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## **SYSTEMATIZING TRANSPARENCY IN NON PROFIT ORGANISATIONS**

**Rafael Chaves**

CIRIEC-Spain; University of Valencia  
Editor of 'Ciriec-España' review

**Antonia Ribas Bonet**

CIRIEC-Spain  
University of Illes Balears

(Spain)

***Discussion paper***

## 1 - WHY TRANSPARENCY IN NON PROFIT AMBIT?

Why is transparency important in the non profit sector?

The transparent performance of the non profit entities is necessary because it is a crucial element to generate credibility and trust in the sector, that is to legitimate socially to the non-profitmaking organizations.

Only if enough mechanisms of transparency are developed one can obtain and to guarantee the legitimacy that comes defined by different factors: people, leaderships, ideas, products, services, results, style, external supports, communication, etc. While in the private lucrative sector the legitimacy is largely measured by the economic results and the allotment of benefits and the public sector obtains legitimacy through the elections, in the Third Sector it is the level of trust or credibility the factor that grants or sanctions its legitimacy, but the measurement of this element is more complex, for this reason, the transparency is revealed as something fundamental to justify the existence of non profit entities.

Josep Gassó (2001: 25 and ss.) exposes five main elements that grant or express legitimacy in non profit organizations:

1. The mission and the values of the organization.
2. The performances of the NGOs. The what and the how. That is, the entities acquires legitimacy according to what they do and how they do it.
3. People and the organization like a factor of legitimacy, since people constitute the main capital of a non profit organization.
4. The social base of the NGOs (partners, donors, collaborators, workers, voluntaries).
5. Recognitions, collaboration and institutional supports: with private companies, public institutions, universities, etc.

When trying to define the transparency concept, it interests to get a definition in wide sense that embraces the idea of "answer capacity to public necessities and the adhesion to democratic and moral principles. The definitions in wide sense highlight other important aspects of the transparency that are not necessarily coded through laws, regulations neither bureaucratic procedures" (Kearns, K. P., 2001: 55).

According to Kearns, K. P. (2001), in front of the reagent posture that can be adopted by the organizations, they can also assume a proactive behaviour. The focus reagent supposes that the entity tries to achieve the public's trust, that is, as soon as the

normative on transparency appears (in an explicit or implicit way) the organization reacts demonstrating its conformity and adaptation to the new normative. The second posture pleads for an effort of anticipation that implies the participation in the definition process and the establishment of the transparency environment in which operates the entity. In this sense, the author defines four transparency types:

1. Legal transparency, generally with norms coded with law range.
2. Negotiated transparency: implicit performance norms appear relative to social values, beliefs, etc., usually not coded in laws.
3. Discretionary transparency, where the transparency norms and the informative ways are implicit, this fact grants to the entity a great flexibility.
4. Anticipated transparency, when the entities are ahead to changes in the explicit norms that should observe or even participate in the regulation processes of these ones.

Evidently it would be desirable that the entities of the non profit sector to take the initiative showing their performance in a transparent way and not only when they are requested in a legal or obligatory way. This fact is important for two reasons:

- In the first place the non profit entities need to collect private funds to carry out their activities. For this reason, the non-profitmaking organizations should expose their objectives and administration form. Just as Garralda Ruiz de Velasco, I. and Ortega Jaramillo de Contreras, M. (2001) expose, the lack of collaboration, that is, the distance that separates the recognition of necessity and the desire of collaborating, can come for two reasons: It can be for lack of knowledge of the existent necessities and, on the other hand, it can happen that citizens don't see clearly the repercussion that the action proposed by the entity will have in those necessities. Said otherwise, it is necessary more transparency in the origin and administration of the different organizations, especially in the destination of the funds and in the results of the activities carried out.
- On the other hand the non-profitmaking entities also obtain important revenues of the public sector through grants and fiscal advantages. That, also makes necessary a transparency climate regarding the activities they carry out, the execution of the objectives for those that have obtained the financing and the justification of the use of the obtained funds.

Apart from these two reasons, Alfred Vernis (2001) exposes five important reasons why the NGOs (or any non-profitmaking entity) should be transparent:

- \* It is an intrinsic value to their performance
- \* It allows them to have a wide and committed social base
- \* It forces them to measure the result of their performances
- \* It allows them to be compared with other similar organizations
- \* It helps the leaders to look after the execution of the mission of the organization

The authors Garralda Ruiz de Velasco, I. and Ortega Jaramillo de Contreras, M. (2001), expose the denominated Principles of Transparency and Good Practices in which define the fields where transparency concept previously defined must be applied:

1. Operation principle and regulation of government's organ
2. Principle of clarity and publicity of the social objective
3. Principle of planning and supervision of the activity
4. Principle of continuity and precision in the information
5. Transparency principle and plurality in the financing
6. Principle of efficiency and control in use of funds
7. Principle of presentation of the annual accounting and execution of fiscal obligations
8. Principle of obligatory elaboration and liquidation of the annual budget
9. Principle of promotion of the voluntaries

## **2 - GUIDELINES AND DOCUMENTS OF INTERNATIONAL CHARACTER**

As it's just exposed, the transparency concept (bounded to the concept of social responsibility) is essential in development, administration and control of the entities of the non profit sector. The topic has generated a wide debate for several decades, even more, at the present time diverse institutions and organizations at international level are working in the sense of promoting guidelines, to settle down standards and social "labels" in order to get more implication of the different organizations in social responsibility, that is, more transparency and responsible practices.

In European countries it has been carried out an important effort. The European Commission has elaborated a document (Green paper: Promoting an European framework for Corporate Social Responsibility) establishing a framework about the responsibility and the commitments that should be assumed by the companies and corporations in their administration and activity. This conception affects to different

areas like the human ambit, the environment, the local and national community and other commitments to world scale (Castillo Clavero, 2001).

The UN is working in a project called Global Compact trying to establish a normative base for the entities that want to adopt responsible practices. The project is based on three environments: human rights, labor norms and environment, that are developed through nine principles.

S.A.I. (Social Accountability International) tries to promote the social responsibility of companies drawing up certifications (SA8000) based on the same verification system than the strategies used to evaluate the quality (ISO 9000) that guarantee these companies observe the social standards defended by the mentioned organization. The SA8000 system is inspired by different international norms such the adopted by the International Labor Organization, the Convention of the United Nations on the Rights of the Child and the Universal Declaration of Human Rights. The SA8000 analyses nine central aspects: child labor, forced labor, health and safety, compensations, working hours, discrimination, discipline, free association and collective bargaining and management systems.

Accountability (Institute of Social and Ethical Accountability), has also established some standards (AA1000) about social responsibility in order to promote in companies this kind of practices in their daily activities, attending to their different stakeholders, social and environmental audit, training, etc.

Last months, ISO (International Organization for Standardization) is also working in the establishment of standards for the Corporate Social Responsibility.

These are only few examples about different initiatives are being developed in the international ambit at all kind of levels, even though some countries are carrying out performances at national level.

### **3 - INDICATORS FOR THE NON PROFIT SECTOR**

Now the main indicators of evaluation of non-profitmaking entities are presented.

#### Indicators about the beneficiaries or users of the entity

This group of indicators is important because they are referred to the people on those the attention or the objective of the entity are focused. For this reason, it is important to see their evolution, the increase of assisted cases, the changes in their composition, etc. This will give an idea of the orientation that the entity should follow to assist their beneficiaries.

N° OF BENEFICIARIES OR USERS DURING THE YEAR  
N° OF BENEFICIARIES OR USERS PREVIOUS YEAR

N° OF POTENTIAL BENEFICIARIES OR USERS (not assisted demands)  
N° OF CURRENT BENEFICIARIES OR USERS

In this case, the reasons for not assisted demands must be explained in order to see the way the activity of the entity can be enlarged.

Depending on the activity type that carries out the organization, it could be useful to separate the beneficiaries according to sex, age, nationality, etc.

N° OF BENEFICIARIES OR USERS MEN (WOMEN)  
N° OF ASSISTED BENEFICIARIES

N° OF BENEFICIARIES OLDER (YOUNGER) THAN X YEARS  
TOTAL N° OF ASSISTED BENEFICIARIES

N° OF BENEFICIARIES OR USERS THAT HAVE ABANDONED  
TOTAL N° OF BENEFICIARIES

The last one indicator informs about the percentage of abandons produced in the beneficiaries or users during the year. With this percentage it could be carried out comparisons with the data obtained in other similar entities. Certainly, in this analysis it is necessary to pay attention to the reasons that caused the abandon: death, voluntary abandon, solution of the problem assisted, etc.

Indicators about the different activities carried out by the entity

Due to the benefits coming from the characteristic activities of the non profit entities are not burdened by taxes (in Spain called “Impuesto sobre Sociedades”), and for the rest of benefits (not characteristic activities) the organization must pay them, the importance of each group of activities can be evaluated using the following indicators:

RESULT (BENEFIT) BURDENED BY TAXES (I.S.)  
TOTAL RESULT

N° OF NON PROFIT ACTIVITIES CARRIED OUT  
TOTAL ACTIVITIES CARRIED OUT

In this case it would be convenient to remark the type and characteristics of the activities carried out, the importance that each of them supposes inside the group, and

the importance or necessity that these activities represent in the attainment of the objectives marked by the entity.

Indicators about partners, contributions, sources of revenues, etc.

The non-profitmaking entities depend on great measure of external's financing sources: public revenues (grants) or private revenues (from partners, contributions, etc.). It is important to analyse the evolution of all these data to know about the possibilities of obtaining financing and collaboration in order to carry out their activities.

N° OF PARTNERS, ASSOCIATES, COLLABORATORS DURING THE YEAR  
N° OF PARTNERS, ASSOCIATES, COLLABORATORS PREVIOUS YEAR

N° OF GRANTS RECEIVED DURING THE YEAR  
N° OF GRANTS REQUESTED

REVENUES FROM GRANTS DURING THE YEAR  
REVENUES FROM GRANTS PREVIOUS YEAR

N° OF CONTRIBUTIONS OR QUOTAS RECEIVED DURING THE YEAR  
N° OF CONTRIBUTIONS OR QUOTAS RECEIVED PREVIOUS YEAR

REVENUES FROM CONTRIBUTIONS OR QUOTAS RECEIVED THIS YEAR  
REVENUES FROM CONTRIBUTIONS OR QUOTAS PREVIOUS YEAR

REVENUES FROM CHARACTERISTIC ACTIVITIES OF THE ENTITY  
TOTAL REVENUES OF THE ENTITY

N° OF PARTNERS, ASSOCIATES OR COLLABORATORS OF THE ENTITY  
N° OF ASSISTED BENEFICIARIES

N° OF PARTNERS OR COLLABORATORS HAVE ABANDONED  
TOTAL N° OF PARTNERS OR COLLABORATORS

This result can give an idea of the capacity of the entity to carry out their activities and to assist their users or beneficiaries, as well as of their grade of economic autonomy.

Indicators about the execution of the objectives of the entity

It is supposed that the values the entity defends and it should be consequent with are included within their objectives. It is difficult to represent these values in indicators that reflect their practice or execution, and certainly, in order to value this aspect it is

important to explain clearly the activities, approaches, behaviours, etc. related with the same ones to give sense to the quantifiable dimensions.

For example it can be exposed:

$$\frac{\text{N}^\circ \text{ OF NORMS OR APPROACHES OBSERVED}}{\text{N}^\circ \text{ OF NORMS THE ENTITY HAS ESTABLISHED}}$$
$$\frac{\text{N}^\circ \text{ OF VALUES CONTAINED IN THE STATUTES, REGULATIONS, ETC.}}{\text{N}^\circ \text{ OF VALUES THAT GIVE SENSE AND ARE DEFENDED BY THE ENTITY}}$$
$$\frac{\text{N}^\circ \text{ USERS ASSISTED ACCORDING TO THE OBJECTIVES OF THE ENTITY}}{\text{TOTAL N}^\circ \text{ OF USERS ASSISTED}}$$
$$\frac{\text{N}^\circ \text{ OF OBJECTIVES NOT COMPLETED}}{\text{N}^\circ \text{ OF OBJECTIVES TO COMPLETE}}$$
$$\frac{\text{N}^\circ \text{ OF SERVICES OR ACTIVITIES THAT THE ENTITY OFFERS}}{\text{N}^\circ \text{ OF ACTIVITIES DESIRABLE OR POSSIBLE}}$$
$$\frac{\text{N}^\circ \text{ OF SERVICES OR ACTIVITIES THAT THE ENTITY OFFERS}}{\text{MINIMUM N}^\circ \text{ OF SERVICES OR ACTIVITIES TO CARRY OUT}}$$
$$\frac{\text{N}^\circ \text{ OF BENEFICIARIES OR USERS THAT HAVE BEEN ASSISTED}}{\text{N}^\circ \text{ OF BENEFICIARIES OR USERS TO ASSIST}}$$
$$\frac{\text{N}^\circ \text{ BENEFICIARIES IN WHICH THE OBJECTIVE HAS BEEN COMPLETED}}{\text{TOTAL N}^\circ \text{ OF ASSISTED BENEFICIARIES}}$$
$$\frac{\text{N}^\circ \text{ OF BENEFICIARIES THAT HAVE BEEN ASSISTED}}{\text{N}^\circ \text{ OF BENEFICIARIES THAT REQUESTED ATTENTION}}$$
$$\frac{\text{N}^\circ \text{ ASSISTED BENEFICIARIES WITH IMMEDIACY}}{\text{TOTAL N}^\circ \text{ ASSISTED BENEFICIARIES}}$$

Some of the indicators used to evaluate the evolution of the beneficiaries can also help to value how the entity develops its activities. For example:

$$\frac{\text{N}^\circ \text{ OF ASSISTED BENEFICIARIES DURING THE YEAR}}{\text{N}^\circ \text{ ASSISTED BENEFICIARIES THE PREVIOUS YEAR}}$$
$$\frac{\text{N}^\circ \text{ OF OBJECTIVES CARRIET OUT BY THE ENTITY}}{\text{N}^\circ \text{ OF OBJECTIVES INCLUDED IN THE STATUTES OF THE ENTITY}}$$



Indicators like this can give an idea about if the entity attend a lot or a little to the different objectives it has outlined, but it is also important the grade or level the organization carries them out.

BENEFIT DEDICATED TO THE OBJECTIVES OF THE ENTITY  
TOTAL BENEFIT OBTAINED

TAXES PAID TO THE ADMINISTRATION  
BENEFIT BEFORE DISCOUNTING TAXES

TAXES PAID TO THE ADMINISTRATION  
TOTAL TAXES COLLECTED BY THE ADMINISTRATION

These indicators inform about the proportion of benefit that the entity dedicates to the attainment of their objectives (in Spain, at least it should be 70%) and the proportion dedicated to taxes (that would be considered a way of collaborating with the Public Sector). On the other hand, it is necessary to know about the use of the proportion of benefit that hasn't been dedicated to the typical activities of the organization.

#### **4 - CONCLUSIONS**

Both, the lucrative sector and the non profit entities are demanding more and more transparency. But in the non profit sector this demand becomes more patent for many reasons. In the first place, this sector obtains revenues from the private sector and from the public sector, this fact requests to report back to the mentioned sectors and to the society in general. On the other hand, due to the social, beneficent and altruistic character of the non-profitmaking entities, the values of honesty, transparency and ethics in all their performances are basic principles that have to support their whole activity. In fact, the non-profitmaking organizations ought to be an example in the practice of fundamental values. Numerous efforts from diverse institutions and organizations are being carried out in order to divulge and to promote responsible practices in the managerial ambit and to value the behaviours in agreement with transparency and social responsibility. Different standards, indicators, social balances, etc. try to evaluate the dimensions relative to the social performance of non-profitmaking organizations. The indicators exposed as example can help in this task.

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