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Zarządzanie kosztami i dokonaniem

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Spis treści

Wstęp	11
Anna Bartoszewicz: Zbilansowana karta wyników jako narzędzie pomiaru pracy komórki audytu wewnętrznego	13
Barbara Batóg, Jacek Batóg, Andrzej Niemiec, Wanda Skoczylas, Piotr Waśniewski: Application of ordinal logit models in the diagnosis of performance measurement system in Polish enterprises	24
Bogusława Bek-Gaik, Bartosz Rymkiewicz: Model biznesu w sprawozdawczości polskich spółek publicznych na przykładzie branży energetycznej.....	36
Paulina Belch: Analiza kosztów rodzajowych w sektorze paliwowym.....	53
Anna Bialek-Jaworska: Determinanty kosztów kształcenia w szkołach wyższych	62
Leszek Borowiec: Kalkulacja kosztu netto usług transportowych Miejskich Zakładów Autobusowych sp. z o.o. w Warszawie.....	73
Halina Buk: Sprawozdawczość segmentowa bazą informacyjną dla oceny efektywności zarządzania operacyjnego	84
Michał Chalastra: Zakres integracji rachunku kosztów tworzonego na potrzeby systemów rachunkowości finansowej i budżetowania – wyniki badań empirycznych.....	96
Małgorzata Czerny: Pomiar dokonań w bankach islamskich	105
Dorota Czerwińska-Kayzer: Korzyści biologiczne w rachunku opłacalności produkcji rolniczej	112
Joanna Dyczkowska: Nowoczesne narzędzia raportowania menedżerskiego w kontekście roli współczesnych controllerów	121
Tomasz Dyczkowski: Financial and non-financial information in performance assessment of public benefit organisations	134
Tomasz Dyczkowski: Mierniki dokonań organizacji pożytku publicznego. Możliwości i ograniczenia stosowania	146
Aleksandra Ferens: Identyfikacja i grupowanie kosztów środowiskowych w systemie informacyjnym zarządzania	159
Rafał Jagoda: Koszty i korzyści a ryzyko ubezpieczenia należności.....	168
Elżbieta Jaworska: Pomiar dokonań w obszarze społecznego aspektu odpowiedzialności przedsiębiorstwa wobec pracowników.....	179
Jacek Jaworski, Jacek Woźny: Ramy koncepcyjne zastosowania strategicznej karty wyników w zarządzaniu jednostką podstawową uczelni publicznej.....	189

Wojciech Kariozen: Balanced Scorecard w czołowych polskich uniwersytetach – analiza gotowości do opracowania i wdrożenia	200
Magdalena Kludacz: Zasady rachunku kosztów francuskich szpitali na potrzeby wyceny świadczeń zdrowotnych	209
Bartosz Kołodziejczuk: Uwarunkowania zarządzania kosztami w przemyśle poligraficznym	219
Roman Kotapski: Koszty zbiorowego zaopatrzenia w wodę i zbiorowego odprowadzania ścieków na potrzeby kształtowania taryf.....	228
Mariola Kotłowska: Czynniki kreowania wartości przedsiębiorstwa ciepłowniczego.....	239
Robert Kowalak: Sprawozdawczość zarządcza zakładu gospodarowania odpadami	249
Marcin Kowalewski: Pomiar i raportowanie dokonań na poziomie strumienia wartości w <i>lean accounting</i>	260
Wojciech Dawid Krzeszowski: Planowanie kosztów w ujęciu procesowym	269
Justyna Kujawska: Koszty administracyjne w szpitalu.....	280
Grzegorz Lew: Pomiar dokonań relacji z klientami w przedsiębiorstwach handlowych.....	289
Monika Łada: Rachunek celowego postarzania produktów.....	298
Małgorzata Macuda: Rola benchmarkingu w pomiarze i ocenie dokonań szpitali.....	307
Teresa Martyniuk, Klaudia Balcer: Pomiar w rachunkowości na tle regulacji międzynarodowych.....	317
Łukasz Matuszak: Rola sprawozdania z działalności w społecznie odpowiedzialnym przedsiębiorstwie.....	327
Jarosław Mielcarek: EBITDA jako podstawa rachunku kosztów docelowych	343
Maria Nieplowicz: Organizacyjne aspekty wdrażania zrównoważonej karty wyników	354
Edward Nowak: Controlling zorientowany na dokonania przedsiębiorstwa..	363
Marta Nowak: Moral conflict in performance measurement.....	372
Agnieszka Nóżka: Zarządzanie kosztami projektów budowlanych realizowanych zgodnie z procedurami kontraktowymi FIDIC – wybrane problemy	380
Ryszard Orliński: Rozliczanie procedur medycznych z wykorzystaniem aplikacji grupera	391
Ewa Różańska: Metody oceny i selekcji projektów badawczo-rozwojowych w przedsiębiorstwie społecznie odpowiedzialnym	401
Jolanta Rubik: Zarządzanie kosztami pracy a wymogi CSR.....	411
Beata Sadowska: Rachunek kosztów działań – teoria i praktyka.....	420
Anna Surowiec: Supply chain management practices in SME sector	432

Piotr Szczypa: Koncepcja pomiaru osiągnięć w POL-EKO APARATURA spółka jawna	441
Olga Szolno: Cele i mierniki monitorowania celów w systemie kontroli zarządczej i budżetu zadaniowego w jednostkach samorządu terytorialnego.....	450
Łukasz Szydelko: Segmentowy rachunek kosztów i wyników w rachunkowości zarządczej zorientowanej na procesy	460
Joanna Świerk: Mapa strategii w działalności jednostek samorządu terytorialnego na przykładzie miasta Lublin	470
Marcin Wierzbiński: Model biznesowy a strategia i zarządzanie strategiczne.....	481
Beata Zyznarska-Dworczak: Zrównoważone zarządzanie kosztami wobec alternatywnych badań naukowych w rachunkowości zarządczej	501

Summaries

Anna Bartoszewicz: Balanced scorecard as a tool of efficiency measurement of the internal audit unit	13
Barbara Batóg, Jacek Batóg, Andrzej Niemiec, Wanda Skoczylas, Piotr Waśniewski: Wykorzystanie porządkowych modeli logitowych w diagnozie systemu pomiaru dokonań przedsiębiorstw polskich	24
Bogusława Bek-Gaik, Bartosz Rymkiewicz: Business model in the reporting of Polish public companies on the example of the energy sector	36
Paulina Belch: Analysis of generic costs of companies from the petroleum sector.....	53
Anna Bialek-Jaworska: Determinants of the education costs at universities	62
Leszek Borowiec: Calculation of net costs of transport services of Warsaw Bus Company.....	73
Halina Buk: Segment reporting as the information base for evaluation of effectiveness of operating management	84
Michał Chalastra: Areas of integration of costing systems created for the purpose of financial accounting and budgeting – the results of empirical research.....	96
Małgorzata Czerny: Performance measurement in Islamic banks	105
Dorota Czerwińska-Kayzer: Biological benefits in profitability account of agricultural production	112
Joanna Dyczkowska: Modern tools of management reporting in the context of roles of contemporary management accountants	121
Tomasz Dyczkowski: Informacje finansowe i niefinansowe w ocenie dokonań organizacji pożytku publicznego	134

Tomasz Dyczkowski: Performance measures for public benefit organization. Opportunities and limitations of their use	146
Aleksandra Ferens: Identification and grouping of environmental costs in the management information system.....	159
Rafał Jagoda: Costs and benefits vs. a risk of receivables insurance.....	168
Elżbieta Jaworska: Performance measures in the area of social context of corporate responsibility towards employees.....	179
Jacek Jaworski, Jacek Woźny: Conceptual frameworks for the use of Balanced Scorecard in the management of the basic unit of public university	189
Wojciech Kariozen: Balanced Scorecard in top ranked Polish universities – an analysis of readiness for design and implementation	200
Magdalena Kludacz: The principles of cost accounting in French hospitals for the valuation of medical services.....	209
Bartosz Kolodziejczuk: Determinants of business cost management in printing industry	219
Roman Kotapski: Costs of water supply system and sewage collection system with the purpose of creating scales of charges	228
Mariola Kotłowska: Factors of value creation in a heating company	239
Robert Kowalak: Managerial reporting for the waste disposal plants	249
Marcin Kowalewski: Value stream performance measurement of lean accounting.....	260
Wojciech Dawid Krzeszowski: Cost planning in the process perspective.....	269
Justyna Kujawska: Administrative costs in hospital.....	280
Grzegorz Lew: Performance measurement of customer relationships in enterprises of trade	289
Monika Łada: Product planned obsolescence accounting.....	298
Małgorzata Macuda: The role of benchmarking in hospitals' performance measurement.....	307
Teresa Martyniuk, Klaudia Balcer: Measurement in accounting against international regulations.....	317
Łukasz Matuszak: The role of management commentary of socially responsible enterprise	327
Jarosław Mielcarek: EBITDA as a basis for target costing	343
Maria Nieplowicz: Organizational aspects of the Balanced Scorecard implementation	354
Edward Nowak: Performance-oriented controlling.....	363
Marta Nowak: Konflikt moralny w zarządzaniu dokonaniem	372
Agnieszka Nózka: Managing the costs of construction designs carried out in accordance with the FIDIC contract conditions – selected issues	380
Ryszard Orliński: Settlement of medical procedures using Gruper applications	391

Ewa Różańska: Evaluation and selection methods of research and development projects in socially responsible company	401
Jolanta Rubik: Labour costs management vs. CSR requirements.....	411
Beata Sadowska: Cost accounting operations – theory and practice	420
Anna Surowiec: Praktyki zarządzania łańcuchem dostaw w sektorze MSP..	432
Piotr Szczypa: The concept of performance measurement in POL-EKO general partnership	441
Olga Szolno: Objectives and indicators for monitoring the goals in management control and performance budget in local self-government entities.....	450
Łukasz Szydelko: Segment costs and results accounting in process-oriented management accounting	460
Joanna Świerk: Strategy map in the performance of local government units on the example of the city of Lublin.....	470
Marcin Wierzbiński: Business model vs. strategy and strategic management.....	481
Beata Zyznarska-Dworczak: Sustainable costs management in the light of alternative research in management accounting	501

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**FINANCIAL AND NON-FINANCIAL INFORMATION
IN PERFORMANCE ASSESSMENT
OF PUBLIC BENEFIT ORGANISATIONS**

**INFORMACJE FINANSOWE I NIEFINANSOWE
W OCENIE DOKONAŃ ORGANIZACJI POŻYTKU
PUBLICZNEGO**

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Summary: Non-governmental organisations are aware that their successes in fulfilling social missions depend on support received from individual and institutional donors. In order to obtain external funding it is necessary to inform potential supporters about the performance of an organisation and efficiency in using its resources. The paper aims at diagnosing whether obligatory annual statements, and in particular financial and non-financial information they carry as well as the interplay between those two, may facilitate communication between organisations and their donors. An analysis of 177 annual reports of public benefit organisations (PBOs) and the results of an experiment supported by 59 participants proved relevance of information characterising social and economic effects of PBOs. It should be pointed out that the decisions of potential donors appeared to be conditioned by the perception of resources matching social goals along with effects adequate to resources and cost incurred. Finally, the relevance of information carried by the sets of specialised ratios was confirmed.

Keywords: donors, financial information, nonfinancial information, public benefit organisations.

Streszczenie: Organizacje pozarządowe są świadome, iż realizacja ich misji społecznej zależy od wsparcia darczyńców indywidualnych i instytucjonalnych. Pozyskanie zewnętrznych zasileń finansowych wymaga przekazania potencjalnym darczyńcom informacji o dokonaniach jednostki i o efektywności wykorzystania powierzonych zasobów. Niniejszy artykuł ma na celu zdiagnozowanie czy w komunikacji tej użyteczne są sprawozdania obligatoryjne jednostek, a w szczególności zawarte w nich informacje finansowe i pozafinansowe oraz relacje między nimi. Dokonana analiza sprawozdań 177 organizacji pożytku publicznego (OPP) oraz przeprowadzony eksperyment z udziałem 59 osób wykazały istotną rolę informacji charakteryzujących społeczne, jak i ekonomiczne efekty działalności OPP. Należy zauważyć, iż wybory potencjalnych darczyńców zostały uwarunkowane oceną wystarczalności zasobów do realizacji celów statutowych oraz adekwatnością efektów do zasobów i do poniesionych

kosztów. Dostrzeżono również użyteczność zestawu mierników dokonań OPP w decyzjach podejmowanych przez darczyńców.

Słowa kluczowe: darczyńcy, informacje finansowe, informacje niefinansowe, organizacje pożytku publicznego.

1. Introduction

Contemporary public benefit organisations¹ (PBOs) face a challenge of obtaining satisfactory social effects with non-increasing or even decreasing funds from public subsidies and individual or institutional donations. This situation results from a shift from a model of supporting certain social activities to paying for effects. Consequently, accountability and performance-orientation of PBOs are requested. Firstly, donors, public institutions and the general public expect exhaustive and credible information on social and economic effects obtained by particular organisations. Secondly, annual statements may no longer be limited to presenting funds raised and spent. The quantification of short-term effects and the description of long-term impact are required [Feilhauer, Horak 2006, p. 76].

In the forgoing context the paper aims at identifying which disclosures presented in annual financial and activity statements of PBOs should stimulate the support of donors. The attention is paid both to financial data – which is the most objective, standardised and comprehensible – and non-financial quantitative or narrative information – where some space for interpretation is left. The interplay between those two types is analysed, as well. A positive validation of hypotheses linking donors' decisions with financial and nonfinancial disclosures may suggest that preparing annual statements and making them accessible to the public is not merely a bureaucratic obligation but that it plays an important role in building a positive image of an organisation. The presented study should also contribute to a limited body of knowledge on donors' motivation and influence PBOs may have on their stakeholders.

2. Theoretical foundations

Public benefit organisations, being private providers of common goods, are financed by public institutions and donors who in exchange expect PBOs' beneficiaries receiving services of desired quality. In order to secure stable financing to social programmes and projects PBOs need to inform their stakeholders not only on cost incurred but most of all on effects obtained [Okten, Weisbrod 2000, p. 257].

¹ The paper applies a term “public benefit organisation” to a broad range of entities which are characterised by the following attributes: non-profit, voluntary, non-governmental and charitable [Dyczkowski 2010, p. 22]. Nevertheless, all examined organisations in this study had a legal status of a PBO, as well.

In case of individual donors decisions to support social initiatives may often be emotional or spontaneous. But if a considered choice between the myriads of organisations active in a broad range of activity domains is to be made, individual supporters must rely on information provided in annual statements [Connolly et al. 2013, p. 5] or voluntarily presented at home pages of particular PBOs. The reason for the said situation is twofold. Firstly, individual donors have little influence on a form and content of annual accounts which have to comply with the requirements of financial control [Connolly et al. 2013, p. 6; Thomson 2011, p. 65]. Secondly, investing scarce resources in public relations increases either fundraising or administrative cost, what may be negatively perceived by stakeholders expecting resources being allocated to social activities [Boenigk, Scherhag 2014, p. 325]. Obligatory annual financial and activity statements available in openly accessible databases may be, therefore, considered a good benchmark for those who do not belong to key stakeholders of a PBO and who do not keep regular contact with particular organisations. In case of Poland those are, for example, taxpayers who decide to support one of over seven thousand PBOs eligible for receiving 1% of personal income tax (PIT).

The annual financial statements of public benefit organisations should be targeted at a broad and diverse audience. In fact, they are too formal and too oriented on financial accountability to be of any help to many users [Connolly et al. 2013, p. 6]. Therefore, donors tend to pay closer attention to activity statements and search for information on social effects obtained by a PBO. It was proven that while regulators consider disclosures, regulations and revenue to be hallmarks of a thorough statement, individual donors prioritise non-financial information on effects, including those on: people, services and social work [Palmer 2013, pp. 236-237]. Research also shows that donors, while selecting an organisation to support, focus primarily on missions, social programmes and objectives [McDowell et al. 2013, p. 330], but they also consider the consistency of values proclaimed in a mission statement with actual activities performed [Whitman 2009]. An impact which an organisation has on its beneficiaries, local communities and the society is another issue at the top of the check-list in a non-financial performance analysis in PBOs. An impact assessment is, on the one hand, an appropriate measure to justify funds allocation – and for that reason it is more and more often required by institutional donors. On the other one, it helps to demonstrate long-term performance of a PBO and its development, what stimulates involvement of organisational supporters [Arvidson, Lyon 2014, p. 880].

If public benefit organisations want to make sure that their statements contribute to better relations with stakeholders such reports need to meet five criteria of: completeness, accessibility, transparency, full disclosure and relevance [Gordon et al. 2010, p. 210]. The first feature means that annual accounts are not presented in an abridged form, and in particular must not omit any significant financial or non-financial issue. Accessibility is understood nowadays as an open access to requested documents on the Internet, and in particular in searchable databases. Transparency means that there is no doubt what a PBO reports on, whereas a full disclosure princi-

ple implies an ordinary reader not being misled while studying the entire statement. The latter result both in a requirement to include notes on particular items presented in annual report and in consistency of financial and activity statements. Finally, relevance implies that a statement enables to assess performance of an organisation, and thus it includes information on goals, effects, future objectives and ways to achieve the latter [Gordon et al. 2010, pp. 210-221].

In case of public benefit organisations insufficient transparency results in a lack of trust. On the other hand full clarity gives a chance to demonstrate higher effectiveness of PBOs in comparison both to public institutions and companies offering services of a similar kind [Cordery et al. 2011, p. 365]. Research shows that PBOs are aware of that opportunity. Those organisations where donations contribute to a greater extent to annual budgets are much more eager to make their annual accounts accessible to people from outside [Behn et al. 2010, pp. 8-11]. Moreover, organisations whose reports are considered reliable, receive higher donations, and donors tend to be less sensitive to fluctuations in a scope of activities conducted by an organisation [Thomson 2011, p.65].

The foregoing opinions suggest the existence of an important research question related to the usefulness of PBOs' annual accounts to donors. The following part of the paper will refer to the results of experimental research conducted by the author, based on annual statements of 177 PBOs and with the participation of 59 potential donors, which tests what groups of information are the most appealing when taking decisions on supporting PBOs with the "1% of PIT".

3. Research methodology

Among research papers on disclosing performance related information by public benefit organisations those referring to financial information are prevalent. There exists a limited body of knowledge on how donors use non-financial information in their decision-making processes. The said situation stems from the fact that quantifying and comparing non-financial effects poses a challenge, in particular with an absence of standards in this respect [McDowell et al. 2013, p. 330]. Therefore, links between certain types of disclosures and motivation of donors may be detected experimentally, with a help of participants aware of how PBOs operate and what makes them effective. Examples of that approach may be found both in foreign and Polish literature [McDowell et al. 2013, p. 334; Waniak-Michalak, Zarzycka 2013, pp. 103-105].

The author's experiment included 59 attendants of the master level course: "controlling in public benefit experiment". Each participant was asked to assess and compare three randomly selected PBOs² from a list published by the Department

² The author excluded those PBOs from the sample which neither had a web-site nor a profile at major social networks – what may have served as an additional source of information on non-financial effects. Consequently, the examined 177 PBOs corresponded to 265 selected ones.

of Public Benefit (DPB) at the Ministry of Labour and Social Policy. Finally, based on information disclosed in annual³ financial and activity statements, as well as on information available on PBOs' web-sites a choice of the most appropriate donee of the "1% of PIT" was to be made.

In order to facilitate the decision-making a standardised evaluation form was developed by the author. The form included 13 open questions addressing such issues as: objectives and effects, resources, economic situation, effectiveness and efficiency as well as organisational image – all listed hereafter.

Q1. Do annual statements of an organisation or its promotion materials define precisely statutory goals and activities or projects undertaken to achieve those objectives?

Q2. Do annual statements of an organisation or its promotion materials disclose accurately effects of activities undertaken by the organisation in the recent period?

Q3. Do annual statements of an organisation or its promotion materials characterise thoroughly beneficiaries of activities conducted by the organisation in the recent period?

Q4. Do annual statements of an organisation or its promotion materials describe comprehensively all social programmes conducted by the organisation which were funded with the "1% of PIT"?

Q5. Do annual statements of an organisation or its promotion materials present exhaustively all social programmes conducted by the organisation which were financed with public subsidies?

Q6. Does the web-site of the organisation help to produce a positive image of the PBO?

Q7. Does the organisation have sufficient material, financial and human resources, respecting its statutory goals?

Q8. Do social effects obtained by the organisation correspond with material, financial and human resources invested by the PBO?

Q9. Do funds raised by the organisation suffice to obtain its social goals?

Q10. Do social effects generated by the organisation match cost it incurs?

Q11. Is the organisation economically effective?

Q12. Does the organisation deserve a "public benefit" status with all advantages it offers?

Q13. Which of the three PBOs deserves 1% of your PIT the most and why?

Answers to particular questions had to be preceded with an analysis of selected information from financial and activity statements of PBOs or with a calculation of certain ratios (see Table 1).

³ The examination covered accounts for the year 2012, as the reports for the year 2013 were not available at the moment when the experiment was conducted (i.e. March-April 2014), as PBOs are requested to upload their statements onto the DPB's database by July 15th.

Table 1. Financial and non-financial information used in the assessment of PBOs' performance

Q7-Q8. Goals and effects vs. resources	Q9-Q10. Goals and effects vs. revenue and cost	Q11. Effectiveness and efficiency		
<ul style="list-style-type: none"> - tangible and intangible fixed assets, - current assets, - inventories, - cash and other short-term investments, - total assets, - own funds, - net profit (loss), - long-term liabilities on loans and borrowings, - short-term liabilities and special funds, - total employment, - employment in full time equivalents, - volunteers providing services in a period shorter than 30 days, - volunteers providing services in a period longer than 30 days, - members of an organisation. 	<ul style="list-style-type: none"> - total revenue, - revenue on unpaid statutory activities, - revenue on paid statutory activities, - revenue on business and financial activities, - 1% of PIT, - public funding, - membership fees, - individual donations, - institutional donations, - public collections, - total cost, - cost of unpaid statutory activities, - cost of paid statutory activities, - cost of business activity, - administrative cost, - gross labour cost. 	$\text{financial stability ratio} = \frac{\text{cash and other short-term investments} * 365}{\text{total cost}}$		
		$\% \text{ of private financing} = \frac{1\% \text{ of PIT} + \text{membership fees} + \text{individual donations} + \text{public collections}}{\text{total revenue}}$		
		$\% \text{ of public financing} = \frac{\text{public funding}}{\text{total revenue}}$		
		$\% \text{ of administrative cost} = \frac{\text{administrative cost}}{\text{total cost}}$		
		$\% \text{ of labour cost} = \frac{\text{gross salaries}}{\text{total cost}}$		
		$\text{activity scope} = \frac{\text{individual beneficiaries} + \text{institutional beneficiaries} \times 10}{\text{employees} + \text{volunteers below 30 days} / 52 + \text{volunteers over 30 days} / 4}$		
		$\text{alternative labour cost} = \frac{(\text{volunteers below 30 days} / 52 + \text{volunteers over 30 days} / 4) \times \text{gross salaries}}{\text{employees}}$		

Source: own elaboration.

The data obtained in the research together with the results of the experiment will be used to validate the following two hypotheses.

1. H_1 : Donors' decisions on supporting particular PBOs are related to non-financial information disclosed in annual statements and presented on organisational web-sites.

2. H_2 : Donors' decisions on supporting particular PBOs reflect links between non-financial and financial information disclosed in annual statements and presented on organisational web-sites.

The validation procedure included a quantitative analysis, where a quality of disclosures in particular information areas (questions Q1-Q11) was assessed by the participants of an experiment using a 7-grade scale. Beside a presentation of descriptive statistics, the results of a correlation analysis between the quality of disclosures

(Q1-Q11) and an overall assessment of a PBO (Q12) as well as conclusions from an application of Mann-Whitney examining influence of disclosure quality (Q1-Q11) on a choice of a PBO (Q13) will be brought forward.

4. Research results

Figure 1 presents an evaluation of quality of the disclosed information in the aforementioned areas conducted by potential donors. It should be added that participants of the experiment – beside financial and annual activity statements – considered also information presented at web-sites of particular PBOs or at their profiles in social networks. The last two factors were referred to in the evaluation of an organisational image. For each of the evaluation domains seen in Figure 1 the following statistics were presented: minimum and maximum (lower and upper ends of the lines) – in each case equal to 1 and 7 respectively – the first and the third quartile (lower and upper ends of the bars), as well as an average score (a horizontal bar).

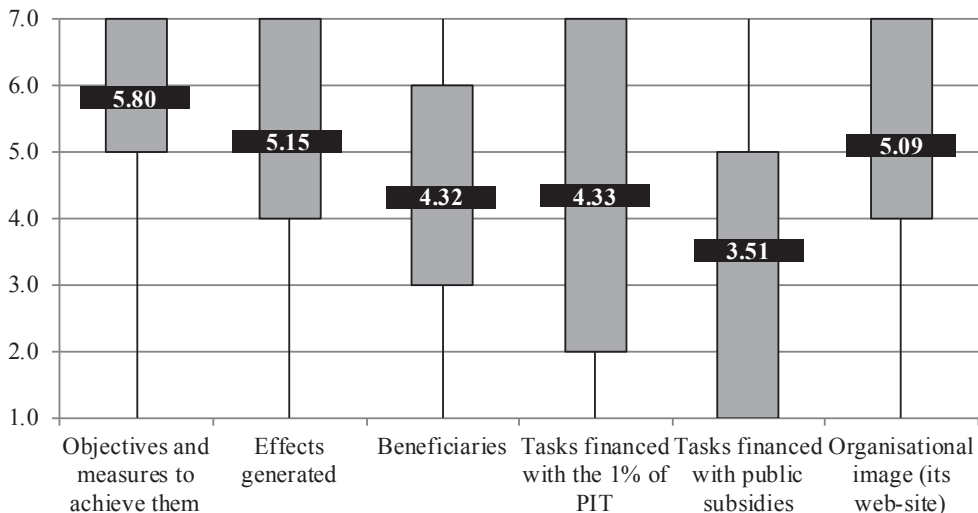


Fig. 1. Evaluation of the examined PBOs with the social metrics

Source: own elaboration.

Based on the results of the research, the following three areas: “objectives and measures to achieve them”, “effects generated” and “organisational image” appeared to be those where information disclosed in financial and activity statements, as well as presented on organisational web-sites, was sufficient from the donor’s point of view. The average scores attributed by participants of the experiment equalled 5.80 / 5.15 / 5.09 respectively – what represents “satisfactory” up to “good” opinions. In the first area only 16 reports (9.0%) received negative evaluations (scores ranging

between 1 and 3). In the other two domains every fifth statement was considered unsatisfactory (20.9% and 19.8% respectively).

Information on tasks financed with the “1% of PIT” as well as on beneficiaries also received positive scores on average (of 4.33 and 4.32 points respectively), though, the share of reports the quality of which was perceived as “satisfactory”, “good” or “very good” was only slightly higher than in case of neutral and negative opinions (52.5% and 50.3% respectively). Disclosures on tasks financed with public subsidies were in general treated as “unsatisfactory” by potential donors (with the average score of 3.51). Only one report per three was evaluated positively in this respect.

It may be added that considering all six presented information areas together only 48 examined PBOs (27.1%) received not even a single negative grade, whereas in case of 26 organisations (14.7%) all evaluations were positive (scores ranging from 5 to 7). On the other hand, only 6 PBOs (3.4%) received negative grades only for the quality of disclosures in all presented information areas. Consequently, none of those six was selected as the most appropriate donee of the “1% of PIT”.

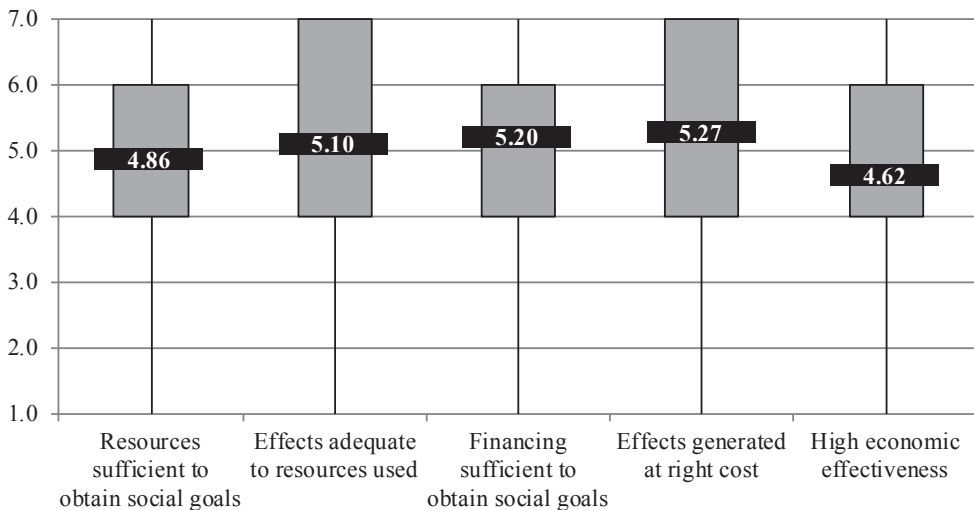


Fig. 2. Evaluation of the examined PBOs with the economic metrics

Source: own elaboration.

In reference to the results of the economic examination (presented in Figure 2), combining financial and non-financial issues, the following conclusions may be drawn. Firstly, all five examined hallmarks of high performing PBOs were on average positively evaluated by participants of the experiment. The examined organisations made the most positive impression when their effects and cost incurred were confronted. This resulted on the one hand from significant effects achieved

by particular PBOs, but on the other one from surprisingly low annual cost (with a monthly average of 124,710.57 PLN and a median of 29,572.71 PLN). The latter stemmed from the involvement of members and volunteers in social work and very modest salaries paid to regular employees (the average of 1,030.41 PLN monthly per employee, and a median of 514,58 PLN only). To some extent the said situation was also a derivative of low value of fixed assets (the average of 659,600.29 PLN; but with 50.8% of examined PBOs having no fixed assets at all) and associated cost.

It may be added, that in case of 96 examined PBOs (54.2%) none of the assessment of combined financial and non-financial information received negative grades, and in 43 organisations (24.3%) all five scores were positive (5 to 7 points). Moreover, two PBOs received all scores of 7 points. Finally, there was no organisation where all five considered areas of economic evaluation were assessed negatively.

Table 2. The relation between social and economic metrics and evaluation of PBOs

Specification	Correlation coefficient / p	unselected PBOs (n ₁ = 118) / selected PBOs (n ₂ = 59)			Z / p
		Mean rank	Average		
Social metrics					
Objectives and measures to achieve them	***0,468	n ₁	79,88	5,52 pts.	***-3,347
	0,000	n ₂	107,24	6,37 pts.	0,001
Effects generated	***0,540	n ₁	79,83	4,83 pts.	***-3,367
	0,000	n ₂	107,35	5,78 pts.	0,001
Beneficiaries	***0,373	n ₁	79,09	3,95 pts.	***-3,636
	0,000	n ₂	108,81	5,05 pts.	0,000
Tasks financed with the 1% of PIT	***0,431	n ₁	82,21	4,01 pts.	** -2,493
	0,000	n ₂	102,58	4,97 pts.	0,013
Tasks financed with public subsidies	***0,233	n ₁	81,11	3,15 pts.	***-2,897
	0,002	n ₂	104,79	4,22 pts.	0,004
Organisational image (its web-site)	***0,505	n ₁	80,12	4,76 pts.	***-3,260
	0,000	n ₂	106,76	5,75 pts.	0,001
Economic metrics					
Resources sufficient to obtain social goals	***0,306	n ₁	82,45	4,64 pts.	** -2,404
	0,000	n ₂	102,10	5,29 pts.	0,016
Effects adequate to resources used	***0,543	n ₁	78,99	4,81 pts.	***-3,673
	0,000	n ₂	109,02	5,68 pts.	0,000
Financing sufficient to obtain social goals	***0,302	n ₁	84,64	5,08 pts.	-1,598
	0,000	n ₂	97,71	5,46 pts.	0,110
Effects generated at right cost	***0,622	n ₁	79,15	4,96 pts.	***-3,614
	0,000	n ₂	108,69	5,90 pts.	0,000
High economic effectiveness	***0,324	n ₁	79,23	4,30 pts.	***-3,585
	0,000	n ₂	108,53	5,25 pts.	0,000

** significance level of 5%; *** significance level of 1%.

Source: own elaboration.

The final part of the paper discusses the results of a correlation analysis between the quality of disclosures in six social and five economic domains with the overall assessment of PBOs (Q12) as well as a relation between the former two and the final decision of potential donors (Q13) which organisation they decided to support financially. Participants' choices were quantified with a binary variable (with 1 indicating selection and 0 the opposite situation). Table 2 presents correlation coefficients with probability levels and well as results of Mann-Whitney tests with probability levels, together with mean ranks and average scores for the groups of unselected ($n_1 = 118$) and selected organisation ($n_2 = 59$).

Respecting the six disclosure areas related to social effects, links to overall assessments of PBOs (significant correlation) and to choices of the most appropriate donees of the "1% of PIT" (positive results of the Mann-Whitney test) were detected. In case of the first relation the most influential factors appeared to be "effects" and "organisational image" based on information presented at PBOs' web-sites (with correlation coefficients exceeding 50% threshold). The weakest link was the one between "tasks financed with public subsidies" and overall assessments of PBOs. The former area was also the one where a quality of disclosures was negatively assessed by participants of the experiment.

Considering influence on potential donors' decisions, "beneficiaries" proved to be the most relevant factor. Surprisingly, disclosures on "tasks financed with the 1% of PIT" turned out to be the least stimulating for further donations. In that information area the highest possible grade for disclosure quality (7 points) guaranteed selection of an organisation by potential donors only in 43.8% of situations, whereas a perfect score in terms of information on "beneficiaries" increased a success factor to 55.6%. It can be added that a positive assessment of disclosure quality (5-7 points) related to "objectives" of a PBO was the least decisive in terms of potential donors' preferences (a success ratio of 38.9%), whereas the same scores received for information on "tasks financed with public funds" was the most influential (the success ratio of 47.3%). Finally, it should be noted that none of examined PBOs which received a negative grade (1-3 points) for the presentation of its "statutory objectives" was selected to be supported by potential donors.

In reference to the five indicators of economic performance the strongest link between "effects obtained at right cost" and the overall assessment of PBOs was detected (with a correlation coefficient of 62.2% at 1% significance level). The weakest – but still binding – ties were observed for "financing sufficient to obtain social goals" (the coefficient of 30.2%). As for the relation between particular scores and final choices of potential donors, the strongest influence of "effects adequate to resources used" was detected. On the other hand, a scope of "financing in reference to social goals" turned out to be irrelevant to potential donors' choices. It should be added that a perfect score (of 7 points) attributed to a relation between "effects and resources" guaranteed the final selection of an organisation in 57.4% of cases. The

lowest success ratio (of 38.6%) was observed when “financing capacities and social goals” were in match (the score of 7 points).

5. Conclusions

As declared in the introduction, the objective of the paper was to detect what types of financial, non-financial or combined information disclosed by Polish public benefit organisations or presented at their web-sites influenced the opinions of donors and encouraged them to donate their “1% of PIT”. Therefore, it is worth summing the results up and deciding whether the said objective was met.

Firstly, it should be emphasised that both research hypotheses, linking financial and non-financial information to donors’ preferences, were proved valid. In case of six examined areas of disclosures, including: objectives, effects, beneficiaries, tasks financed with the “1% of PIT” or with public subsidies, as well as an organisational image, it was proven that the quality of disclosures was indeed related with donors’ choices. With a reference to economic measures, linking non-financial and financial information, only a relation of financing capacities and social goals was irrelevant to donors’ decisions. It should be stressed that a link between social effects and cost incurred turned out to influence an overall opinion of potential donors on particular PBOs to the highest extent. That is a vital hint to PBOs willing to make their communication with stakeholders more effective.

Despite positive results of an experiment, limitations of the research may not be ignored. The first constraint derives directly from the research methodology, where a rationale of declarative decisions of potential donors was investigated rather than real decisions of actual donors (although only 3 participants of the experiment did not declare a support to PBOs with their own funds). The second shortcoming has a more structural nature. It consists in low awareness of an accessibility of PBOs’ reports and a low extent to which donors refer to those statements while making their decisions. Nonetheless, a limited body of knowledge on usefulness of performance related information on donors’ choices, in particular in Polish conditions, makes results of the experiment important. The author intends to validate results of this study with an analysis of potential links between various sorts of non-financial and financial disclosures and donations actually obtained by PBOs.

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