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Vojko Potocan, Pavle Kalinic, Ante Vuletic

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USER’S SATISFACTION WITH THE ACCOUNTING INFORMATION IN NON-PROFIT ORGANIZATIONS – CASE OF CROATIA

Vesna Vasiček  
Faculty of Economics and Business, Croatia  
vvasicek@efzg.hr

Martina Dragija Kostic  
Faculty of Economics and Business, Croatia  
mdragija@efzg.hr

Berislav Zmuk  
Faculty of Economics and Business, Croatia  
bzmuk@efzg.hr

ABSTRACT

Non-profit organizations are extremely important part of the society and therefore the wider public more often seeks out insight into the activities of non-profit organizations as well into spending of public resources and donations. The emphasis is on contributing to the development of the individual and society as a whole. In that context, accounting and financial reporting of non-profit organizations have an important role as a source of quality information. Management of non-profit organization is requiring information for the process of decision making while public authorities are demanding transparency of reporting. Accounting, as a basic source of information about non-profit organization, can be organized differently depending on a number of factors, with two approaches being predominantly: employment of the qualified persons for accounting operations in their own organization or through outsourcing of accounting. Every approach has its advantages and disadvantage. Therefore, this paper explores the way in which the accounting is organized in non-profit organizations in Croatia. The empirical research was conducted in the year 2017 on a sample of associations in the Croatia. The paper examines the correlation between the way in which accounting is performed and the size of non-profit organization measured by the amount of revenues. Moreover, paper presents results regarding user’s satisfaction with the quality of accounting information due to different organization of accounting function. Summarized conclusion of the paper is that associations, as a dominant form of non-profit organizations in Croatia, are oriented on outsourcing of accounting function and that the level of user’s satisfaction with the quality of accounting information is on very high level.

Keywords: accounting information, Croatia, quality, non-profit organization

1. INTRODUCTION

A non-profit organizations (further in the paper NPO) is defined as a legal non-business entity established to achieve a certain public or common interest of individuals, group of citizens or wider community. The main characteristic of NPOs is doing business without earning profit (Vašiček, D., Vašiček, V., 2016, p. 4). This implies that the activities of NPOs are financed from nonreciprocal transfers in other words receiving revenues without having counterpart obligations. Therefore, the most common source of funding of NPOs are donations. Donors and other financiers generally expect that funds are used for the purposes for which they are donated and expect to see the intended spending of funds in the financial statements of the NPOs. The wider public also seeks insight into the activities of NPOs with the special emphasis on the statements of public spending and other donations. The task of accounting is to provide such information as well as to satisfy legal requirements regarding reporting of NPOs. Accounting
is the most comprehensive base for preparing information for the needs of internal and external users (Vašiček, D. et.al., 2011, p. 3). On the one hand, information provided by accounting are used in decision-making processes of management, while at the same time enable the donors, public authorities and other external users to have access to financial statements which meet the prescribed standards of transparency. Therefore, accounting can divided into two main areas: management accounting and financial accounting (Finkler, Purtel, Calabrese, Smith, 2013, p. 2). This classification reflects the ability of accounting information to serve both as a managerial tool for the decision making process and as a tool for reporting about past events which is useful for wider range of users. Significant differences among profit and non-profit organizations (Antony, Young, 1988, pp. 54; Granof, 1998, pp. 2-8) led to special legislative framework for NPOs. In the Croatia, emphasis regarding legislative framework is put on the regulation of the registration as well as financial accounting activities of NPOs. Most common legislative forms through which the activities of NPOs are registered are associations, institutions, trusts and foundations each defined by a separate law. Financial activities and accounting of all aforementioned types of NPOs is regulated with a single legal act, Law on financial activities and accounting of NPOs (Official Gazette No. 121/2014). This legislative framework defines specific requirements related to accounting and financial reporting as well as other related tasks. The ability to meet these legal requirements has a direct impact on the accounting of NPOs. As it was highlighted, accounting is the basic source of information of NPOs and in the practice can be organized on different ways depending on different factors. Still there are two dominant ways of organizing accounting function in NPOs: employing qualified persons for performing accounting or outsourcing accounting by external executives. Every approach has different advantages and disadvantages. Despite the enormous size of the so-called third sector (NPOs) all over the world and its great impact on the society, there is limited empirical research examining the accounting information from NPOs. In the private (business) sector much more focus is put on the quality of financial reports and accounting information system in the context of different users as well as on outsourcing of accounting function. The goal of the paper is to examine accounting function in NPOs as well as the satisfaction of different users with the quality of accounting information in connection to how accounting is organized. Therefore, this paper presents the results of a survey carried out on a sample of non-profit organizations, more precisely associations in the Croatia. We will attempt to answer two research questions. First, how accounting is organized in NPOs, is it outsourced or not? And whether there is a connection between the amount of revenues and the organization of accounting function? Second, are users of accounting information more satisfied with the their quality if accounting is not outsourced? To answer these research questions, the authors have set two research hypotheses. The first hypothesis is that there is a connection between the revenues amount of the non-profit organization and the way how accounting is organized. It is assumed that the accounting in larger non-profit organizations (measured through amount of revenues) is mostly carried out independently, by the organizations own employees, while smaller non-profit organizations tend to outsource their accounting operations. The second hypothesis states that user's quality satisfaction with accounting information is higher if the accounting function is organized within the non-profit organization. It is assumed that the satisfaction with the quality of the accounting information will be higher when the information is obtained from internal sources, in comparison to situations where users acquire their information from out-sourced accounting function. The paper is organized as follows. After the introduction chapter, the second chapter briefly presents characteristics of accounting and financial reporting of non-profit organizations in the Croatia. The third chapter brings empirical part of the paper whereas the observed data and methods as well as research results and discussion are presented. Conclusions and recommendations for future research are given in the final, fourth, chapter.
2. CHARACTERISTICS OF ACCOUNTING AND FINANCIAL REPORTING OF NPOs IN THE CROATIA

In the past, there were certain disagreement regarding the exact classification and differentiation of NPOs in Croatia. Today, Croatian NPOs are defined through a legislative framework, in which they are classified as (Vašiček, D., Vašiček, V., 2016, p.8):
1. Budgetary users - government (state) NPOs, or
2. Non-profit organizations (in the narrow sense) – non-government (independent) NPOs.

It has already been emphasized that the term “non-profit organization” does not explicitly determine the exact nature of its legal personality. Basic legal forms of NPOs in the Croatia are:
- Associations whose activities are regulated by the Law on Associations (Official Gazette, No. 74/2014).
- Trusts and foundations whose activities are regulated by the Law on Trusts and Foundations (Official Gazette, No.36 /199, 64/2001).

The survey presented in this paper was conducted on a sample of NPOs registered as associations. Associations are the most common form of non-governmental, non-profit organizations in the Republic of Croatia. The data from the Registry of the Association that are available on the web site indicates that there are over 51.000 registered, active associations. According to the Law on Associations, the Association is any form of free and voluntary joining of more than one physical or legal person for the following purposes: in order to protect their prosperity or commitment to protect human rights and freedoms, to protect the environment and nature and to sustainable development and for achieving different humanitarian, social, educational, scientific, sporting, medical, technical, informational, professional or other beliefs and objectives that are not in conflict with the Law. It is important to highlight that all aforementioned purposes are without the intention to gain profit or other economically valued benefits. Therefore, activities of every association are based on the principles of independence, publicity, democratic organization, non-profitability and freedom of activity in public life.

According to Vašiček, D. and Vašiček, V. (2016, p. 99) the most common sources of funding for non-profit organizations in Croatia are:
- budgetary sources and related public resources – state budgets and local budgets (budgets of local and regional self-government units), along with their budgetary users, funds generated from lottery games (divided according to the decision of the Government of the Croatia) and funds of the National Foundation for Civil Society Development and funds realized from projects and programs of the European Union and other international organizations,
- non-fiscal sources - donations, sponsorship of certain activities in various forms with the obligation of highlighting brand marks, sale of goods, products or services for the purpose of collecting funds to finance non-profit organizations.

Associations can obtain funds from previously mentioned different sources. Funding from public sources is regulated by the Regulation on the criteria, standards and procedures of financing and contracting programs and projects of the public interest implemented by
associations (Official Gazette, No.26/2015). Funding is carried out through public tenders, which ensures transparency of the funds allocation, allows for the receipt of a large number of quality submissions and the selection of the highest quality programs. It also informs the wider public on the associations priorities and areas of interest. In order that the NPOs receive funds from public sources, they firstly must meet a set of criteria and benchmarks. This includes proper fulfillment of prescribed obligations, adequately published programs and financial statements for the previous year, establishment of a sound model of financial management and control and finally, prevention of conflicts of interest. The financial accounting of associations and other NPOs is regulated by the Law on financial activities and accounting of non-profit organizations that entered into use on January 1, 2015 (Official Gazette No. 121/2014). Based on the Law, the Registry of NPOs at the Ministry of Finance was established and it became the central source of data about NPOs, needed to determine and monitor mandatory preparation and submission of financial statements, assess financial positions and operations, and ensure defined use of budgetary funds. Accounting of NPOs is also based on generally accepted accounting principles of accuracy, truthfulness, reliability and individual position reporting. Accounting is based on the principle of double-entry bookkeeping and a full accrual accounting basis. NPOs are obliged to record business events, maintain business books, and compile financial statements according to the underlying principles of proper accounting, and according to the prescribed schedule of accounts from the Non-Profit Accounting Plan (Regulation on non-profit accountancy and accounting plan, Official Gazette, No.16 / 2015). Exceptionally, it is possible to conduct simple bookkeeping and apply the cash accounting principle. This exception is permitted on the condition that the value of the assets at the end of each of the previous three years and annual revenues of each of the previous three years do not exceed 230,000.00 kn. Through the application of the Law on financial activities and accounting of non-profit organizations, the reach of legal framework extends beyond the scope of accounting and financial reporting and spreads to financial management, financial business principles, financial plans, budget reporting, auditing and public disclosure of annual financial statements, financial management and accounting, and other areas related to financial operations and accounting of NPOs. Aforementioned requirements regarding financial accounting operations of NPOs increase the number of tasks and demands put in front of the accounting function. In that context Parsons (2003, p. 113) have highlighted the fact that instead of looking for the “best accounting framework” for NPOs, researchers are asking whether accounting reports are useful to decision-making process. NPOs are now facing the challenge of meeting these rising demands in other words how to establish a financially and organizationally effective accounting function. This problem was closely examined in the empirical part of the paper.

3. EMPIRICAL RESEARCH
3.1. Data and methods
The empirical part of the paper investigates accounting system of NPOs with the emphasize on the way how accounting is organized as well as the level of satisfaction of different users with the quality of accounting information. In order to gather the necessary information, an empirical research was conducted by using the survey questionnaire. Data is generally collected on the sample of the population in a way to be able to generalise the findings to the population (Pinsonneault and Kraemer, 1993). The population of our survey was limited on all associations in Croatia which are submitting reports to the Ministry of Finance. The number of this associations for the year 2017 is 31.444 according to the unofficial information. Associations are most represented form of NPOs and therefore for the purpose of this survey we have used random sample of 1.240 associations. The questionnaires were sent by e-mail in online form in October 2017.
The purpose of the questionnaire was to analyse and evaluate accounting information systems of NPOs. Therefore, it was divided into the following parts:
A. General information;
B. Way of performing accounting and cost of accounting function;
C. Assessment of the quality of accounting information.

For the purpose of this paper, our primary goal was to answer the research questions by testing two hypotheses:
• $H_1$: There is a connection between the revenues amount of the non-profit organization and the way how accounting is organized.
• $H_2$: User’s quality satisfaction with accounting information is higher if the accounting function is organized within the NPO.

To obtain the highest possible comprehensibility of the questions, a few pilot questionnaires were carried out. The suggestions and comments of accounting staff and management of NPOs in the pilot phase have been an enormous contribution to the quality of the research. The purpose and objectives of the research were explained at the beginning of the questionnaire, ensuring respondents anonymity and confidentiality of the information obtained. The questionnaire was mostly structured from closed type of questions and for assessment of satisfaction we used Likert scale.

3.2. Research results and discussion
The response rate for the questionnaire was 14,19% (176 out of total sample size 1.240). Using PHStat 2 and SPSS tool the statistical analysis of descriptive statistics, Chi-Square Test Contingency and Z Test for Differences in Two Proportions table was prepared. For the purpose of this paper regarding sample characteristics, we will highlight the structure of employees in the sample as well as the average annual amount of revenues of NPO. From the table 1. it is evident that the biggest percentage of respondents (36,36%) answered that they have 2-5 persons employed in the organization, followed by 31,82% of respondents that answered that they do not have permanent employees. Very small percentage of respondents have more than 10 persons employed.

According to table 2, that presents the average annual amount of revenues based on the average of the last 3 years, it is obvious that 30,68% of respondents have annual revenues 100.001-500.000. On the other hand only 3,41% of respondents have revenues higher than 5.000.000 kn.
The first hypothesis was addressed to investigate if there is a connection between the revenues amount of NPOs and how accounting is organized. For that purpose, we used the Chi-Square Test. The first variable is the way of performing accounting in NPO (outsourced or not (variable X)) and the second variable is the average annual amount of revenues (variable Y). The null hypothesis of the Chi-Square Test (H₀) assumes that the two observed variables are independent, and the alternative hypothesis (H₁) assumes that the observed variables are dependent on, or in other words, that there is an association between them. Conducted statistical analysis showed that there was a significant association between the average annual revenues and whether accounting is outsourced or not χ²(1)=18.38, p<0.001. This seems to represent the fact that, based on the odds ratio (Table 1), the odds of having higher revenue were 10.33 times higher if they did not outsource the accounting function than if they outsource. Therefore, the first hypothesis is confirmed. Also, based on survey results from Table 1 it is evident that 153 out of 176 respondents are outsourcing accounting function.

Table 1: Contingency table of variables X and Y, number of NPOs (survey)

<table>
<thead>
<tr>
<th>Way of performing accounting in NPO (variable X)</th>
<th>The average annual amount of revenues based on the average based on the last 3 years (variable Y)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average annual revenues up to 500.000 kn</td>
<td>Average annual revenues 500.001 kn and more</td>
</tr>
<tr>
<td>a) is performed by a permanently employed employee</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>b) carried out by a staff member employed on a fixed-term contract</td>
<td>20</td>
<td>93</td>
</tr>
<tr>
<td>c) performed by a staff member employed through a part contract</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>d) carried out by a book-keeping service</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>e) they are combined - an employee and a bookkeeping service</td>
<td>93</td>
<td>60</td>
</tr>
<tr>
<td>f) they are performed in another way</td>
<td>153</td>
<td>153</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>80</td>
</tr>
</tbody>
</table>

According to Yetman, M. H. and Yetman, R.J. (2013, p. 1044) financial reports play an important role in monitoring managerial actions as they provide a means for different users. Therefore, it is extremely important to know whether users are satisfied with the quality of accounting information. In the second hypothesis it is assumed that users of accounting
information are more satisfied with the quality of accounting information if accounting activities are performed independently then users where the accounting function is outsourced. Before we test this hypothesis, we have to investigate who are users of accounting information. The primary user of NPOs in most of surveyed NPOs is a person who is authorized to represent the organization (50.57%) while other users are Assembly of the Association, Executive Board or other executive body, The Supervisory Body of the Association, A person authorized to represent the association, Executives, Service Officers, Project Managers, Other person (see table 2).

Table 2: Structure of primary in other users in the sample of NPOs (survey)

<table>
<thead>
<tr>
<th>Users of accounting information</th>
<th>PRIMARY USERS</th>
<th>OTHER USERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assembly of the Association</td>
<td>4.55%</td>
<td>25.64%</td>
</tr>
<tr>
<td>Executive Board or other executive body</td>
<td>9.09%</td>
<td>20.79%</td>
</tr>
<tr>
<td>The Supervisory Body of the Association</td>
<td>3.41%</td>
<td>18.01%</td>
</tr>
<tr>
<td>A person authorized to represent the association</td>
<td>50.57%</td>
<td>18.94%</td>
</tr>
<tr>
<td>Executives, Service Officers, Project Managers</td>
<td>31.82%</td>
<td>15.47%</td>
</tr>
<tr>
<td>Other person</td>
<td>0.57%</td>
<td>1.15%</td>
</tr>
</tbody>
</table>

Respondents in the sample were asked to assess by using Likert scale (extremely satisfied, satisfied, neither satisfied nor dissatisfied, dissatisfied extremely dissatisfied) the satisfaction with the quality of accounting information. We evaluated separately the satisfaction for primary users and for other users, but it is important to highlight that the same respondents gave an assessment for both types of users (primary and other). From the figure 3, it is visible that satisfaction for both, primary and other users, is on the very high level according to conducted survey.

For the purpose of testing second hypothesis, we have used upper tailed Z Test for Differences in Two Proportions. It is assumed that the percentage of primary users that are extremely satisfied or satisfied with the quality of accounting information is higher in organization where accounting is not outsourced. On the same way we tested satisfaction of other users. According to the results it can be concluded that the null hypothesis could not be rejected at the 5% significance level (z = 1.07, p-value = 0.1426). In other words, assumption that the percentage of primary users that are extremely satisfied or satisfied with the quality of accounting information is smaller in organization where accounting is not outsourced is not rejected. The
same conclusion is drawn for other users as well at significance level of 5% \( (z=0.69, p\text{-value}=0.2465) \). Consequently, the second research hypothesis, which states that user’s quality satisfaction with accounting information is higher if accounting function is organized within the NPO, is rejected.

4. CONCLUSION

Non-profit organizations all over the world have a great importance on the economy, but still there is a limited research examining the quality of information more precisely quality of accounting information system of NGOs. Therefore, researchers are asking whether accounting in NPOs is useful to decision-making process. Accounting is an important function for every organization regardless of profit or non-profit orientation. This paper provides an answer on two research questions. First research question was connected with the organization of the accounting function in Croatian NPOs. Conducted empirical research has shown that majority of NPOs in the observed sample are outsourcing accounting. However, further statistical analysis has confirm positive connection between the amount of revenues and organization of accounting function because the odds of having higher revenue were 10.33 times higher if they did not outsourced the accounting function than if they outsource. Moreover, in the second research question we have investigate user’s satisfaction with the quality of accounting information. We, as authors, have expected in the initially set hypothesis that user's quality satisfaction with accounting information is higher if the accounting function is organized within the NPO. But this hypothesis was not confirmed because, regardless of the way how accounting function is organized, users are extremely satisfied or satisfied. This surprising result has open a space for future research related to the types of information that are available from current accounting function and except that it is necessary to investigate management requirements regarding accounting information for decision-making process. In addition to the financial information, the problem of non-financial information that are important for different users of NPOs should be also taken into account in the future research.

LITERATURE: