

Print ISSN: 2288-4637 / Online ISSN 2288-4645
doi: 10.13106/jafeb.2016.vol3.no4.39

The Relationship between Donor Behavior and Financial Statements in Japan*

Fuminobu Mizutani ¹

Received: May 30, 2016 Revised: September 30, 2016 Accepted: October 15, 2016

Abstract

NFPs support a sustainable society and they rely on contributions from donors. Donor behavior is a kind of consumer behavior that influences fundraising by NFPs. In order to make fundraising functional under a principal-agent relationship, NFPs must construct trust through proper provision of accounting information. For donors, financial statements are main source of accounting information. Edelman revealed that the level of trust in Japan's NFPs is the lowest in East Asia, because of a lack of transparency and accountability. Some researchers had investigated donor behavior as a kind of consumer behavior and had provided supportive results that accounting information influences donor behaviors, before this research was conducted. This research investigates this background by conducting questionnaire-based survey. Main questions of this questionnaire were created according to criteria that BBB are using for NFPs in the U.S. The results of this survey revealed the lack of reliability of basic accounting information in Japan and that education in higher educational institutions can improve this situation. This survey also revealed that a rating agency like BBB, which evaluates accounting information of NFPs, could improve trust on NFPs. The implications of this study can apply to the other countries and regions where trust in NFPs is insufficient.

Keywords Accounting, Donor behavior, NFPs, Trust, BBB.

JEL Classification Codes M41, D12, J18.

1. Introduction

Not-for-profit Organizations (NFPs) are supporting a sustainable society and rely on contributions as their source of income. Countries and regions in East Asia are not exceptions, even though NFPs are more influential in the U.S. and the U.K. Donor behavior is a kind of consumer behavior that influences fundraising by NFPs. Especially, one of ten values in Swartz's value theory is "benevolence". Ensuring the success of fundraising by NFPs indirectly helps to maintain a sustainable society.

The information between donors and managers of NFPs is asymmetric, similar to that between stockholders and managers of profit-oriented entities. Their relationship is described as a principal-agent relationship, as is adopted in many papers (e.g., Van Puyvelde et al., 2011). In order to make fundraising functional under a principal-agent relationship, NFPs must construct trust through proper provision of accounting information. For donors, financial statements are main source of accounting information.

Edelman (an international consulting firm) revealed that the level of trust in Japan's NFPs is the lowest in East Asia, at 40%. See Table 1 below for the levels of trust in NFPs in East Asian countries and regions in 2016:

<Table 1> Trust in NFPs in Each Countries and Regions %

Mainland China	Hong Kong	Japan	South Korea
83	64	40	72

Source: Edelman (2016)

* This paper is a substantially revised and expanded version of the paper presented under the title of "The Relationship between Donor Behavior and Financial Statements in Japan" at 2016 International Conference on Business and Economics (ICBE2016) that was held in Jeju, Korea, July 7-9, 2016.

¹ First Author and Corresponding Author. Associate Professor, College of Economics, Kanto Gakuin University [Mutsuura Higashi 1-50-1, Kanazawa-ku, Yokohama, 2368501, Japan].
e-mail: fuminobu@kanto-gakuin.ac.jp

The percentage of trust in NFPs in Japan is crucial. Edelman also showed that NFPs are less trusted than profit-oriented entities in Japan. In order to make fundraising successful, the Japanese society needs to improve the trust in its NFPs. To this end, researchers need to understand the background to the problem, which was identified by Edelman one year before as “a lack of transparency and accountability.” A fact book named *Giving Japan 2015*, published by the Japan Fundraising Association (JFRA), showed statistical information that is supportive of Edelman’s statement. *Giving Japan 2015* showed that the factor that donors valued as the most important when they selected NFPs (excluding religious organizations) as counterparts for contributions was “Whether usages of contributions are clear and effective?” Of the factors that JFRA asked respondents to evaluate, this factor has the strongest relationship with accounting information, and was deemed important by 46.1% of respondents.

Although trust in NFPs in Japan was improved from 29% in 2015 to 40% in 2016, this improvement seems to be merely because of the dissolution of a negative mood on NFPs. Consumer behaviors are influenced by moods. Edelman said “the global NGOs are often seen in Japan as finger pointers on issues such as whaling or nuclear safety.” Especially, the Japanese government lost a suit in the International Court of Justice (ICJ) about whaling in March 2014, while foreign NFPs criticizing Japanese whaling. Thus, Japanese conservative consumers had a negative mood on NFPs from the date of the ICJ’s judgement and this mood dissolved by the process of time by 2016.

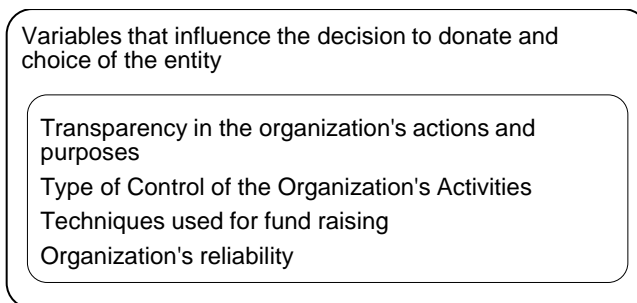
This research aims to investigate this background and to contribute not only to Japan but also to other countries and regions where the level of trust in NFPs is low. It relies on basic knowledge about consumer behavior theory that is based on Tanaka (2015)—a reference that is adopted as textbook in some Japanese universities. Tanaka (2015), written in Japanese, seems to fit consumer behaviors in Japan well.

2. Literature Review

While some literature related to this research exists, fewer scholars are researching NFPs than profit-oriented entities. Da Costa et al. (2004) adapted consumer behavior theory to the analysis of donor behavior, and objectively analyzed donor behaviors in Brazil. However, this work did not focus on the relationship between donor behavior and financial statements.

<Figure 1> below, which can be adopted by accounting researchers, is an extract from a larger table presented by

Da Costa et al. (2004).

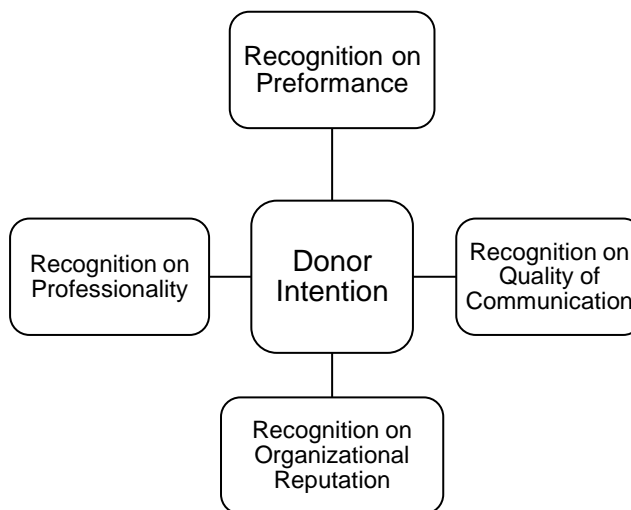


Source: Da Costa et al. (2004)

<Figure 1> Factors which Influence Donors' Decision Making

An implication of the work by Da Costa et al. (2004) is that donor behavior includes decision making, and donors therefore consider the above variables in their search for information as part of a decision making process. Du et al. (2012) conducted statistical research about donor behavior, and identified four kinds of recognition as substantial factors that influence donor intention. These are recognition of organizational performance, quality of communication, organizational reputation, and professionalism.

<Figure 2> below is a simplification of a complex figure presented by Du et al. (2012) that is related to this paper.



Source: Du et al. (2012)

<Figure 2> Factors Compose Donors' Intention

It is important for this study that performance and professionalism are important factors that are not logically excluded. The concept of reputation is related to external authorities, though Du et al. (2012) did not directly include

external authorities at part of the above figure. In Humphrey's model of trust, "external authorities" constitute one source of information for constructing trust.

3. Methodology

This study adopted a questionnaire-based survey as methodology. The questionnaire was constructed according to work done by the Better Business Bureau (BBB). In 2016, BBB is using seven finance-related topics to accredit NFPs on Wise Giving. These include program expenses, fundraising expenses, funds accumulation, an audit report, a detailed expense breakdown, accurate expense reporting, and a budget plan. The former items seem to be more important for donors in the U.S.; this paragraph showed the topics as ranked by BBB. Distribution of the survey to the access panel and collection of results were done through Rakuten Research.

All respondents were housewives living in Japan; they (and not their husbands) control the household economy in most Japanese families. Respondents were limited to people who have made contributions to NFPs and have viewed the financial statements of the contributed NFPs. The concept of high involvement purchases can apply to their donor behavior, because they made the effort of viewing the financial statements instead of relying on feelings. When consumers make high involvement purchases, merchandise is evaluated by weighing multiple attributes during decision-making. The respondents had to evaluate NFPs by weighing their multiple attributes, and this questionnaire aimed to reveal how respondents weighed the attributes related to accounting.

This questionnaire used the Likert scale, and the survey allowed respondents to indicate the importance of each of the topics listed by BBB. The order by BBB corresponded with the questions numbered MQ1-7. The sampling number was 100; while this number is not large, it meets the minimum standards for reliability of results. For example, the sampling number of an article published in a top journal was also 100 (Hyndman & McConville, 2016). Questionnaires were distributed and collected in March 2016.

In order to grasp the trust relationship between NFPs and external authorities, this questionnaire contained two additional questions. The first question (MQ8) asked whether donors required a rating agency for NFPs, such as the BBB. The access panel was the same as for MQ1-7, and MQ8 also used the Likert scale. The second question (MQ9) was only asked to those respondents who had answered in MQ8 that they have a need for a rating agency; it enquired about the degree of authority that they require for

the rating agency. The sampling number of MQ9 was 82; it also used the Likert scale, with the degree of authority of the Japan chamber of commerce and industry (JCCI) at the center of the scale. JCCI is a similar organization to BBB.

4. Results and Discussion

Table 2 below summarizes the responses to MQ1-7:

<Table 2> Results of MQ1-7 %

MQ1	MQ2	MQ3	MQ4	MQ5	MQ6	MQ7
87	92	81	87	93	90	81

Source: Survey by the author

Each percentage represents the total number of responses that included "I think it is important" and "I think it is somewhat important." Donors in Japan attach more importance to a detailed expense breakdown and accurate expense reporting than to program expenses. This differs from donors in the U.S.—donors in Japan attach more importance to basic accounting information.

We can consider this difference to be due to a lack of NFP managers' accounting knowledge. Managers are responsible for preparation of financial statements. Table 3 below is an abstract of a report by Grant Thornton about managers of medium size enterprises:

<Table 3> The Ratios of Managers who do not Have Accounting Knowledge %

Mainland China	Hong Kong	Taiwan	Japan
8.2	16.0	3.2	48.3

Source: Taiyo ASG (2010)

Japan was the highest ranked out of 36 countries where managers responded: "I do not know" when asked about the merits of financial statements; this response means that managers do not have knowledge about accounting. Accounting for SMEs and accounting are often considered a little similar. The extent of managers' knowledge should also be similar.

Many Japanese managers do not have accounting knowledge, because university and college students are not expected by society to acquire such knowledge. The Ministry of Economy, Trade, and Industry (METI), which is a Japanese governmental organization, revealed that enterprises in Japan consider bookkeeping mostly as an unnecessary skill. Only 0.2% of Japanese profit-oriented entities regard bookkeeping as a necessary skill. Japanese

students who may become managers in the future cannot maintain their motivation to learn accounting, because bookkeeping is not required in Japanese society at the start of their carriers.

Besides, accounting is more complex for not-for-profit organizations than for profit-oriented entities, and therefore requires more accounting skills. This particularity of not-for-profit accounting should make trust in NFPs less than in profit-oriented entities in Japan. The problem of unskilled managers is more serious in NFPs than in profit-oriented entities. In order to improve trust in NFPs in Japan and to promote fundraising, higher educational institutions should develop the accounting knowledge of the students who would become NFP managers in the future.

If there were sophisticated accounting standards for NFPs, even managers with less skills may, to some extent, be able to prepare reliable financial statements. However, different from the U.S., the U.K., or Mainland China, sophisticated accounting standards do not yet exist for NFPs in Japan. The Consultative Committee of Accountancy Bodies (CCAB) also recognizes this fact. Many Japanese accounting scholars have of course been aiming for some decades to develop sophisticated accounting standards for NFPs; however, their attempt has not yet succeeded.

The total response to MQ8 of “I think that” and “I think that a little” was 82%. Thus, we can see that a rating agency that evaluates the accounting information of NFPs will help to construct trust in NFPs. In response to MQ9, 60.9% of respondents merely required a degree of authority that was the same or less than JCCA. Thus, the JCCA may act as a rating agency for NFPs by merely acquiring a small amount

of contributions from member firms as their CSR activities.

5. Conclusion

The questionnaire-based survey method provided insightful results for accounting researchers. Donors in Japan are confronted with a lack of reliability of basic accounting information, which is different from donors in the U.S. Practitioners in Japan also can refer the results of this survey when proceeding fundraising for NFPs in order to maintain sustainable society. Other countries and regions where trust in NFPs is low can also improve trust by enhancing accounting education in higher educational institutions and by establishing rating agencies (similar to BBB) that evaluate accounting information of NFPs. Thus, the results of this study will help researchers of consumer behavior to understand that managers’ accounting knowledge is a factor that engenders trust in countries and regions where trust in NFPs are insufficient.

There is the room of further investigating about public policy to increase trust on NFPs. In some countries and regions in East Asia such as South Korea and Mainland China trust to NFPs is high. What degree the difference of trust on NFPs between them and Japan is caused by the difference of accounting regulations? What accounting regulations should the countries and regions where trust on NFPs are insufficient stipulate? A sustainable society will be established when several academic problems about NFPs are solved.

References

- Almeida, H., Campello, M., & Weisbach, M. S. (2004). The BBB (2016). How We Accredit Charities, *BBB Wise Giving Alliance*. Retrieved May 30, 2016, from <http://www.give.org/for-charities/How-We-Accredit-Charities/>
- CCAB (2014). *International Financial Reporting for the Not-for-Profit Sector*, Final Report. London: CCAB.
- Da Costa, F. M., Daré, P. R. C., & Veloso, A. R. (2004). From Consumer Behavior to Donor Behavior: Adapting Marketing Concepts, *Brazilian Business Review*, 1(1), 45–62.
- Du, L., Hou, J., & Zhao, F. (2012). *Research on Chinese NFPs Fundraising Power from Individual Persons*. Beijing: Science Publishing. (In Chinese).
- Edelman (2016). *Trust: Asia Pacific, Middle East and Africa*. Edelman Publication.
- Edelman (2015). *Trust in Asia Pacific, Middle East & Africa 2015*. Edelman Publication.
- Hyndman, N., & McConville, D. (2016). Transparency in Reporting on Charities’ Efficiency: A Framework for Analysis, *Nonprofit and Voluntary Sector Quarterly*, 45(4), 844–865.
- JFRA (2015). *Giving Japan 2015*. Tokyo: JFRA. (In Japanese).
- METI (2010). Empirical Survey to Grasp “Recognition of Member of Society” by University and College Students and to Promote Recognition of “Fundamental Ability of Member of Society” (In Japanese).
- Tabuchi, H. and Simons, M. (2014, April 1). U.N. Court Orders Japan to Halt Whaling off Antarctica. *New York Times*, p. A4.
- Taiyo ASG (2010). Taiyo ASG Group—Attitude Survey on Managers of Medium Enterprises (In Japanese).
- Tanaka, H. (2015). *Consumer Behavior Theory*. Tokyo: Chuokeizai (In Japanese).
- Van Puyvelde, S., Caers, R., Du Bois, C. & Jegers, M. (2011). The Governance of Nonprofit Organizations: Integrated Agency Theory with Stakeholder and Stewardship Theories, *Nonprofit and Voluntary Sector Quarterly*, 41(3), 431–45