

Identity and Perception of Not-for-Profit Status: A Depiction of Management Behaviour

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Abstract

The not-for-profit (NFP) or 'third' sector has played, both in Australia and overseas, an increasingly important role in the economic, political and social fabric of society, embracing many of the elements of the 'first' (for-profit) and 'second' (government) sectors. Yet, despite its prominence, there has not been consensus on sector identity. The existing Australian Accounting Standard Board (AASB) definition has been criticized for its effectiveness in capturing all NFPs (Kilcullen et al., 2006).

The first international and comparative study to identify the scope, role, and operation of the NFP sector was the Johns Hopkins (JH) Nonprofit Sector Project (CPA, 2000) by Salamon and Anheier (1997). The project identified four key alternative NFP definitions, namely the: (1) legal; (2) economic or financial; (3) functional; and (4) structural-operational; proposing that the structural-operational criteria was the most effective definition.

Lyons (1998) acknowledges the applicability and validity of the structural-operational definition and its five sub elements (namely 'organized', 'private', 'non-profit-distributing', 'self-governing', and 'voluntary') in an Australian context. Morris (2000) argues that the structural-operational definition does not effectively distinguish the NFP sector, as it excludes significant 'others' such as mutual aid organizations. CPA Australia (2000) claim that the 'non-profit-distributing' sub criterion alone defines an NFP organisation, similar to views taken by the Australian Government's Charities Definition Inquiry (2001), and Woodward and Marshall (2003). Arguments over the sector's identity have proceeded however without significant empirical data on how Australian organisations see themselves.

This study seeks to further assess the effectiveness and applicability of the Salamon and Anheier (1997) definitional framework in the Australian NFP sector, by extending Lyons' (1998) study and empirically examining the extent to which these definitions are reflected in the annual report text of NFP organisations. This study addresses two research questions: (1) how do managers of NFP entities perceive their NFP status?; and (2) to what extent is the perception of NFP status associated with certain organizational characteristics?

A selected sample of annual reports of Australian NFP organisations for the 2005 financial/calendar year are analysed. Results indicate that annual report text primarily reflects structural-operational definitional criteria, providing support to assertions that the most effective definition for an NFP organisation from a managerial standpoint is the structural-operational definition (Salamon & Anheier, 1997; Lyons, 1998). Furthermore, the 'organized' sub-element of this definition is found to be the most prominent, far ahead of 'non-profit-distributing'. This finding suggests that managers may apply a multi-criteria approach to defining an NFP status as opposed to single-criterion. A second finding is that significant differences in the mean level of structural-operational definitional text exist between entities when analysed via audit opinion and legal form,

indicating these two variables are possible explanatory factors in how NFP management perceive themselves.

The study's findings also indicate a disparity in the extent and form of reporting across NFP entities. The study supports calls for a specific governance framework for the sector, one that is likely to reduce or eliminate confusion and inconsistencies in NFP reporting, whilst in turn enhancing managerial and organisational accountability.

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