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## **Downward Accountability as a Tool to enhance Malaysian NPO's Effectiveness**

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### **Abstract**

The important role of nonprofit organisations (NPO) as service providers, they have been demanded to prove their accountability towards their stakeholders. Downward accountability mechanism is believed can improve NPO effectiveness. This paper aims to assess the relationship between information disclosure and participation mechanism with NPO effectiveness. This study will employ a quantitative research strategy, and it will be a cross-sectional survey. The instrument that will be used is a structured questionnaire that involved 214 staff from welfare NPOs in the Klang Valley, Malaysia and analysed using Structural Equation Modeling (SEM). The findings will give better insight into the Malaysian third sector.

**Keywords:** Information disclosure; Participation mechanism; NPO effectiveness; Nonprofit organisation

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### **1.0 Introduction**

As a result of many sad occurrences in various parts of the world, the roles that nonprofit organisations (NPOs) play have been recognised and required from time to time. This is because the government may need help to handle society's affairs. NPOs are distinguished from other organisations by having a distribution system that is ordered, private (meaning that it is institutionally separate from the government), not-for-profit, self-governing, and voluntary (Salamon & Sokolowski, 2016). The global expansion of NPOs is positive, and there are around ten million NGOs and non-governmental organisations in the globe (Conrardy, 2020). Accountability is extremely important within nonprofit organisations because they are public service providers. The need to keep track of and provide feedback about a company's daily activities is known as accountability (Ebrahim, 2003). Because a lack of accountability has produced many issues that will tarnish the image and reduce the NPO effectiveness.

Several issues are aroused from the lack of downward accountability within NPO organisations. It has come to our attention that in the year 2020, during the early stages of the pandemic known as Covid-19, there was a situation in which nonprofit organisations (NPOs) donated an excessive amount of food, which resulted in the food being wasted. The crucial components were the Personal Protective Equipment (PPE) (Bernama, 2020). In addition, there was a concern with the aids offered by the third sector during the Bedong, Kedah flash flood (Sokri, 2017). Clothes are one of the essentials needed by the flash flood victims. Women and girls, especially, required clean and dry underwear and sanitary pad, which still needed to be met. One of the intended recipients stated they were given clothing help, but their needs were unmet. In addition, the instructors alleged that the administration had stolen the funds in a case involving a

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religious NPO that was made public. This matter was brought up in 2017 by Wan Mohd Nasir Wan Abd Wahab, who said this behaviour began in 1997 (Bakar, 2017). The funds should be allocated to the designated recipients. If the NPO sector emphasises downward responsibility, these problems can be avoided. The main objective of this research is to assess the relationship between downward accountability mechanisms, information disclosure and participation mechanism and NPOs effectiveness. This research will be based on stakeholder theory to gauge the framework of the study. This theory is suitable as it portrays an organisation that must simultaneously be accountable to different stakeholders.

Malaysia served as the primary setting for this research. While previous research in this field has yet to be thoroughly investigated in this context, this study will provide a fresh viewpoint. It has been determined that only a small number of research have examined this topic in concerning Malaysia (Roslan et al., 2017). This research is essential for enhancing the accountability and effectiveness of Malaysian nonprofit organisations since it demonstrates the relationship between accountability mechanisms and NPO effectiveness. Malaysian nonprofit organisations (NPOs) may expand their worldwide contributions to Sustainable Development Goals (SDG) (Littlewood & Holt, 2018), which also cooperate in handling global concerns such as refugees and human trafficking.

This paper is organised as follows: Section 2 provides a review of the literature on the NPOs, downward accountability mechanisms, information disclosure and participation mechanism and NPO effectiveness; Section 3 discusses the research methodology; Section 4 discusses the findings, Section 5 provides the discussion of the paper, and lastly, Section 6 is the conclusion of the paper.

## 2.0 Literature Review

### 2.1 Malaysian NPOs

Malaysia shows an increasing number of NPOs, which proved the Registrar of Societies (ROS) shows that from January 2017 to March 2021, there were 107 591 NPOs registered in total (Registrar of Societies, 2020). The 13 categories under ROS are, following ROS (2020), as follows: (1) religious; (2) welfare; (3) social and recreational; (4) women; (5) cultural; (6) mutual benefit societies; (7) trade associations; (8) youth; (9) disabled; (10) education; (11) political; (12) employment associations; and (13) general. Consumer associations, environmental associations, old boys/girls' associations, residential associations, and ex-police and ex-organisation servicemen are among the groups that fall under the category of "generic" (Othman & Ali, 2012). NPOs must be legally recognised if they plan to act on their behalf. Often, nonprofit organisations in Malaysia are registered with the Companies Commission of Malaysia (CCM) and the Registrar of Societies (ROS). NPOs, such as the Muslim Caring Society and the PERTIWI Soup Kitchen, with less than Ringgit Malaysia (RM) 1 million in annual income, are eligible to register with ROS and are subject to the Societies Act 1966's restrictions (Farouk & Wing, 2019). In contrast, nonprofit organisations with over RM 1 million in sales may register with the CCM as limited liability corporations and be subject to the Companies Act of 1965 (Iqmal et al., 2018).

### 2.2 NPO Effectiveness

Organisational effectiveness is the degree to which an organisation has achieved its declared goals, objectives, and performance (Porbeni, 2016). Organisational effectiveness is sensitive to the organisation's perceptions of effectiveness. As the conceptualisation of an organisation shifts, the definition of effectiveness, the qualities used to measure it, and the theory or framework that explains it will also shift (Cameron, 2014). Being nonprofit organisations, the efficacy of nonprofit organisations cannot be based only on financial performance. Most scholars believe that the multidimensional approach or hybrid approach is more compatible because it combines elements from the most prominent approaches, namely the goal-attainment approach, system resource approach, process approach, and strategic constituencies approach (Liket & Maas, 2015). According to Liket and Maas (2015), Herman and Renz (2008), and Lecy et al. (2012) have shown that multidimensional models, such as Quinn and Rohrbaugh's (1983) competing values model, Kaplan's (2001) balanced scorecard, and Ebrahim and Rangan's (2010) contingency model, have great utility. Lecy, Schmitz, and Swedlund (2012) proposed using four domains to provide a better guide for evaluating effectiveness: managerial, programme, network, and legitimacy. In light of this, the researchers concur that the multidimensional model that considers all stakeholders' preferences and interests is the most effective method for measuring the efficiency of an organisation. NPOs must determine the factors or aspects to be included and extensively debate this with all their stakeholders to reach a consensus and prevent disagreement.

### 2.3 Downward Accountability

In the literature on nonprofit organisations, "accountability" has been defined in several ways. In the end, though, they all lead to "holding someone accountable," which describes a relational structure in which one side is held accountable for its acts (Greiling & Spraul, 2010). According to AbouAssi and Bies (2018), the three pillars of accountability are: (1) analysing and reporting on performance, (2) providing a framework for handling complaints, and (3) rating client satisfaction. NPOs have three forms of accountability. According to Agyemang et al. (2017), upward accountability is how NGOs communicate with their patrons or sponsors and is often contingent on utilising money earmarked for specific purposes. As evidence of this transparency, records and verbal justifications are presented during donor screening visits (government agencies or organisation donors) (Hasan & Nabiha, 2016).

In contrast, horizontal accountability relates to an organisation's commitment to its partners, employees, mission, and objective (Hasan & Nabiha, 2016). It highlights a company's commitment to its work and employees, particularly local decision-makers and implementers. According to Ebrahim's 2003 definition, downward accountability refers to delegating authority to those lower in the assistance supply chain, such as from a firm to its intended recipients. This downward accountability often stems from the internalised sense of obligation developed by NPO workers and volunteers; hence, they would feel tremendous pressure to offer the beneficiaries

their best effort. This research will focus on downward accountability since, in the context of Malaysia, it receives less attention than other types of accountability despite being as significant.

#### 2.4 Information Disclosure

It is defined by Saraite-Sariene et al. (2020) as "the process of preserving stakeholder relationships based on trust through the open flow of information and knowledge." Nonprofit organisations must have access to information from various sources to construct their activities effectively (Saraite-Sariene et al., 2020). NPOs in Malaysia are obliged to submit several yearly reports to the Companies Commission of Malaysia (CCM) and the Registrar of Societies (ROS) (Hashim et al., 2014; Perai, 2019); however, NPOs are not required to release this information to the public. Thus, financial and non-financial information must be disclosed for NPOs to be held accountable.

NPOs are required to disclose both financial and non-financial information. The financial statement displays the effectiveness of the organisation's financial management. The fundamental purpose of a nonprofit entity's financial statements in its status as a corporation is to provide creditors, investors, and other parties with relevant information, therefore securing funding for NPO (Banding & Mayangsari, 2017; Perai, 2019). Financial reporting and financial statements are the primary responses financial reports provide stakeholders. Non-financial information refers to the three primary aspects determining an organisation's sustainability and societal effect: corporate governance, social responsibility, and the environment. Because they give minimal information regarding efficacy, efficiency, and performance in a nonprofit setting, financial reports convey only a tiny percentage of the organisation's reputation (Banding & Mayangsari, 2017). This non-financial voluntary disclosure will also fill the gaps that a nonprofit organisation's financial information cannot conceal. It is believed that environmental, operational, relational, and corporate social responsibility (CSR) information all contribute to a richer and more comprehensive disclosure of intangible assets (Anggita & Rudianto, 2020).

#### 2. Participation Mechanism

A participation mechanism in the context of development often refers to a mechanism through which beneficiaries may influence and share control over development activities, policies, and resources that impact them (Johnson, 2021). According to Ebrahim (2003), participation is a unique accountability mechanism from assessments and reports since it is a process, not a tool, and therefore an integral component of an organisation's continuing operations. According to the paper, the accountability of intended beneficiaries must be rethought as records of activities and transactions rather than as abstract accounting numbers (Bawole & Langnel, 2016). Beneficiaries are also the stakeholders with the right to participate in policies that affect their daily lives (Merceland et al., 2016). Participation involves beneficiary groups' involvement in the planning, implementing, and evaluating nonprofit programmes (Chu & Luke, 2020) and when there is an open and mutually beneficial collaboration between the organisation and the beneficiaries (Dewi et al., 2019). Taylor et al. (2014), who studied the reactions of beneficiaries' accountability efforts to the 2009 Black Saturday bushfires in Victoria, Australia, share a unified perspective. Participation of beneficiaries in NGOs' activities was shown to be more relevant than written reports to beneficiaries.

Ebrahim (2003) defines four types of engagement, ranging from no actual intervention to the individual initiative: (1) consultation, (2) involvement, (3) negotiation/bargaining, and (4) individual initiative. According to Merceland et al. (2016), an earlier observational study found the following positive results when specific reasons in favour of beneficiary inclusion were considered: increased organisational performance and superior responsiveness to the wishes of beneficiaries (e.g. LeRoux & Wright, 2010), reduced post-implementation project adaptations (e.g. Murtaza, 2012). As one of the downward accountability strategies, the researcher believes that the participation mechanism will contribute significantly to nonprofit organisations if properly implemented and utilised. The knowledge they possess is essential for the organisation to fulfil their primary mission of bettering the lives of society. Therefore, based on the brief discussion, this study proposes the following hypotheses:

H1: Information disclosure positively relates to the NPOs effectiveness.

H2: Participation mechanism positively relates to the NPOs effectiveness.

Figure 1 shows the research model for this study.

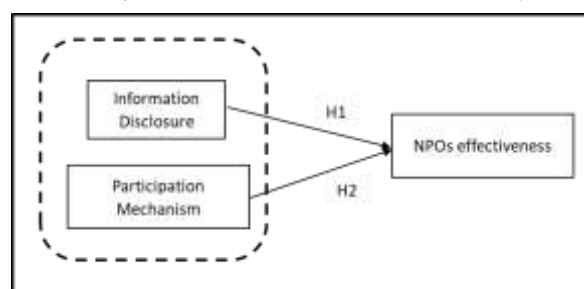


Fig. 1: Research Model

### 3.0 Methodology

The current paper is a descriptive research design investigating the causal relationship between Information Disclosure on NPOs Effectiveness and Participation Mechanism on NPOs Effectiveness. This study employed a quantitative research design and a Google

Form questionnaire survey. The 214 respondents selected in this research use a purposive sampling technique, which is only the staff of welfare NPOs registered under the Registrar of Society (ROS) located in Klang Valley. This location was chosen owing to the significant amount of registered nonprofit entities. The data were analysed using IBM SPSS AMOS 28.0's Structural Equation Modelling procedure.

### 3.1 Validity Measures

Several reliability and validity issues should be addressed before testing the conceptual model. To begin with, Cronbach's alpha assessed the internal reliability of measuring instruments. All values of Cronbach's alpha ranged between 0.701 and 0.927. Generally, a Cronbach alpha of 0.7 or above was regarded as the criterion for establishing the internal consistency of the scales. (Hair et al., 2014). In addition, the normality assessment for the present examination was conducted by measuring the value skewness and kurtosis for every item. Considering the estimation, the skewness was between -0.330 to -0.576, and kurtosis was between -0.494 and 1.002. The skewness value should be in the range of -2.0 to +2.0 and -7.0 to +7.0 of the kurtosis values should be achieved to indicate the normal distribution, as stated by (Bryne, 2010; Hair et al., 2010), was met. It proved that the data followed a normal distribution.

Second, confirmatory factor analysis was utilised to evaluate the convergent, construct and discriminate validity of latent constructs prior to executing structural equation modelling. The measurement model fit the data satisfactorily (**RMSEA = 0.078, CFI = 0.883, TLI = 0.870, ChiSq/df = 2.308**), so the construct validity was reached (Bryne, 2010; Hair et al., 2010). All items loaded significantly on their latent factor, with factor loadings above 0.60 for each item. By the Confirmatory Factor Analysis (CFA) process, the constructs were confirmed for Convergent Validity by computing Average Variance Extracted (AVE) (Table 1), Construct validity (through fitness indexes), and Discriminant Validity (Discriminant Validity Index Summary) (Table 2).

Determine the discriminant validity of a given construct by determining if it correlates strongly with another construct from which it should vary (Campbell, 1960). By comparing the AVE (Average Variance Extracted) to the squared correlation between the constructs, discriminant validity may be tested using the CFA approach (Fornell & Larcker, 1981). Since all the values on the major diagonal of the correlation matrix are greater than the incentive under them or to their left, the discriminant validity of the constructs is now examined.

Table 1: CFA result

Construct	Item	Factor loading	Average Variance Extracted (AVE) (≥ 0.50)	Composite Reliability (CR) (≥ 0.60)	Cronbach's Alpha α (≥ 0.70)
Information disclosure	ID1	0.60	0.57	0.887	0.883
	ID2	0.68			
	ID3	0.83			
	ID4	0.80			
	ID5	0.84			
	ID6	0.75			
Participation mechanism	PM1	0.74	0.650	0.901	0.908
	PM2	0.64			
	PM3	0.87			
	PM4	0.92			
	PM5	0.83			
NPO Effectiveness COM 1	EV1	0.72	0.589	0.927	0.928
	EV2	0.78			
	EV3	0.88			
	EV4	0.88			
	EV5	0.80			
	EV6	0.77			
	EV7	0.66			
	EV8	0.73			
	EV9	0.65			
NPO Effectiveness COM2	EV10	0.70	0.500	0.875	
	EV11	0.65			
	EV12	0.71			
	EV13	0.78			
	EV14	0.76			
	EV15	0.69			
NPO Effectiveness COM3	EV16	0.65	0.810	0.895	
	EV17	0.90			
	EV18	0.90			

Table 2. Discriminant validity results

CONSTRUCT	ID	PM	EV
ID	<b>0.754</b>		
PM	0.48	<b>0.806</b>	
EV	0.47	0.31	<b>1.378</b>

## 4.0 Findings

4.1 Demographic Profile

The respondents in the study included a composition of male (37.4%) and female (62.6%). The most age group of respondents was 20-39 (68.6%); followed by 40-59 (23.9%); and lastly, >60 (7.5%). Most of the marital status of the respondent married (48.6%), followed by single in the second place (46.3%); divorced (2.8%) and lastly, others (2.3%). The respondents consisted of Malay (60.7%); Chinese (25.2%); Indian (11.7%); and lastly Others (2.3%). Most of the respondents (42.5%) had attained Sijil Pelajaran Malaysia (SPM) or Sijil Tinggi Persekolahan Malaysia (STPM) qualifications. This is followed by diploma qualifications, at 24.8%; undergraduate qualifications (18.7%) and postgraduate qualifications, at 14%.

4.1 Assessment of Structural Model

Based on Table 3, regression analysis results show that information disclosure ( $\beta=0.342$ ,  $p<0.001$ ) is positively related to NPO effectiveness. Therefore, H1 is supported. Meanwhile, the result showed that the participation mechanism ( $\beta=0.041$ ,  $p>0.05$ ) showed an insignificant relationship with NPO effectiveness; hence H2 is rejected. The summary of the research model is presented in Figure 3.

Table 3. Path Analysis of the Hypothesized Model Variable

Construct	Path	Construct	Beta Estimate	Standard Error	Critical Region	P-Value	Result
NPO Effectiveness	<---	Information Disclosure	0.342	0.086	3.990	0.001	Significant H1 =supported
	<---	Participation Mechanism	0.041	0.031	1.303	0.193	Insignificant H2=rejected

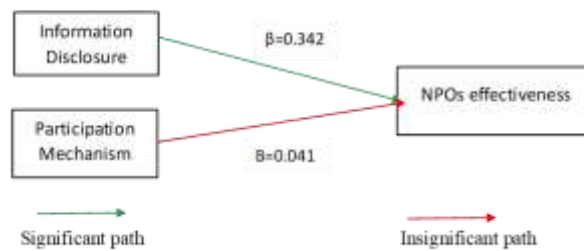


Fig. 3: Final model

5.0 Discussion

The main objective of this research is to examine the impact of two downward accountability mechanisms, information disclosure and participation mechanism, on NPO effectiveness. In general, accountability boosts efficiency because it emphasises the importance of answerability, minimises operational expenses, and increases adherence to best practices (Obrecht, 2012). Relying on stakeholder theory, the researchers proposed the framework because we believed the mechanism of downward accountability would improve how the NPO is being accountable towards their stakeholders apart from the authorities and donors, especially the beneficiaries. Some view this as a minor issue; perhaps the recipients do not need to be informed. They need to know about this information despite any factors that being said, they are less powerful compared to other stakeholders.

Nevertheless, stakeholders have the right to know, and NPO must provide this information. This finding is consistent with Mohd Noor's (2015) conclusion that there is a favourable association between information disclosure and nonprofit organisations' external and internal effectiveness. This study by Lee and Blouin (2019) demonstrates that the amount of donations a nonprofit organisation receives increases when the organisation's information is disclosed online, which correlates with NPO effectiveness. Another study by Harun (2021) supported these findings by urging the implementation of information disclosure as one of the mediums to improve downward accountability. In this literature, many other studies also agreed that practising information disclosure would enhance NPO effectiveness (e. g.: Banding & Mayangsari, 2017; France & Regmi, 2019; Tremblay-Boire & Prakash, 2015). These papers believed that information disclosure by NPO will improve the relationship with their stakeholders, such as the donors and strengthen the trust within them.

This research proved no relationship between the participation mechanism and NPO effectiveness. This result is the same as the result in the research done by Mohd Noor (2015) that involved 209 staff of NPO in Klang Valley. Another study by Sood et al. in 2017 has the same result but represents a different sector: the public sector in the community development field. This study involved community members from 15 villages in the Kullu region. Several sociocultural, practical, and apprehensive factors were highlighted in the research as contributing to the community's nonparticipation. The inability to comply with specific guidelines of the system, insufficiency of sanitary infrastructure, gender roles, complicated sociocultural challenges, and home model concerns all affect the execution of the scheme. Even though the data indicated that the participation mechanism did not influence the success of NPO, the participation mechanism remains an essential feature of downward accountability based on theoretical and empirical evidence. More recent research suggests that the greater the influence beneficiaries have in the nonprofit, the greater the nonprofit's effectiveness

(Valeau et al., 2019). Some scholars opinionated that more research is needed to understand how NPOs affect beneficiaries beyond the stated goals of a specific social change endeavour and how the involvement process impacts beneficiaries (Benjamin, 2021). Executing these mechanisms to enrich downward accountability in NPO will eventually boost their effectiveness. Both these mechanisms pay attention towards their stakeholders' needs, ensuring their effectiveness in their operation which is supported by the stakeholder theory.

As for managerial repercussions, management must ensure that downward accountability is properly and efficiently implemented. Theoretically, management needs to prioritise accountability to beneficiaries since donor-oriented accountability continues to dominate current practice (Ali, 2014). Under the stakeholder theory perspective, it is assumed that all stakeholders get the same responsibility from nonprofit organisations. Transformation of organisational variables, such as leadership, culture, system, structure, and staff, is required for a dependable accountability environment. Enforcing downward accountability requires creativity and change in all organisational components in order to ensure the NPO effectiveness in the future.

## 6.0 Conclusion

NPOs play an essential role in the pursuit of social welfare activities. One of the challenges is the implementation of downward accountability related closely to the effectiveness of NPO. NPO must be proactive and willing to adapt to the changes to respond to the dynamic environment of the third sector. NPO must take the initiative to implement information disclosure and participation mechanism. Even though this research failed to prove the relationship between the participation mechanism and NPO effectiveness, the NPOs must still try to focus on this mechanism as the beneficiaries are the main reason why the third sector exists in the first place.

Some limitations have been identified, although this study gives relevant data for further research. First, our sample consists of only 214 respondents from welfare NPO in one geographic area, the Klang Valley, Malaysia; hence, future studies might expand the sample to include different regions and categories of NPO. In addition, the direct relationship between the predictor and the criteria is investigated. In order to investigate the cause-effect relationship, future research may extend or alter our framework by including any moderating or mediating variable. As our study found that the participation mechanism did not substantially predict NPO effectiveness, we recommend that future research adopt a mixed-method approach or perform exploratory research to examine this topic in depth. Future studies might include other accountability mechanisms, as this study only has two mechanisms.

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## Paper Contribution to Related Field of Study

The primary contribution of this study is to enhance the existing knowledge about the possible influence of the downward accountability mechanism on the effectiveness of NPOs. This paper will give another point of view for the authorities regarding the third sector, hence will improve the rules and regulations of the third sector to have better governance in the future. This study helps the leaders and members of the NPOs to be more focused on implementing accountability elements in their organisations to ensure their effectiveness in serving their stakeholders.

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