The Perception of Donors on Existing Regulations and Code of Governance in Singapore on Charities and Non-Profit Organizations – A Conceptual Study

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Abstract

Non-profit organisations (NPOs) are meant to serve the public rather than to earn a profit for its members. Charities are also NPOs and have philanthropic goals as well as social well-being. It is imperative that these organisations observe good corporate governance to safeguard the interest of the public and donors. Corporate governance consists of a number of good elements such as trusts, clear vision, mission, direction, transparency, internal control, sustainability and corporate social responsibility. There were a number of charities and non-profit organisations in Singapore which has flaunted the regulations and lost the trust of the public. Singapore has implemented various measures and regulations to govern these charities and NPOs. It continuously upgrades the code of governance and educates the charity and NPO sector on the need for good governance. However, irregularities seemed persistent. Donors, who are the main contributors to the existence of these charities and NPOs, had to have a say in the regulation of such charities and NPOs. Donors’ perception and expectation have to be addressed so as to achieve an effective set of governance principles which do not over-regulate the charities and NPOs. Based on the findings of extant literatures and surveys, it was found that donors’ perception on corporate governance has not been evaluated sufficiently. Singapore is improving the awareness of good governance among its charities and NPOs but has not looked at governance in donors’ point of view. This paper stresses the importance of donors’ perception in view of existing regulations and code of governance in Singapore charities and NPOs.

Keywords: charity, non-profit organisation (NPO), corporate governance

1. Introduction

The result of the immense growth of global business, and the importance of the proper management of modern corporations has brought about management theories regarding strategies on how to place good governance processes in a way that to ensure the best interest of all the stakeholders (Becht et al., 2005).

Corporate governance is a practice which concerns involvement of one or more parties with organizational decision-making where they may not behave in the best interest of the organization and related stakeholders. Berle and Means (1932), the pioneer in the contemporary thinking about corporate governance, has identified concepts which were developed from the growing separation of power between the executive management of the major public companies and their shareholders. Indeed, control and governance of company affairs has captivated various scholars in their efforts to define corporate governance. Monks and Minnow (1995) argue that corporate governance deals with mechanisms of exercising power and control over the corporation’s direction and behaviour; Turnbull (1997) explains that corporate governance influences institutional processes involved in an organisation; and Cadbury (1992) reports it to be the whole system of controls which enables a company to be directed in right way to the right direction. The OECD (1999) defines corporate governance as a relationship between a company’s board, its shareholders and other stakeholders. This encompasses the structure of the company where the objectives of the company are set; and provides the means of attaining those objectives and monitoring performance is determined.
Recently exceptional number of corporate scandals, financial restatements, and bankruptcies has led to increased governmental and shareholder interest in corporate governance, bringing into popularity the Sarbanes-Oxley Act (SOX). SOX established a new regulatory system for auditors of publicly-traded companies and made the most significant changes in the laws governing the responsibilities of directors, officers and corporate transparency obligations. 

Charities are classified as non-profit organizations which has philanthropic goals and social well-being (e.g. charitable, educational, religious, or other activities serving the public interest or common good), Stephen P. Osborne (2005). The terms non-profit and not for profit generally are intended to describe an organization whose purpose is to serve the public rather than to earn a profit for its members, Cornforth, C. (2003). Non-profit organizations generally are very purpose driven. They are organized to serve some group, usually individuals but sometimes other organizations.

John Carver (1990) notes that from a governance perspective the relevant factor that differentiate most NPOs apart from for-profit organizations is the lack of a behavioural process to evaluate their product and cost and hence cannot assess their good performance. Their governance process differs in terms of several respects. This includes stakeholder groups, ownership conditions, purpose, legal form, civil relations, control and supervision, remuneration of management bodies (may have an honorary Status), transparency regulations, performance measurability and public perception, Thomas Sprecher (2010). The structures and management bodies of non-profit organisations have to be scrutinised more stringently in terms of governance.

One major difference between the for-profit board and the NPO board is that NPO Board is mainly composed of volunteers. Dedicated and competent volunteers are the body and soul for most NPOs at both operating and board levels. The volunteers are committed because of interests and beliefs, not compensation. Volunteer boards must be managed in a different way from compensated boards. Thus, to enforce governance in NPOs and charities seemed difficult but it is pertinent as the funds are raised from the public.

2. Objective of the Paper

Most countries in the globe have code of corporate governance for non-profit organizations and charities to support the NPO board members in their fiduciary work, promote best practices in non-profit governance and enhance public confidence in these organizations.

Though there were specific policies set out in the constitution of these non-profit organisations and charities with regards to governance, public confidence is rocked by financial scandals involving non-profit organizations. Poor accounting and financial reporting practices are common across these non-profit organisations and charities. Weak management and bad-decision making are part of the problems faced by these organisations painting a picture of bad governance.

The Singapore corporate governance is based on the Anglo-Saxon System which revolves around the capital market controls of managerial behaviour (Prowse, 1998). Over the years, Singapore has developed a good reputation for sound government and has been rated highly for its efficiency, rule of law and lack of corruption by international rating agencies, such as IMD, Transparency International and PERC. Good governance has been a key factor to attract international attention. Being a nation with multi-cultural, multi-racial and multi-lingual, Singapore’s system of governance is unique to its circumstances and they are shaped by the unique nation, unique environment and unique government.

Over the last decade, Singapore’s NPO Sector has been shaken by several scandals related to lack of transparency and poor governance. In 2005, the former board and management of the National Kidney Foundation Singapore (NKF) were indicted for malpractice, including the mishandling of donated funds and false declarations of the charity’s reserves. After which, many NPOs and charities have been found with multiple irregularities and mismanagement of funds, proofing bad governance.

In Singapore, the charity council has issued a code of governance on 26 November 2007. This constitutes, the roles of the board, their independence, bye-laws, distinction of duties, voting rights and policies on conflict of interest, staff appointment, asset management, fund-raising practises, transparency and disclosure requirement. It clearly states the accountability and responsibilities of the board. Besides this, a clear code of ethics and best practises are also recommended. The council also developed tools such as online governance evaluation checklist and courses on board governance for non-profit organisations. To help charities apply the code of governance more effectively, the charity council held an exercise to refine the code in 2010 and a refined code of governance for charities was produced in January 2011.
Thus, the problem is - when such regulations are in place, are the public and donors expect more governance from charities and NPOs in extending their donation in a society which is so affluent like Singapore or do they believe charities and NPOs are over-regulated and total compliance is almost impossible?

The paper was carried out solely through the analysis of extant literatures. It analyses various literatures to understand the perception of donors on existing regulations and code of governance. It also discusses the various measures implemented by the Singapore Government to address the governance issues and addresses the need to carry out a study on donor’s perception on the existing regulations and code of governance.

3. Literature Review

According to Ayo Obe, a prominent Nigerian lawyer and human rights activist, donors cut on their donation if charities or NPOs do not follow good governance. African development bank (2009) had made a set of governance assessment principles. An initial survey by the bank pointed to the risk of the duplication and overlap between donors’ governance assessment tools. The survey also found why, and how, donors make their own assessments and on the possibility of harmonising donor approaches to assessing governance. Subsequently, a major international conference was held (London, February 2008) to initiate dialogue between donors, partners and practitioners involved in governance assessments. Among the findings, it was said that transparency and disclosure are big concerns of donors. Joint assessments were recommended to improve the coherence of donor responses to corruption and weak governance.

OECD country donors and multilateral agencies use multiple definitions of governance in NPO sector, “A prescriptive or a non-prescriptive approach to governance? Prescriptive governance definitions establish a clear norm or standard on how governance should be (“good governance”) and measure against this standard. They often focus on measuring or describing the gap between the current governance reality and the prescribed reality, as well as identifying the problems associated with attaining this prescribed reality (e.g. “binding constraints”). Non-prescriptive approaches focus on describing and understanding how governance actually functions and why it functions as it does in a country or sector”. OECD performs governance assessments on NPOs for the purpose of donor decisions and concerns, to general donor-partner co-operation and to promote the support for governance reform. Hence, OECD has found that assessment criteria are important for a donor who needs to know the governance process of the sector.

In the paper written by Paul Hoebink (2006), ‘Good Governance’: condition or goal? European Donors and the discussion on ‘Good Governance’ emphasised the importance of good governance and the donor’s role in shaping the governance of a country or sector.

Amina Singh (2007), in his discussion paper on donor best practices towards Non-government organisations (NGO) in Nepal, have explained that donors look forward to a number of vital values in that NPOs when they extend their donation. In his survey, it was found that donors require frequent audits on funds spent by NPOs, transparency in terms of funding policy, introduction of donor agencies, zero tolerance on misuse of funds, upholding of good governance and an active role played by the head of agencies (or Charity council).

In their survey by NGO TIPS (2011), fostering effective governance explained that like investors in the financial arena, donors want their investments (grants) to have highest possible rate or return. Good governance practices contribute to an organization’s efficiency, effectiveness and focus, and these are relevant to NPOs and their donors. The survey also reinforce the use of councils forming a “Good Governance Working Groups” consisting of NPO leaders and donor focus groups to identify weaknesses in NPO governance and ways to institutionalise better governance practices throughout the sector. In NPOs, good governance is exercised through an internal system of checks and balances that divides power and authority between management and a governing body in order to ensure that the public interest is served, NGO TIPS (2011). Again this proves that donors find the good governance is significant contributor to their donations.

Grey Matter Research (2008), has conducted a study on Americans’ Perceptions of the Financial Efficiency of Non-profit Organizations, the purpose of study is to find whether the donors are justified of their donations made to charities and NPOs. The survey showed that an average American believes the typical non-profit should be 40% more efficient with its money than it actually is. More than one third believes that if they give, at least half of their money will go towards common expenses rather than towards the cause they want to support. “If people don’t know anything specific about your organization, they’re likely to lump you in with all the other ones they perceive to be financially inefficient” (Grey Matter Research 2008). There are already many financial scandal or rumoured lack of accountability in the NPO sector which not only hurts individual organizations but the industry as a whole. The research confirms that the donors’ perception and expectations need to be valued to have continued support of charities and NPOs. It highlighted that charities have to be prudent in their spending and be
transparent of the donations it receives. NPO’s accountability and prudence are components necessary for the donors’ support.

“NPO and their donors with different cultural and religious background may demonstrate specific understanding and conceptual perceptions in the act of donation. Therefore, as the competition for funds increases, understanding of donors’ perceptions and laying out effective communication strategies are crucial for NPO to remain viable” Jer San Hu (2011). The study on perceptions of donors to religious organisations, stressed the importance on effective communication of NPO strategies on the use of donations.

Adrian Sargeant (2003) surveyed the reasons on why donors stop giving. The results identified the quality of service provided to donors as a critical issue and also identified other potential causes of lapse, such as a shortage of funds or a desire to support other charitable organizations. Donor’s perception of the quality of the fundraising communications received was found to be the more important predictor. Those donors perceiving that the communications strategy reflects their needs tend to be more loyal than those who do not. Hence, communication to donors on use of resources and activities of NPO is vital to continuance of donation.

Another survey conducted in Canada by National Survey of Giving Volunteering and Participating (2000) found that married couple donate more than unmarried individuals and the likelihood of donating and making higher donations increased with education levels. Most donors make their donation decision in response to being asked, the way they are asked can be a critical factor in determining whether a donation will be made and how much they will give. Therefore, good communication of the course, good branding of the NPO increases the donations received by charities and NPOs. Good Branding comes with good governance.

CNPL (Center for Non Profit Leadership of Singapore) has conducted a study on disclosure and governance practices of charities in Singapore’ in October 2013. This study of charity governance in Singapore was conducted from August 2012 to April 2013. The objectives were to examine the current level of public disclosure on governance by charities, key attributes of individuals serving as board members in these charities, and the board structure, practices and the desired skill sets of these charity boards. The study concluded that the disclosure of governance information by charities in Singapore is generally poor. The information in the annual reports provided was also poor. CNPL recommended minimum requirements like all charities should have an official website that provides basic information about their board members such as name, gender, tenure or date of first appointment, educational background and work experience. It also recommended that all charities should place their annual financial statements and annual reports on their website. However, how donors’ perceive these disclosure as being relevant was not measured in the survey.

Acting Minister for Culture, Community and Youth of Singapore, Mr Lawrence Wong has said in his speech to National University of Singapore Business School, that there has been increased public demand for greater transparency from charities around the world. He demanded to have transparency rating systems to help donors make informed decisions on giving, and the ratings can also help the charities to improve their performance just like in the United States. There are more than 2,000 charities in Singapore today, and Mr Wong said this number is expected to increase. He reiterated that charities must improve in the areas of accountability and transparency due the increasingly sophisticated public who wants clearer reporting on the work done by charities.

In a recent survey, donations to charities in Singapore reduced with tax deductible donations totalling S$969.7 million in 2013 compared to the record $1,031 million in 2012. This is according to the latest annual report released by the office of the Commissioner of Charities (COC). The council has vowed to focus on strengthening the good governance and transparency of charities in maintaining public confidence. The Council chairperson has said “Donors are no longer just going by the objects and programmes of the charities but also how well-governed and transparent they are, charities need to be both effective and accountable.”

In the review of previous research, survey and study on the perception of donors towards compliance to code of governance and regulations, the following was studied.

• NPO Branding (National Survey of Giving Volunteering and Participating in Canada 2000)
• Reasons on why donors stop giving (Sargeant, 2003)
• Non-profit Marketing (Chang, 2005)
• Requirements of basic governance by public and stakeholders (Hoebink, 2002; Singh, 2007),
• Americans’ Perceptions of the Financial Efficiency of Non-profit Organizations (Grey Matter Research, 2008),
• How governance safeguard public interest (NGO TIPS, 2011),
• Perceptions of donors to religious organisations (Hu, 2011)
• Incomplete disclosure of governance information failing governance and expectation of donors (CNPL 2013),
• Transparency rating systems to help donors make informed decisions on their donations (COC, 2013),
• Reduction in donation in Singapore (COC, 2013).

4. Regulation of NPOs and Charities in Singapore

The charities and NPO sector was very well regularized in Singapore through many initiatives by the government. Briefly, there are:

• The Charities Act - guides the registration and administration of charities and their affairs. It regulates charities and institutions of a public character and its fund-raising activities.
• The Charities Regulation 2011 – institutes various regulations on financial reporting standards
• The Charities Council headed by the Commissioner of Charities - promotes and encourages the adoption of good governance and best practices, help to enhance public confidence and promote self-regulation in the charity sector.
• The Charity Portal launched 2007 – about 1500 charities have updated their profile in the portal, code of governance and charity regulations are published in the portal to guide charities
• Code of Governance amended recently 2011- set out principles and best practices in key areas of governance and management that charities are encouraged to adopt.
• Governance Evaluation Checklist to be submitted annually - is designed to help charities to self-evaluate the extent they have complied with essential guidelines in the Code of Governance for Charities
• Charities Accounting Standard issued in June 2011- makes financial reporting simpler and more relevant for charities and enhancing disclosures for greater transparency. An accounting template has also been produced to prepare the financial statements in accordance to the Charities Accounting Standard.
• Charity Awards imitated in 2012 - recognizes charities with the highest standard of governance. This promotes good governance and inspires charities to emulate best practices.
• Developing a transparency rating system – to improve the effectiveness of NPO and charities and to boost public confidence.

Moreover, many events and initiatives were promoted by the government to safeguard governance process in the Charities Sector. In brief they are as follows:

• Government has spent $10.5 million of VWOs- Charities Capability Fund (VCF) to equip 850 charities and IPCs with the governance and management. The fund is extended for another 5 years to 2017.
• 33 Charities signed up for shared services in accounting, payroll and procurement
• Organizes free Governance seminars to more than 300 board members and staff
• Associates with professional bodies to match board members for charities. In 2011, 85 professionals were matched to 37 charities requiring board and committee volunteers. 25% of the roles required professionals with finance expertise
• Launched a Charity Council website in 2010
• Prepared “Guidance on Independent Examination” to assist independent examiners in reviewing and certifying statements of smaller charities which do not require audits.
• As of December 2011, 366 charities were selected to undergo governance reviews where they are given professional advice to improve their internal processes.
• Council officers frequently conduct field visits to charities to help them address issues and to make them understand the grant available to them.
• Charity Council launched a Newsletter “Charity News” in 2011 which is to provide the latest development in charity sector and highlight best practices in Corporate Governance.

The Charity Council has planned in future years to place the financial statements for public viewing on the online portal of Charities which are externally audited. It is also looking to revise regulations for the fund-raising from third-parties and commercial organizations. They also have planned to organize network sessions among charities to relate on issues they are facing.
5. Discussions and the Way Forward

The literature review reveals many authors were looking at the various aspects of donors’ perception for instance, in terms of increasing donations, marketing and branding NPOs, to form assessment tools for NPOs and improving the financial efficiency of NPOs. However, the perception of donors towards the compliance to code of governance for charities and NPOs has not been addressed very well.

Moreover, the literature also finds that Singapore Government has good regulations for their charity and NPO sector. Awareness and education to improve the system has been ongoing. More and more charities and NPOs are identified as having good governance and are rewarded. Only the future research could tell whether these initiatives have taken good shape in regulating governance at greater percentage among the charities and NPO. At present, results are still at the preliminary stage and scandals and irregularities have been continuously reported. The main causes of these scandals results from the following:

- Lack of sound internal control systems
- No documented policies and procedures
- Inadequate checks and balance
- Inadequate segregation of duties
- Breakdown in book-keeping functions
- Lack of skilled resources
- High turnover of staff
- Issues on conflict of interest

A study has to be made on the perception of donors on the existing regulations and code of governance in charities and NPOs. This might throw light on the governance of charities and NPOs in Singapore as donors are the ultimate determinant for the existence of such charities and NPOs. Their perception would likely to measure the level of compliance that is expected from the charities and NPOs. Hence, a heavy regulation may “over-kill” the charities and NPOs and their contribution to the society might be limited. Much focus has been raised to questions concerning how to increase donations, but very little attention has been given to the specific question of how much governance do donors expect from the charities they support. Their decision to give drives the charity sector; it is inevitable that their view is measured and included to give an “inclusive and effective” governance principles and associated regulations.

6. Limitations and Future Research

The paper is solely based on the review of extant literatures; no empirical evidence was deduced. Due to limited time, an empirical study has not been done. Further research should be performed to gain empirical evidence on the perceptions of donors towards the compliance to code of governance and regulation can be studied by quantitative research. A survey questionnaire could be used to collect primary data from samples of donors to understand their opinion on the existing regulations and code of governance in Singapore. With the availability of more empirical evidence on researches on donors’ perception, it may have profound implications on the ongoing development of good governance structure in Singapore charities and NPO sectors.

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