws regulating each form and the overseeing body are different (Companies Commission of Malaysia [CCM]; Registry of Society Malaysia [ROS]). As of the year 2014, 52,218 charities were registered as societies with the ROS, and classified into ten categories based upon their objectives, including religious, welfare, social, recreation, mutual benefit, culture and arts, trade, profession, rights-based, and security. Within the welfare category, in general, charities were sub-categorised along specific groups cared for, including protecting members' welfare (10,368); disabled persons (375), children (346), caring centre (317), single mothers (218), senior citizens (298), and community's welfare (1732).

The performance of charities caring for the disabled persons is of interest because as of the year 2016, out of a population of 31,633,500 million people in Malaysia, 409,269 (1.29 per cent) of them were registered with the Department of Social Welfare Malaysia as disabled persons. Also, the number of persons with disabilities has shown a steady increase from the year 2011 (359,203) until 2018 (513,519). Hence, if such charities perform reasonably well, they would be able to care better for the disabled and provide them with the needed training to live independently and/or secure jobs suited to their abilities. Hence, these charities, might act as providers of human capital, which might be tapped by the relevant industries.

The Purpose and Significance of This Study

The literature relating to the determinants of charities' performance in the context of developing countries has been limited. Also, the study's research model, which was an extension of a previous model, seeks to determine the mediating effect of the reputation of charities on the relationship between the two independent variables (boards of trustees' functions and boards of trustees' accountability) and the dependent variable (charities' performance). Hence, this study has shed light on the performance of charities serving the disabled, and how effective governance, on the part of the boards of trustees, might be associated with the former, either directly or via the mediating effect of the charities' reputation. This phenomenon of interest was studied in the Malaysian context, in which the potential of the non-profit sector was unrealised, and the environment was not primed sufficiently for the growth of non-profits.

Research Questions

To achieve the research objectives, this research seeks to answer the following questions:

1. Does the board of trustees' accountability have a significant positive relationship with the perceived performance of charities for disabled persons in Malaysia?
2. Does the board of trustees' function have a significant positive relationship with the perceived performance of charities for disabled persons in Malaysia?
3. Does the charities' reputation mediate the relationship between the boards of trustees' accountability and perceived performance of charities for disabled persons in Malaysia?
4. Does the charities' reputation mediate the relationship between the boards of trustees' function and perceived performance of charities for disabled persons in Malaysia?

Performance of Charities

Measuring charities performance results in two beneficial outcomes. Firstly, the performance indicator enables those managing charities to assess the effectiveness and efficiencies of their

programs or activities, and consequently, make the needed changes or improvement (Glassman & Spahn, 2012; Moxham, 2009; Stein, 2015; Woerrlein & Scheck, 2016). Secondly, both policy makers and the providers of current and/or future funds, might refer to the performance indicator to gauge whether charities are managed effectively and efficiently and specifically, whether their funds were used purposefully to achieve the social objectives of the organisation (Glassman & Spahn, 2012; Greenlee, Fischer, Gordon & Keating, 2007; Reddy, Locke & Fauzi, 2013).

Unlike for-profit organisations, which seek to return profits depending upon their legal form to their partners, shareholders or founders — in the form of a percentage of profits or dividends — charities use their contributions for the purpose of achieving their social objectives (Chelliah, Boersma & Klettner, 2016; Dellaportas, Langton & West, 2012; Reddy et al., 2013). Consequently, the conceptualisation and measurement of performance for both types of organisations are different. For charities, conceptualisation of their performance must include their ability to achieve their social objectives, which translates into meeting beneficiaries' needs by providing them effective and efficient services (Fischer, 1973a, 1973b).

There is a general consensus among scholars that fiscal and/or perceived performance measures can be used to conceptualise charities performance, establishing a common base from which academics and professionals can discuss and compare research findings (Benjamin & Campbell, 2015; Charles & Kim, 2016; Cordery & Sinclair, 2013; Kirk & Nolan, 2010; Ritchie & Kolodinsky, 2003; Prentice, 2015; Willems, Boenigk & Jegers, 2014; Woerrlein & Scheck, 2016). Accordingly, this research measured the performance of charities for disabled persons based on the perceived performance measures (Benjamin & Campbell, 2015; Charles & Kim, 2016; Lee & Nowell, 2015, Liket & Maas, 2015).

Internal Governance Mechanism: Board of Trustees

The internal governance mechanism refers to the board of trustees, the governing body which manages or oversees the management of charities. Hence, the board of trustees' functions and board of trustees' accountability determine the strength of this internal governance mechanism (Brown, 2005, Herman & Renz 1997, Jackson & Holland, 1998).

Boards of Trustees' Functions

This can be achieved by measuring the effectiveness of a charity board through knowing its roles, achieving mission, setting priorities, communicating decision, fundraising, managing finances, monitoring activities and programmes, and ensuring adequate human resource for the charities. Brown (2005), Herman and Renz (1997), and Jackson and Holland (1998) have

found that boards that are effective are associated with organisations that tend to perform better in terms of both fiscal performance and perceived performance.

Boards of Trustees' Accountability

This can be achieved by measuring how responsible and transparent charity boards are towards anyone interested in the charities, especially stakeholders for the overall success of the charities, despite the fact that charities have normally been linked with doing right (Dellaportas, Langton & West, 2012; Reddy et al., 2013).

The Reputation of Charity Institution

Reputation matters a great deal in our current competitive environment and may be considered the most valuable asset in the corporate sector. This is because reputation can determine why some customers choose one brand over another and who they trust. For charities, reputation may influence the donors in term of which charities to support. Consequently, a good reputation makes the difference between the success and failure of an organisation and its importance should not be underestimated (Beldad, Snip & Hoof, 2014; Kong & Farrell, 2010).

In the charity sector, past research had indicated that there has been a decline in the level of trust in charities in recent years. It was also indicated that some of the fundraising techniques used by charities make the donors feel uncomfortable. For charities, whose survival and existence to operate rests upon their trustworthiness, integrity, reliability and the goodwill of donors, a strong reputation is indeed essential to achieving a charitable mission and objectives (Fehrier, 2010, Snip, 2011; Handy, 1995).

When it comes to driving donations to charities, it seems reasonable to assume that having a strong reputation will support contributions and fundraising efforts and, as such, it can be said that a charity's donations are likely to be correlated with its reputation. Although some may argue that it may not be completely possible to manage reputation as it is dependent on how others perceive you, however, by measuring reputation, it is possible to examine whether reputation is mediating the independent variables (board of trustees' accountability and board of trustees' function) in influencing the dependent variable (perceived performance). Consequently, charities can adjust their board of trustees' accountability and board of trustees' function to align with the needs of stakeholders, including what motivates donors and ultimately helping charities in their funding and performance (Beldad, et al., 2014; Kong & Farrell, 2010).

Moreover, charities required a higher board governance standard due to a lack of an active control and performance evaluation, such as profitability, compared to for-profit organisations (Fama & Jensen, 1983). Good board governance will help charities improve reputation which will attract public interests and build public confidence in charities (McCambridge, 2004). If the integrity of governance systems is eroded, charities will lose more than their reputation. As Jeavons (1992) said, charities may find “the very existence of their organizations threatened, because the privileges and support on which they depend for survival could be withdrawn as the result of public disappointment” (p. 416).

With the above explanation, the present research has utilised perceived performance in view of measuring charities’ performance, since charities are a non-profit making organisation and their ultimate aims are for the well-being of society (Benjamin & Campbell, 2015; Charles & Kim, 2016; Lee & Nowell, 2015, Liket & Maas, 2015). In addition to the current challenging financial situation, coupled by not being driven by revenue, charities must know and provide information on how well their activities and programmes have been doing, with the purpose that the charities’ internal governance, who are the board of trustees, can make the necessary change at whatever point required. This will prevent the stakeholders, especially the contributors of funds, of having the negative perception by assuming that assets and donations contributed were wasted due to mismanagement, inefficiency and fraudulent conduct. When this occurs, charities will encounter a credibility issue and this may lead to an erosion of public trust. By measuring performance, charities can know whether they have accomplished their goal and mission and further enhance themselves when they have poor performance results.

Based on these findings and assertions, the following hypotheses were advanced:

- H₁:** The boards of trustees’ accountability has a significant positive relationship with the perceived performance of charities for disabled persons in Malaysia.
- H₂:** The boards of trustees’ function has a significant positive relationship with the perceived performance of charities for disabled persons in Malaysia.
- H₃:** The charities’ reputation mediates the relationship between the boards of trustees’ accountability and perceived performance of charities for disabled persons in Malaysia.
- H₄:** The charities’ reputation mediates the relationship between the boards of trustees’ functions and perceived performance of charities for disabled persons in Malaysia.
- H₅:** The charities’ reputation has a significant positive relationship with the perceived performance of charities for disabled persons in Malaysia.

Methods and Results

An exploratory study was undertaken for this research since there was limited information (Cooper & Schindler, 2008; Uma, 2003) about the situation of charities in Malaysia with regards to the charity board and performance.

The population of charities for this research was extracted from the Registrar of Society (ROS) who maintained records of these institutions. A total of 252 survey questionnaires were given to the charities who care for disabled persons throughout Malaysia and only 73 charities participated in this research, which contributed to a 28.97 per cent response rate. The charities were contacted through email and telephone to carry out the survey using questionnaires. This method was chosen as the researcher needs to cover a wide geographical area, which was the whole of Malaysia. The survey was designed to be filled out by the manager of the charities. It was indicated in the email that the charities' participation in the survey questionnaire was purely voluntary and the return of the questionnaire will be considered their consent to participate. The questionnaires were adapted from prior researchers, Callen, Klein and Tinkelman (2003), and Brown (2005), after obtaining their permissions and with some modification undertaken to suit the existing study.

This research employed partial least square structural equation modelling (PLS-SEM) as it can examine a series of dependence relationships simultaneously (Hair, Hult & Ringle, 2014) by using Smart-PLS statistical software. The following provided an explanation on the systematic evaluation of the reflective measurement model.

Cronbach's Alpha and composite reliability were used to measure the internal consistency reliability for this research (Hair et al, 2014). Meanwhile, two criterions were employed to evaluate construct validity; the average variance extracted (AVE) was utilised to measure convergent validity, while the Fornell-Larcker criterion was used to assess discriminant validity (Hair, Ringle & Sarstedt, 2011; Kline, 2016). Based on the results provided in Table 1.1 and Table 1.2, the reliability and the validity were confirmed for all the constructs in this research.

Table 1.1: Reliability and Validity

Latent Variable	Cronbach's alpha	Composite reliability	AVE
Accountability	0.853	0.896	0.633
Function	0.887	0.912	0.597
Performance	0.934	0.948	0.755
Reputation	0.860	0.905	0.705

Table 1.2: Fornell-Larcker Criterion

	Accountability	Function	Performance	Reputation
Accountability	0.796			
Function	0.653	0.772		
Performance	0.773	0.706	0.869	
Reputation	0.777	0.740	0.810	0.840

After confirming that the construct measures were reliable and valid, the research proceeded to examine the structural model in terms of its predictive capabilities and the relationship between the constructs. To assess collinearity, Variance Inflation Factor (VIF) was used to detect for multi-collinearity. A VIF of more than five indicates multi-collinearity. Table 1.3 below provided the collinearity statistics for this study — all VIF values were clearly below the threshold of five. The results indicated that there was no existence of multi-collinearity in the data set and the collinearity among the predictor constructs was not an issue.

Table 1.3: Collinearity Assessment

First Set		Second Set	
Construct	VIF	Construct	VIF
Accountability	1.745	Accountability	2.612
Function	1.745	Function	2.292
		Reputation	3.313

To evaluate the significance of the structural model relationship, the research examines the empirical t-value and the p-value by running the bootstrapping procedure at a significance level of 5 per cent. Table 1.4 displayed the path coefficients, the t-values, their significance levels and p-values. The results provided that four relationships in the structural model were significant, however it was not significant for the direct relationship of Function → Performance.

Table 1.4: Structural Model Path Coefficients and Significance

	Path Coefficient	t Values	Significant Levels	p Values
Accountability → Performance	0.329	2.526	**	0.012
Accountability → Reputation	0.511	5.526	**	0.000
Function → Performance	0.178	1.747	NS	0.081
Function → Reputation	0.406	4.167	**	0.000
Reputation → Performance	0.423	3.160	**	0.002

Note: NS=Not Significant; **p<0.05

Table 1.5 presented the coefficient of determination, R^2 and the predictive relevance using Stone Geisser's, and Q^2 of the endogenous constructs for this model. The coefficient of determination, R^2 for the endogenous constructs was 0.722 (charities' performance) and 0.698 (charities' reputation). This means that the three constructs (board of trustees' function, board of trustees' accountability and charities' reputation) explained a 72.2 per cent of the variance in charities' performance, while the two constructs (board of trustees' function and board of trustees' accountability) explained a 69.8 per cent of the variance of charities' reputation. Following the rough rule of thumb, the R^2 values of charities' performance (0.722) and charities' reputation (0.698) can be considered moderate in predicting the dependent construct and mediator construct.

As a relative measure of predictive relevance (Q^2), values of 0.02, 0.12 and 0.35 respectively indicate that an exogenous construct has a small, medium or large predictive relevance for a certain endogenous construct. From Table 1.5, all Q^2 values were above 0.35, providing large support for the model's predictive relevance regarding the endogenous construct in this research.

Table 1.5: Results of R^2 and Q^2

Endogenous Construct	R^2	Q^2
Performance	0.722	0.483
Reputation	0.698	0.451

The following Table 1.6 showed the effects sizes, f^2 of the respective endogenous variables. The results revealed that the board of trustees' accountability had a large effect on charities' reputation but a medium effect on charities' performance. Meanwhile, the board of trustees' function had a medium effect on charities' reputation and a small effect on charities' performance. The results also provided that charities' reputation had a medium effect on charities' performance.

Table 1.6: Results of Effect Size f^2

Endogenous Construct	f^2	Effect Size
Accountability → Reputation	0.496	large
Function → Reputation	0.313	medium
Accountability → Performance	0.149	medium
Function → Performance	0.050	small
Reputation → Performance	0.194	medium

This research followed Preacher and Hayes (2004, 2008) when testing mediating effects by bootstrapping the sampling distribution of the indirect effect. Table 1.7 provided the bootstrapping results of the indirect effect and VAF of the mediator. The results showed all

the three VAFs were larger than 20 per cent and less than 80 per cent, which characterised partial mediation between each of the independent constructs (board of trustees' accountability and board of trustees' function) and the dependent construct (charities' performance).

Table 1.7: Significance Analysis of Indirect Effect with the Mediator

	Direct Effect	Indirect Effect	Total Effect	VAF (Direct Effect/Total Effect)	t Value	p Value
Accountability→ Performance	0.397	0.185	0.582	0.679	2.410	0.000
Function→ Performance	0.139	0.169	0.308	0.451	2.270	0.000

Conclusion

The results indicated that four of the hypotheses were supported and significant (H₁, H₃, H₄ and H₅). This research found that the board of trustees' accountability had a significant effect on charities' performance for disabled persons. However, it was noteworthy that the board of trustees' function was not significant in influencing the charities' performance. It was also found that charities' reputation was significant in mediating both the board of trustees' accountability and function in influencing the charities' performance.

Supported by Dhanani and Connolly (2012), it was found that the annual reports served as the formal accountability document and the disclosures were cultivated to present a positive image so that external stakeholders will form better perceptions of the institutions. In fact, the disclosure practices observed by charities were guided by issues of interest and concern of external stakeholders (including regulator), which were similar to those of for-profit organisations as a way to legitimise organisations' actions and strategies.

Contrary to past research (Cumberland, Kerrick, D'Mello & Petrosko, 2015; Brown, 2005) which found a significant positive relationship between the board of trustees' functions and charities' performance, the present research was in line with Herman and Renz (2004), who did not find a significant positive relationship between the 'good' practices by the board of trustees and charities' performance. This implied that the board of trustees' function is more diffuse and also heterogeneous. Moreover, the social dynamics within a charities' board may influence the board of trustees' and ultimately the charities' performance. This may suggest that the board of trustees' function could cover beyond fulfilling its obligations through



overseeing and evaluating the operation of the institutions, including monitoring staff and carrying out its mission successfully and achieving its purpose.

Thus, charities must enhance their current accountability practice and the functioning of the charity board to present the institutions in a positive light through reputation, because donors and external stakeholders can be influenced to voluntarily provide resources to support the institution to ensure their survival into the future.

The research was limited by the fact that it was cross-sectional and focussed on charities with a common purpose, i.e. charities for disabled persons. For both limitations, it is suggested that future research incorporates different types of charities in their study to improve the power of generalisability and robustness of their findings by having a bigger population from different types of charities in the Malaysian context.



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