

ACADEMIC PAPER

Accountability for system of reporting and disclosure statements for Non-Government Organizations in Indonesia

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Non-Government Organizations (NGOs) have shown serious accountability problems in Indonesia. This current study aims to analyze the accountability problems of the NGOs from the perspective of stakeholder theory. The problems of accountability in practice are performance assessment and evaluation, participation, self-regulation, and social audit. We have utilized a mixed method approach where the data were collected from 385 respondents. SMART-PLS was used for analyses, while the results have shown that the problem of accountability based on stakeholders' perspective theory is a system of control on the practice accountability. The system of control on the practice of accountability cannot bring the owners, the management, and workers to the real practice of accountability as stakeholder theory does not emphasize on the vertical relationship or the relationship with God as the Owner. The research is important to know the problems of accountability in NGOs. We have discussed policy guidelines as well as limitations and future research directions.

1 | INTRODUCTION

The review of past research indicates that accountability based on stakeholder perspective theory is for all stakeholders including owners, management, and workers. Stakeholder theory does not emphasize the vertical relationship or relationship with God as the Owner. Problems and various criticisms against NGOs have never stopped on the issue of the use of available funds. This spotlight is especially relevant to non-governmental NGOs (Brown & Moore, 2001; Ebrahim, 2003; Gibelman & Gelman, 2001; Kaldor, 2003). Also, problems arise related to the use of funds and accountability (Lehman, 1999, 2005). Problems arise because NGOs work for the wider community (Brown & Moore, 2001; Fries, 2003). The debate until then cannot be answered (Ebrahim, 2003; Gray, Bebbington, & Collison, 2006).

Most NGOs only report to donors. All stakeholders cannot be accommodated equally (Ebrahim, 2003; Goddard & Juma Assad, 2006). Information about NGO activities is even less difficult to obtain (Kovach, Neligan, & Burall, 2003). The community has never been involved in the supervision and control of NGO activities at the time of use of funds (Dixon, Ritchie, & Siwale, 2006). The relationship built by NGOs is the vertical relationship between leader and subordinate and does not emphasize

the relationship with God as the Owner. This is due to the scandals and abuses of power committed by NGOs (Gibelman & Gelman, 2001). The accountability issues study in this research is performance appraisal and evaluation, participation, self-regulation, and social audit.

Kovach et al. (2003) have studied NGOs in detail. They are of the view that NGOs mostly have a poor governance system. NGOs lack in managing funds transparently and even tend to cover all activities on behalf of the community (Gibelman & Gelman, 2001). NGOs do not prioritize the interests of the larger community but tend to prioritize the goals of the organization Anheier, Kaldor, and Glasius (2005); Atack (1999); Fries (2003). The interests of the community are ignored by the goals of particular organizations and groups. Implementation of NGO activities rests on the point of view of the agency theory governing the interests of owners and agents only. Based on stakeholder theory, most NGOs only make reports submitted only to donors. NGOs should emphasize the interests of the wider community and funders so that all interests are accommodated (Brown & Moore, 2001; Ebrahim, 2003; Gray, Dey, Owen, Evans, & Zadek, 1997; O'Dwyer, 2005; Unerman & O'Dwyer, 2006a). There is no emphasis on vertical relationship or relationship with God as Owner as a perspective of stakeholder theory.

Stakeholder theory is derived from philosophical thoughts of hedonism (Aristippos and Epikuros) and eudemonism (Aris orthotes) which expresses deontological and neoclassical views. According to Aristippos “the thing that is good for man is pleasure,” and almost has a view, Aristotle states, “the ultimate goal and the end of human life is happiness (eudaimonia) which can be accomplished by running it). Furthermore, stakeholder theorist's ideas are based on a deontological moral philosophy involving various parties as part of economic activity, and all participants bear all aspects of activities together make them collectively referred to as stakeholders (managers, employees, shareholders, creditors, customers, Government, and society). All participants are contributors in creating added value resulting from joint activities. Unlike agency theory, this theory is based on a neoclassical moral philosophy that views the owner as of the center of attention. The creditor, the government, and other parties or entities shall be deemed to be the outermost owners who cause all funds used by such parties (e.g., salaries, interests, and taxes) to be deemed as a cost rather than profit sharing (Suwardjono, 2005, pp. 501–502).

In the second year, the research was conducted in Badung regency to obtain a different picture of the NGO's view. NGOs in big cities with villages have a striking difference in their practice. The cause is different regional, environmental, and social conditions. In the first year we see the point of view of management, the second year we see the execution of NGO activities in the field by comparing different results. How different is the implementation of NGO activities in the city and the village? What problems arise?

2 | LITERATURE REVIEW

2.1 | Accountability in NGOs

It is said that accountability is the process of explaining one's actions toward another. The actions taken should not only be responsible for one but also for others. This means that accountability has two key elements, namely; “Accounts” and “account calculations.” The responsible user promises to do something legally and morally justifiable. In the context of public services, accountability is defined as an obligation to explain the activities and performance of the organization to those who need information. This will be used as a control tool to clarify the responsibilities given.

Any form of organization (not just government) has a factual effect on people's lives (stakeholders) and therefore, understanding the concept of “stakeholder accountability” is very beneficial to the organization. Because people are affected by organizational activity, they are entitled to claim explanations (either directly or indirectly) from the organization. This is called the “controlling mechanism of democracy stakeholders.” People have the right to define organizational activities and ensure decisions are made following organizational and stakeholder objectives (O'Dwyer, 2005). This stakeholder democracy is a good governance system of an organization, which is a fundamental process of democracy (Bendell, ; O'Dwyer, 2005).

If an NGO as an organization represents the community in a social system, then the NGO should be accountable to the community, especially to the community authorized by the program. Theoretically, NGOs should be accountable to all the communities (stakeholders) involved and affected by their activities, they have the right to ask for organizational responsibility (Bendell, ; Brown & Moore, 2001; Dixon et al., 2006; Ebrahim, 2003; Goddard & Juma Assad, 2006; Gray et al., 2006; Kaldor, 2003; Kovach et al., 2003; Lehman, 2005; Parker & Gould, 1999; Unerman & O'Dwyer, 2006a; Unerman & O'Dwyer, 2006b; Unerman & Bennett, 2004).

Unlike NGOs, within profit organizations (companies), formal accountability is easy to implement. The organization's responsibility to the community, if any, is made only if the donor requires it. Therefore, NGOs are often considered “capital payers” (Kaldor, 2003). This has led to difficulties in measuring the accountability of NGOs (Goddard & Juma Assad, 2006), because as we know, NGOs have different goals from nonprofit organizations, so monetary measurement is not the main thing. Trust and emotion are important to consider (Gray et al., 2006; Parker & Gould, 1999).

In general, some authors state that there are several mechanisms for accountability measurement. Gray et al. (2006) suggest that accountability can be measured through transparency, explanation of the organizational form, organizational activity, organizational funding, and whether the funds are used as intended, while Kovach et al. (2003) believe that organizational accountability involves two key dimensions; namely member control and access to information. Access to information includes the announcement of corporate activities to internal and external stakeholders as a form of organizational transparency. These two dimensions are a form of monitoring of the company's stakeholders. Ebrahim (2003), however, states that there are five accountability mechanisms used by NGOs; reports and disclosure statements; performance appraisal and evaluation; participation; self-regulation; and social audit. Reports and disclosure statement is a part of a mandatory report for giving information about accountability. By it, information about the funded project to donor can get it as clearly. Information can get it about revenue, cost, and activity, calculation of earning show clearly (Bailey, Harte, & Sugden, 2000; Buhr, 2002). Performance assessment and evaluation is mostly done by the donor. The objective of performance assessment and evaluation is to get how NGOs uses funds for their activity. If NGOs have a good performance, there is an opportunity for development of the project. Otherwise, if NGOs have no good performance, the project will have to be stopped (Bailey et al., 2000; Buhr, 2002; Jacobs, 2000; Teegen, Doh, & Vachani, 2004).

NGOs have to negotiate with the community about their activity, control of resources, and how to execute the projects. NGOs do not complete projects without participant as the risk of failure is increased (Bertens, 2007; Goddard, 2004). Self-regulation is standard to execute the programs. It is how to building a positive perception about the projects. Second, how to know are mission, principles, methods, character, value, ethics, and benefits of projects (Eisenberg, 2000). Social audit is an audit process by the community about one project. The whole community on that involved and uninvolved project has to

control all activity to know what is the benefit of the project to them and the success guaranty of the project. Social audit is an interest part of accountability. So, it is can do seriously for developing goals and performance. The result of social audit is based on decision making.

Some excuses made by some NGOs are, for example, they state that organizations are service providers, not the providers of the goods, and therefore, they do not have to be accountable to anyone (Eisenberg, 2000) or that organization is responsible only to the donors, not to the public or to another party that is empowered because the funds are coming from the donors, not from the public. This is different from government organizations from which the public, as the principal (giving donations, paying retributions or taxes to the state), have a right to ask for explanations about the distribution of resources. Contrary to this, for the NGO, the community is only the beneficiary (not the principal), so they often ignore them. However, as many parties demand more transparency from organizations, the NGOs are required to be accountable to the public, the stakeholders (Ebrahim, 2003; Eisenberg, 2000; Gray et al., 1997; Jacobs, 2000; Kaldor, 2003).

2.2 | Accounting perspective

In agency theory, where conflicts of interest between owners and managers are mentioned (Jensen & Meckling, 1976), it is a contract in which one or more people (principal) commands other people (agents) to perform a service for the principal who authorizes the agent to make decisions on his behalf. If both parties have the same objective to maximize the value of the company, then it is believed that the agent will act in a manner consistent with the principal's interests. Agency theory contains three assumptions of human nature. First, human beings generally put their interests by ignoring the interests of others. Secondly, people have limited leverage about the perception of the future to come (bounded rationality). Third, human beings always avoid risk, thus it is concluded that a manager will take actions that more benefit themselves than the interests of the company. This theory assumes efficient performance and that the performance of the general organization assumes that the principal is neutral at risk while the agent is resistant to business and risk.

TABLE 1 Average variance extracted

	Average variance extracted
System of reports and disclosure statement	0.629
Model of participation	0.668
Make self-regulation	0.586
Process of social audit	0.534
Measurement of performance assessment and evaluation	0.555
Accountability	0.529

Abbreviation: AVE, average variance extracted.

The concept of accountability can be explained using agency theory, as the obligation of the trustee, in this case, the NGO and the Donor as an agent provides accountability, present, report, and disclose all activities and activities that are responsible to the giver, in this case, the people who have the right and authority to hold accountable (Deegan, 2004; Driscoll & Starik, 2004; Jones, 1995; Mitchell, Agle, & Wood, 1997; Phillips, 2003).

2.3 | The stakeholder theory

Stakeholder theory is an organizational theory that inherently involves moral meaning. The importance of moral meaning can be seen like the relationship between the organization and its stakeholders and managers as a central relationship (contract) between the organization and stakeholders. In the narrow definition, stakeholder theory is the relationship of stakeholders in managerial perceptions about the strength, resources, and risks faced by the company, while the broad definition involves not the only the relationship between humans, but also the relationship between humans and the environment. Normatively, stakeholder theory is focused on the legitimacy that involves risks, ownership rights, and moral claims (Mitchell et al., 1997).

Critics of stakeholder theory state that this theory is a tool of opportunist management and argues that maximized wealth of shareholders is the cause of agency problems. The moral hazard that emerges from the risk that must be borne separately does not mean there is no moral-related relationship because the managers will make serious efforts to enrich themselves and charge the owner of the organization. The critics state that stakeholder theory views the immoral managers that prioritize only their interests and when they again dispute over agency problems and shareholders' welfare, it is a pseudo design. The opportunistic behavior of managers through stakeholders is done through the justification that their actions would provide benefits to the company through maximizing the utility of other stakeholder groups (Phillips, 2003. pp. 20).

The second criticism states that stakeholder theory does not give a specific objective function to the company. It rejects the notion that companies maximize the long-term values of the owner as their primary business objectives and requires employers to be fair to all stakeholders. Focus on distribution and procedure does not mean the focus is only on output distribution, besides disbursement, information distribution to the stakeholders by the organization is also important. This distribution also gives a fair role to the stakeholders to broaden information distribution to the stakeholders in the process of decision making. Transparency between the organization and the stakeholders gives a great contribution to fairness in a process. Stakeholder theory is often only about how financial output distribution is done and does not take nonfinancial issues, honesty, and fairness, into account (Deegan, 2004; Driscoll & Starik, 2004; Jones, 1995; Mitchell et al., 1997; Phillips, 2003).

All stakeholders are equally treated even though each party in the organization contributes differently. The stakeholder theory's fairness principle for equality is based on appropriate conditions. This

TABLE 2 Discriminant validity

	Accountability	Make self-regulation	Model of participation	Process of social audit	System of reports and disclosure statement of	Measurement of performance assessment and evaluation
Accountability	0.727					
Make self-regulation	0.617	0.765				
Model of participation	0.517	0.383	0.817			
Process of social audit	0.605	0.745	0.600	0.731		
System of reports and disclosure statements	0.574	0.585	0.328	0.564	0.793	
Measurement of performance assessment and evaluation	0.630					0.602
	0.543					
	0.804					
	0.531					
	0.745					

TABLE 3 Composite reliability

	Cronbach's alpha	Composite reliability
System of reports and disclosure statements	.852	0.894
Model of participation	.832	0.889
Make self-regulation	.872	0.905
Process of social audit	.825	0.873
Measurement of performance assessment and evaluation	.840	0.882
Accountability	.777	0.848

TABLE 4 R Square

	R ²	R ² adjusted
Process of social audit	.683	.680
Measurement of performance assessment and evaluation	.528	.524
Accountability	.522	.519

interpretation is also proposed by Solomon Colloquy "company must try to distribute profit gained from its operations equally to its stakeholders either in the form of profit, burden, or risk."

Reporting of the activities in NGOs is the main problem. This problem arises due to a lack of transparency, reporting, evaluation systems, community participation, government rules, and social audits. This condition rests on the stakeholder theory that all public interests are not well accommodated. This problem needs to be looked for solutions so that all interests are included in the organization. Our study, therefore, aims to reveal the problems of accountability according to stakeholder theory. This discussion leads us to assume the following hypotheses;

Hypothesis 1 System of reports and disclosure statements has a significant relationship with the process of social audit.

Hypothesis 2 The model of participation has a significant relationship with the process of social audit.

Hypothesis 3 Make self-regulation has a significant relationship with the process of social audit.

Hypothesis 4 System of reports and disclosure statement has a measurement of performance assessment and evaluation.

Hypothesis 5 Model of participation has a significant relationship with the measurement of performance assessment and evaluation.

Hypothesis 6 Make self-regulation has a significant relationship with the measurement of performance assessment and evaluation.

Hypothesis 7 The system of reports and disclosure statements has a significant relationship with accountability.

Hypothesis 8 The model of participation has a significant relationship with accountability.

Hypothesis 9 Make self-regulation has a significant relationship with accountability.

3 | METHODOLOGY

This study has utilized the mix method approach. In the first step, we collected data from 385 respondents in Indonesia through a research questionnaire. This quantitative data was then analyzed by using Partial Least Square or PLZ. In the second step, we used Husserl's phenomenological approach. Husserl argues that phenomenology is the study of culture or "soul" of culture based on the truly scientific foundation. The understanding of the phenomenological approach is done by understanding how the soul refers to life. There is a way to regain

TABLE 5 Hypothesis testing

No.	Hypothesis	Original sample (O)	p values
01	System of reports and disclosure statements \geq process of social audit	0.140	.000
02	Model of participation \geq process of social audit	0.194	.000
03	Make self-regulation \geq process of social audit	0.528	.000
04	System of reports and disclosure statement \geq measurement of performance assessment and evaluation	0.252	.000
05	Model of participation \geq measurement of performance assessment and evaluation	0.329	.000
06	Make self-regulation \geq measurement of performance assessment and evaluation	0.295	.000
07	System of reports and disclosure statement \geq accountability	0.276	.000
08	Model of participation \geq accountability	0.295	.000
09	Make self-regulation \geq accountability	0.342	.000

the deepest meaning (intentional phenomenology) through systematic knowledge and experience about life and its perspective, which is unique and distinctive. This world is certainly not the objective world in terms of the material world, but it is the world that is regarded by the subjects as a person.

Our study has used a participative observation method for data collection (Mulyana, 2003). The researcher observed the people by getting involved in their daily life, seeing what, when, with whom, and under what circumstances they do their daily activities, and by asking about them. The presence of the researcher to interact with the subject of the research could hopefully provide a more comprehensive understanding of the research results. Interviews with a tape recorder and note-taking, documentation study on the results of interviews with the subjects, and field observation were done to see directly the behavior related to the observed phenomena. In-depth interviews and comparing information obtained from informants (organization and community) and analysis of documents were parts of this research to clarify the results (quoted Sanders, 1982).

This study applied the existential phenomenology method. Burrell and Morgan (1994, pp. 243–247) described that phenomenology considers the understanding of the meaning of daily human life (life-world) to reveal social problems, interpreting how people act in daily life. Through this approach the researcher observed directly the everyday life of the subjects using an analysis tool, stakeholder theory, in two phases:

1. Intentional analysis: The observation was done with intentional analysis (Husserl calls it consciousness). The intentional analysis is a correlation between perceived objects (noema) and subjective understanding (noesis) about objects or experience.
2. Epoche: It is the behavior of a researcher in collecting data field (Husserl calls it bracketing).

4 | ANALYSIS & RESULTS

Convergent validity is seen from the average variance extracted (AVE) value of each variable >0.50 . Based on the results of the analysis shows that the value of AVE has shown numbers above 0.5 so that this model is feasible to use (Table 1). AVE values for each variable are as follows:

Discriminant validity is seen from the value of loading indicators all variables have values >0.70 , so it can be said that the data has good discriminant validity. Here are the loading indicator values (Table 2). Based on the analysis results, the loading value of each indicator is more than 0.70 as follows:

Composite reliability views of the value of Cronbach's alpha and composite reliability above 0.7 (Table 3). Based on the analysis results, the Cronbach's alpha value and composite reliability are above 0.7 as follows:

The model used can be seen that the value of R^2 Measurement of performance assessment and evaluation can explain 0.528, the variable is Process of Social Auditable to explain 0.683, and the accountability variable can explain 0.522. Thus this model can be used (Tables 4 and 5).

Results reveal that system of reports and disclosure statements have a significant relationship with the process of social audit. This result can be seen in the path coefficient value of 0.140 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on that, our Hypothesis 1 is accepted. The model of participation has shown a significant relationship with the process of social audit. This result can be seen in the path coefficient value of 0.194 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on this Hypothesis 2 is stated accepted. Similarly, results show that make self-regulation has a significant relationship with the process of social audit. This result can be seen in the path coefficient value of 0.528 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on that, Hypothesis 3 is accepted.

The System of reports has shown a significant relationship with the measurement of performance assessment and evaluation. This result can be seen in the path coefficient value of 0.252 with a p -value

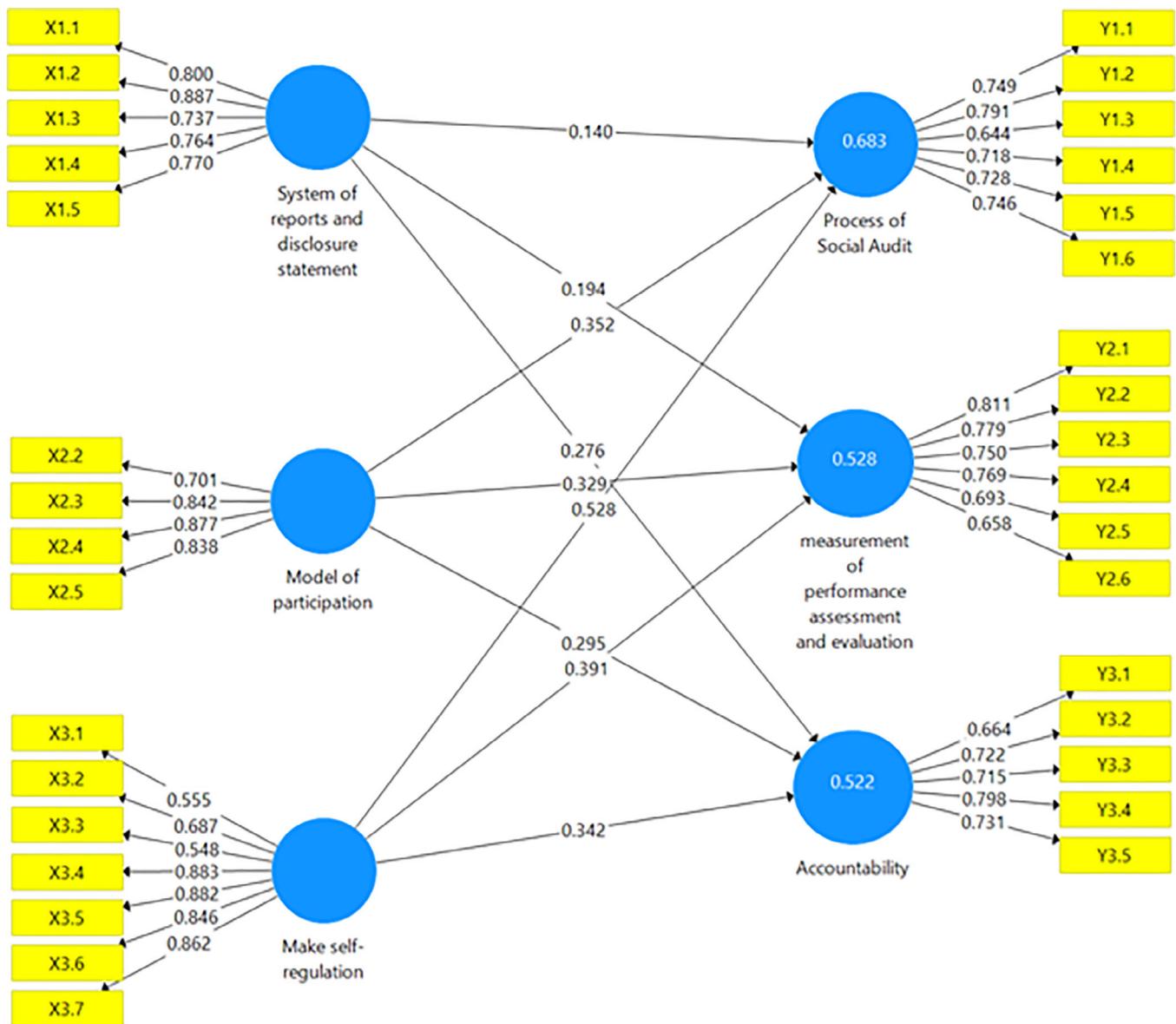


FIGURE 1 Factor loadings

of .000. The p -value is less than .05 (alpha 5%). Based on this Hypothesis 4 is declared accepted.

The Model of participation influences the measurement of performance assessment and evaluation. This result can be seen in the path coefficient value of 0.329 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on this Hypothesis 5 is accepted. Make self-regulation has shown a significant relationship with the measurement of performance assessment and evaluation. This result can be seen in the path coefficient of 0.295 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on this, Hypothesis 6 is declared accepted. The system of reports and disclosure statements revealed a significant relationship with accountability. This result can be seen in the path coefficient of 0.276 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on this, Hypothesis 7 is accepted. Similarly, the model of participants reported a significant relationship with accountability. This result can be seen in the path

coefficient value of 0.391 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on this Hypothesis 8 declared accepted. Similarly, make self-regulation has shown a significant relationship with accountability. This result can be seen in the path coefficient value of 0.342 with a p -value of .000. The p -value is less than .05 (alpha 5%). Based on this Hypothesis 9 is stated accepted (Figure 1).

5 | DISCUSSION

Based on previous research accounting that emphasizes Spiritual, People, and environment becomes an important concern in the development of control accounting. The donor from Germany, Australia, Japan, and the United State of America always want the regular reports as part of fund accountability. Specific information shows in these reports as use of the fund, people using the fund, an

organization using the fund, and the governance of Indonesia for taxes related. Every use of funds accountable to donors, organizations, communities, and government. Users have different interests to financial statement information. Therefore, financial information should be easily understood by all stakeholders.

Every year, the donors evaluate the MBM to determine the objectives of activity that have been achieved and decide the next budget of activity. In the last year, the donor evaluation is also used to measure how the progress of MBM staff is following the objectives and mission of the program. The reason why the donors do this MBM evaluation is that they want to help the staff become better by exposing the flaws and weaknesses of the plan of the project or development strategy in MBM.

Society is the object of activity. Therefore, the community is involved in programming, budgeting, and all activities related to the program. MBM has included the community on every activity. They are government, group of community, organization of community, and staff.

On accounting, regulation about representation and information of fund and finance is shown in standards of accounting. PSAK 45 explains how to disclose financial information. They show sources of funds and use of funds. A social audit is a complex process. The social audit aims to measure finance and social activity. The problem of social audit is not measuring clearly. Social audit is related to people's fillings. Results of the research show that failure of accountability practices occur due to poor control system. This is a problem for practices of accountability. The mandatory report that the donor wants cannot be done promptly. This problem arises because the program execution time has constraints. The budget given to the implementing party cannot result in 100% program funding. The reason is the limitation of counterpart fund other than donor fund. Community participation at the time of implementation of the program is not able to reach the target 100%. The ability to reach is 70–80%. The cause is a matter of willingness from a low society.

Government regulations cannot support all programs because governments have different programs and sources of funding. The public has the right to control the activities of nonprofit organizations as a form of community concern. Oversight by the community is still very low.

5.1 | Policy guidelines

The solutions to the problem of practices of accountability are: (a) Determination of similarity for reports and disclosure statement standard. The similarity of standard usage is important. If the standards are different, then the chances of doing deviations are greater than those of the same standard. (b) determination of standard performance assessment and evaluation. Evaluation is an important basis of assessment. Evaluation standards need to be equated between donors' perceptions with donor recipients. The goal is to facilitate the assessment and interpretation of evaluation results. (c) make participation model for the representation of finance, budgeting. The model of activity participation determines the success of the activity. Therefore, it is important to use the model according to the activity. (d) update self-regulation refers to activity and program. Regulatory changes always make NGOs unable to carry out activities on an ongoing

basis. The role of government becomes important to support NGO activities. If the government changes the rules, then NGOs should immediately make changes as well. (e) do social audits every year. Social audits are rarely done. Therefore, the community is invited to conduct a social audit to facilitate the implementation of work and evaluation in synergy.

6 | CONCLUSION

The problem of accountability from the perspective of stakeholder theory is the system of reports and disclosure statements, measurement of performance assessment and evaluation, the model of participation, self-regulation, and process of social audit. Therefore, it is necessary to solve the problems of accountability in synergy. The goal is to facilitate the implementation and evaluation. The similarity to implementation and evaluation standards is the main thing. The system of reports and disclosure statements, a model of participation, make self-regulation influence the process of social audit, measurement of performance assessment and evaluation, and accountability.

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