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Voluntary Adoption of Recommended Reporting Practices: Evidence from the Irish Nonprofit Sector

KAREN-ANN DWYER*, ERICA E. HARRIS** and BRID MURPHY†

*Dublin City University, Dublin, Ireland; **Florida International University, Miami, FL, USA; †Dublin City University, Dublin, Ireland

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Abstract The UK Financial Reporting Council's Charities Statement of Recommended Practice (SORP) provides a detailed nonprofit financial reporting framework for both the UK and Ireland. While adoption is mandatory in the UK, the Irish nonprofit sector currently operates under a voluntary financial reporting system. Using a sample of 23,124 nonprofit year observations for 6,593 unique Irish nonprofit organizations, we examine the determinants and funding consequences of voluntarily adopting the Charities SORP. In doing so, we show that there has been a steady increase in the adoption of Charities SORP, with use more than doubling between 2015 and 2020. We also show that Irish nonprofit organizations with more external oversight from regulators, auditors and funders as well as those with more resources are more likely to adopt Charities SORP. In terms of consequences, we find that organizations following Charities SORP receive more future funding support from both donors and government grantors. We also find that organizations are more likely to adopt Charities SORP when peer organizations in the same industry/county have already adopted SORP. Finally, we observe that donors reward smaller and educational organizations voluntarily adopting Charities SORP than larger, non-educational organizations.

Keywords: Nonprofit; Ireland; Statement of recommended practice; Donations

I. Introduction

'In the last decade, the activity and influence of nonprofit organizations in almost every country in the world have grown exponentially' (Casey, 2016, p. 188). This growth has brought about increased reliance on nonprofit organizations for critical components of social welfare such as education, health, and civil services. To support these vital operations, donors and other stakeholders rely on financial information to make their donation decisions (Gordon & Khumawala, 1999; Parsons, 2003; Trussel & Parsons, 2007). However, the global nonprofit sector is diverse in terms of required financial information disclosures by charity organizations (Wiepking & Handy, 2015). In Ireland, the nonprofit sector currently operates under a voluntary financial reporting system (Breen & Carroll, 2015).[1] However, the 2022 Charities (Amendment) Bill aims to

Correspondence Address: Erica E. Harris, Florida International University, 11200 SW 8th St, Miami, FL33199, USA. Email: erica.harris@fiu.edu
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[1]We refer to the Republic of Ireland as Ireland, excluding Northern Ireland which is part of the UK.

require Irish nonprofit organizations to adopt detailed, sector-specific reporting guidelines.[2] We study the determinants and funding consequences of voluntarily using these reporting guidelines in advance of mandatory adoption.

The Irish Auditing and Accounting Supervisory Authority (IAASA) has been the regulator of financial reporting and auditing in Ireland since 2006. Despite this, the UK Financial Reporting Council (FRC) remains responsible for issuing Statements of Recommended Practice (SORPs) for both the UK and Ireland. SORPs are 'sector-driven recommendations on financial reporting, auditing practices and actuarial practices for specialized industries, sectors or areas of work.'[3] The first SORP for charity organizations, called 'Charities SORP,' was issued in 1988 by the Accounting Standards Board (ASB), the predecessor to the FRC. Updated in 2019, Charities SORP requires nonprofit organizations to prepare and present detailed financial information as well as disclosures which provide charity specific transparency to stakeholders.

Despite indications that Charities SORP will soon be required for Irish nonprofits, at the time of writing, the Government of Ireland (Department of Rural and Community Development) recommends, but does not require, Irish nonprofits to adopt Charities SORP. We seek to understand the types of organizations that voluntarily adopt Charities SORP in advance of future mandatory adoption requirements. Specifically, we hypothesize that organizations with external oversight as well as those with more resources at their disposal are more likely to adopt the formal reporting framework provided for by Charities SORP.

In addition to understanding the types of organizations voluntarily adopting this SORP, we are also interested in stakeholder response to Charities SORP. In the UK, Connolly and Hyndman (2013, p. 261) note that SORP reporting should 'enable the reader to understand the charity's structure and performance, that is, its activities and achievements; and gain a full and proper appreciation of the charity's financial transactions and financial position.' Via structured interviews, Connolly and Hyndman (2013) document that large and small donors alike considered SORP-based financial statements both useful and a positive signal of accountability. They also report that large donors indicated SORP had increased confidence in the sector. As a result, we seek to provide empirical evidence of donor and grantor support to organizations following SORP.

Our sample comprises over 23,000 nonprofit-year observations for an industry diverse set of Irish nonprofit organizations between 2015 and 2020. We find that, on average, 14% of sample nonprofits have voluntarily adopted Charities SORP. Moreover, we find a steady increase in the usage of Charities SORP and that adopters have more than doubled in the study's timeframe from 8% (346 observations) in 2015 to 21% (613 observations) in 2020. We also confirm that Charities SORP adoption varies predictably with our conjectures. That is, we find that organizations with more oversight, defined as those that are incorporated under Irish Company Law, those registered with the Charities Regulator, and those that undergo a financial statement audit are more likely to voluntarily report according to Charities SORP. Our results also indicate that organizations with more resources are more likely to adopt Charities SORP.

We also examine donor and grantor response to voluntarily implementing this financial reporting framework. We find that both donors and grantors view Charities SORP favorably, providing more future funding to organizations voluntarily adopting and using SORP. We also find that organizations are more likely to adopt Charities SORP when peer organizations in the same industry/county have already adopted SORP. Finally, we show that donors (grantors) provide more support to small (educational) Irish charities who voluntarily adopt Charities SORP than to larger (non-educational) organizations who will likely soon be required to adopt SORP.

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[2]We use the terms nonprofit and charity interchangeably to describe organizations operated for public good and exempt from tax in the Republic of Ireland, also known as non-governmental organizations or NGOs.

[3]https://www.charteredaccountants.ie/knowledge-centre/technical-hub/financial-reporting/sorps

We believe these findings make several important contributions to our understanding of nonprofit financial reporting. First, we capitalize on one of the few settings that allows for a voluntary financial reporting regime, in a setting which will soon require adoption. The ability to study the kinds of organizations and motivations for voluntarily implementing a recommended formal financial reporting framework provides a rare opportunity to understand nonprofit reporting practices not available in jurisdictions with mandatory reporting requirements or those without any guidance at all. That is, we shed light on voluntary financial reporting in a sector where global reporting frameworks vary dramatically from mandatory, detailed reporting (such as the US Form 990), to recommended practices (such as Irish Charities SORP), to completely voluntary (such as nonprofit financial reporting in Mexico). Our results, therefore, inform charity regulators in countries that have yet to establish reporting requirements and provide valuable information for authorities with recommended practices.

Second, we build on studies that have taken first steps to study voluntary disclosures in the nonprofit sector but that have so far been very narrow in scope. For example, Harris and Neely's (2021) study of GuideStar transparency ratings was limited to 35 'Gold' nonprofit organizations with financial reporting requirements similar to SORP. Saxton et al. (2012) focus on 40 Taiwanese healthcare organizations, and Rossi et al.'s (2020) findings are limited to 144 UK and Italian community foundations. We extend this work to a larger, industry diverse dataset of nonprofit organizations. In addition, our unique setting allows us to assess the use and benefits of a formal, government recommended reporting practice, where adoption will soon be made mandatory.

Third, to our knowledge, we are the first to access a large dataset of Irish nonprofit organizations for empirical analyses. In doing so we are able to provide important insights into the types of nonprofit organizations providing charity services in Ireland, including the reporting and funding characteristics of these organizations. Moreover, we are the only study that examines the reaction of donors and grantors to Irish nonprofit financial accounting information and reporting. Cultural and taxation differences in Ireland likely drive the extent to which individuals and corporations support charity organizations (Breen & Carroll, 2015). Therefore, we are the first to document if the covariates found to be important drivers of donations and grants in other jurisdictions likewise apply to the Irish nonprofit sector.

Finally, we find that organizations adopting Charities SORP are associated with additional support from donors and grantors, indicating that the benefits outweigh the potential costs of adopting SORP. We therefore provide support for the Charities Amendment Bill of 2022 which will require certain Irish nonprofit organizations to adopt SORP. This is especially relevant given the growing number of charity scandals in Ireland (e.g., Bóthar, Central Remedial Clinic, Console, GOAL, Irish Red Cross and Rehab) which could be mitigated by increased reporting requirements. Based on our evidence we also encourage other countries not currently requiring charity specific reporting to adopt Charities SORP-like reporting to provide stakeholders with value-relevant information with which to make their support decisions.

The remainder of this paper proceeds as follows. In the next section we provide background information about Charities SORP as well as other reporting requirements for Irish nonprofit organizations. This is followed by our study hypotheses. Next, we report our empirical models and data, results, and concluding remarks.

II. Background

Agency theory (Jensen & Meckling, 1976) proposes that managers' interests are not perfectly aligned with principals. This suggests that when principals are unable to directly observe

managerial behavior, managers act in a manner which is at least partially inconsistent with principals' interests. In the nonprofit context, donors act as principals while nonprofit managers assume the role of agents (Hansmann, 1980). Voluntary disclosures work to alleviate agency costs insofar as nonprofit managers reveal their effectiveness through the disclosure of accounting information (Healy & Palepu, 2001; Watts & Zimmerman, 1986). As a result, the demand for nonprofit financial information can be at least partially explained by the agency conflict, whereby disclosing additional information can be a means of monitoring nonprofits and decreasing agency costs (Krishnan et al., 2006).

While agency theory plays a primary role in our setting, signaling and stakeholder theories also provide valuable theoretical underpinnings to our research. Signaling theory informs our study insofar as better governed nonprofits will choose to be more transparent (Harris & Neely, 2021). Therefore better governed nonprofits adopt the additional disclosures required by Charities SORP as a means of signaling to donors and grantors their superior performance. Stakeholder theory, which emphasizes that different stakeholders and their interests need to be identified and addressed to maximize firm performance, also plays a role in our setting. We argue that Charities SORP works to provide stakeholders such as donors and grantors with valuable, detailed financial information necessary for their support decisions (Connolly & Hyndman, 2013). Without such an appreciation of charity stakeholder needs, organizations may be reluctant to invest the additional time and expense required to adopt Charities SORP.

Building on this theoretical framework, we examine nonprofit regulatory and reporting systems and specifically current voluntary adoption of Charities SORP in Ireland. We then discuss disclosures required under Charities SORP, anecdotal evidence on the perception of SORP, as well as the proposed future mandatory adoption of SORP. Finally, we describe other current reporting requirements for Irish nonprofits.

II.1. Current Voluntary Adoption of Charities SORP

The Charities Statement of Recommended Practice (Charities SORP) was first developed in 1988 by the Accounting Standards Board (ASB, 1988). Charities SORP has been updated in 1995, 2005, 2015 and 2019 and applies to UK and Irish charities.[4] However, while UK charities must adopt Charities SORP, it remains a recommended best practice for Irish nonprofits (Charity Commission and Office of the Scottish Charity Regulator (OSCR), 2019 paragraph 14, p. 3). According to the Charities Institute Ireland:

> The Charities SORP is a Statement of Recommended Practice that sets out how charities should prepare their annual accounts and report on their finances. The SORP is an interpretation of the underlying financial reporting standards and generally accepted accounting practice. The SORP is overseen by a committee of 17 expert members drawn from the 4 charity law jurisdictions covered by UK-Irish GAAP.[5]

II.2. Disclosures Required Under Charities SORP

It is important to understand that Charities SORP goes well beyond basic financial reporting disclosures to provide stakeholders with information specifically designed for the nonprofit setting.

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[4] 'The Statement of Recommended Practice is issued by the Charity Commission for England and Wales, the Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator in their role as the joint SORP-making body, recognized by the Financial Reporting Council' (Charity Commission and OSCR, 2019 paragraph 1, p.1). The joint SORP-making body is responsible for issuing the SORP for charities in England and Wales, Northern Ireland, Scotland and Ireland.

[5] https://www.charitiesinstituteireland.ie/pages/charities-sorp

In fact, Charities SORP includes over 50 requirements that go beyond basic FRS 102 financial statements, therefore providing users with incremental information not found elsewhere.[6] According to the standard setters, Charities SORP

> includes charity-specific requirements that are additional to those of FRS 102 / FRS 105.[7] In particular, Charities SORP has additional requirements relating to the trustees' annual report and fund accounting. It also has requirements for the format of the statement of financial activities and additional disclosures aimed at providing a high level of accountability and transparency to donors, funders, financial supporters and other stakeholders. (Charity Commission and OSCR, 2019 paragraph 6, p.1)[8]

As an example, Section 2.27 of Charities SORP requires a separate analysis of a charity's unrestricted and restricted funds on the Statement of Financial Activities (SoFA). In particular, this section requires 'that items recorded in the SoFA must be analysed between unrestricted funds, restricted income funds and endowment funds' (Charity Commission and OSCR, 2019 Section 2.27, p.27). To illustrate this as well as other differences, online Appendix A includes the Barnardos 2020 Statement of Financial Activities, which follows Charities SORP. Appendix A also includes the 2020 Statement for the Irish Music Rights Organisation company, which does not follow SORP. From these examples, it is evident that Barnardos provides much greater detail in its reporting, especially in terms of donation restrictions.

II.3. Anecdotal Evidence on the Perception of SORP adoption in Ireland

Next, we review anecdotal evidence to understand the public's perception of Charities SORP in Ireland. Quinn (2013, p. 1) reports that Charities SORP is the 'gold standard in financial transparency.' David Hall (Interim CEO, Console) highlights that Charities SORP '. . . provides guidance for charities on how they should report their financial affairs, the information they provide allows for standardisation and transparency' (Hall, 2016, p. 2). The director of finance at Barnardos (see also online Appendix A), Kevin Gregory, explains that Barnardos has adopted Charities SORP because 'This is seen as best practice' and 'We give people a very good picture of what's going on' (McCall, 2020). Finally, O'Callaghan (2016, p. 1) outlines the auditor perspective, asserting that nonprofits need to apply 'international best practice and standards' such as Charities SORP to build trust in the Irish charity sector in the wake of several high-profile charity scandals. This evidence echoes the Charities Regulator aim of increasing transparency and accountability to donors (Charity Commission and OSCR, 2019, p. 1).

II.4. Future Mandatory Adoption of Charities SORP

The Charities Act 2009 (Irish Statute Book, 2009) provided for the establishment of the Charities Regulatory Authority (CRA), which was founded in 2014. In 2016, the CRA started a public consultation on draft charity reporting and accounting requirements (Grant Thornton, 2020, p. 3). Feedback from the public consultation process on the draft Charity Accounting and Reporting Regulations 'strongly indicated that there is broad consensus in civil society that the Charity Accounting and Reporting Regulations should apply to all charities, regardless of their form' (Department of Rural and Community Development, 2022, p. 48). As a result, the proposed

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[6] See https://www.charitysorp.org/media/647945/charities-sorp-frs102-2019a.pdf for the full Charities SORP (FRS 102) 2019. 'The phrase "this SORP requires" is used to distinguish the additional disclosures required by the SORP which are not specifically required by FRS 102' (Charity Commission and OSCR, 2019 paragraph 6, p.1).

[7] FRS 102 is the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRC, 2018) and is the UK and Irish application of IFRS for small and medium-sized entities.

[8] Charities SORP requires charities to present numbers differently and include more detail. However, the reported amounts do not change as a result of adopting SORP.

Charities (Amendment) Bill 2022 (Department of Rural and Community Development, 2022) will amend provisions in the Charities Act 2009. The Bill will require large Irish charities with more than €250,000 gross income or gross expenditure ('the threshold') to submit an annual statement of accounts to the Charities Regulator and adopt Charities SORP. However, under the proposed Charities (Amendment) Bill 2022, small Irish charities (< €250,000) and educational bodies (excluding university foundations) will not be required to adopt Charities SORP.

II.5. Other Current Reporting Requirements for Charities

Under Section 52 of the Charities Act 2009 (Irish Statute Book, 2009), every charity (regardless of size) registered in the Republic of Ireland must submit an annual activity report to the Charities Regulator. The annual activity report describes a charity's activities and achievements for the previous period, however, does not include detailed financial information. Irish charities submit the annual activity report online and it is then made available on the Public Register of Charities. Additionally, all incorporated charities must submit an annual return to the Companies Registration Office (CRO). Large, incorporated charities are required to prepare financial statements in accordance with Irish Company Law and submit annually to the CRO. Small, incorporated charities (not meeting the company law size threshold) are required to submit abridged financial statements to the CRO. To summarize the current reporting requirements for Irish nonprofit organizations we offer online Appendix B. However, it should be clear that while basic activity and financial information are required disclosures for organizations meeting certain size thresholds, the adoption of the more detailed reporting framework required by Charities SORP remains recommended, but voluntary, for all Irish nonprofits at this time.

III. Hypotheses Development

First, we aim to understand the types of organizations voluntarily adopting Charities SORP. We posit that organizations with more external oversight, as well as those with more resources, will be more likely to adopt Charities SORP. We focus on oversight from three distinct groups: regulators, auditors, and funders; and consider resources in terms of total assets.

III.1. Regulatory Oversight

Prior literature documents that regulatory oversight is associated with enhanced reporting which contributes to a more robust information environment, aids the functioning of corporate communities, and provides greater confidence to societal stakeholders (Bonetti et al., 2016; Cohen et al., 2004; Hasan et al., 2022). This involves both high quality reporting standards as well as diligent interpretation and application (Herath & Albarqi, 2017; SEC, 2000). Moreover, proactive regulatory oversight and enforcement play an important role in shaping managers' incentives to provide high quality financial information, as managers in regulated jurisdictions are less likely to issue reports that will be subsequently restated (Blackburne, 2014; Christensen et al., 2020; Ewert & Wagenhofer, 2019). Despite this, it is possible that regulatory oversight acts as a substitute for reporting in a voluntary environment. That is, while greater oversight undoubtedly improves compliance with required reporting, oversight agencies may not compel organizations to provide additional voluntary reporting. Notwithstanding this tension, we expect Irish nonprofit organizations with more regulatory oversight, in the form of incorporation with Irish Company Law as well as organizations registered with the Charities Regulator, to have better reporting practices, and be more likely to adopt Charities SORP.

III.2. Audit Oversight

Independent external auditors play an important role in the oversight of financial reporting quality at both for-profit and nonprofit organizations. Auditors assess compliance with financial reporting requirements and promote best practices, and their work aids in the provision of timely, reliable and useful financial information to stakeholders (Cohen et al., 2002; Kueppers & Sullivan, 2010; Tepalagul & Lin, 2015). Consistent with this, we expect independent auditors in this setting to encourage Irish nonprofit organizations to adopt the recommended, nonprofit-specific reporting framework provided for by Charities SORP. Additionally, for-profit research has documented that firms opting to obtain a financial statement audit provide stakeholders with incremental information about the firm which reduces information asymmetries (Kausar et al., 2016). Therefore, we likewise expect that nonprofit organizations electing to engage an independent auditor will be similarly inclined to reduce information asymmetries by adopting Charities SORP.

III.3. Funder Oversight

Nonprofit research has found that capital providers such as donors and government grantors have an incentive to monitor organizations to ensure their investments have been used appropriately (Harris et al., 2015). Moreover, nonprofit organizations with better oversight and governance mechanisms have been found to have improved reporting accuracy (Krishnan & Yetman, 2011; Mayer, 2016; Yetman & Yetman, 2013). Additionally, Behn et al. (2010) find that nonprofits with higher contribution ratios, and therefore more funder oversight, are more likely to provide access to their audited financial statements. Finally, Saxton et al. (2012) find that organizations with less debt, and therefore more reliance on public funding, are more likely to voluntarily disclose condensed financial statements on the Taiwanese department of health website. Consistent with this, we expect nonprofit organizations that have more oversight from outside funders, as a result of greater reliance on outside funding, to be proactive in their adoption of better and more detailed financial reporting criteria, namely Charities SORP.[9]

In sum, we predict that organizations with more external oversight, in terms of regulatory, audit, and funder monitoring, will be more likely to voluntarily follow Charities SORP, and therefore state our first hypothesis as follows:

H1: Irish nonprofit organizations with more external oversight have a greater likelihood of voluntarily adopting Charities SORP.

III.4. Resources

In addition to organizations with more oversight voluntarily seeking and adopting the formal reporting provided by Charities SORP, we also expect that Irish nonprofit organizations with more resources will be more likely to adopt SORP. In particular, we posit that organizations with more resources, in terms of total assets, will have more developed policies and procedures, as managing a larger asset base requires more formal management practices. This is in line with for-profit literature which finds that larger firms are more likely to adopt voluntary reporting practices (Frias-Aceituno et al., 2014; Girella et al., 2019; Prencipe, 2004; Zamil et al., 2023). In particular, Zamil et al.'s (2023) comprehensive literature review of voluntary corporate disclosures

[9]We note that while our data do not permit us to analyze internal control mechanisms, the relation between internal oversight mechanisms and external oversight mechanisms is well-researched in both for-profit and nonprofit organizations (Cohen et al., 2002; Filatotchev & Nakajima, 2010; Goodwin-Stewart & Kent, 2006). Findings suggest a positive association, i.e., governance mechanisms including internal controls are likely to be stronger when there is effective external oversight, and vice versa.

highlights that the increased public exposure and scrutiny at larger firms warrants increased voluntary reporting. Further, Frias-Aceituno et al. (2014) document that greater agency costs, information asymmetries and political visibility push larger firms to engage in greater voluntary reporting. Girella et al. (2019, p. 1326) also find that larger firms' increased reliance on external funding requires organizations to disclose more to a greater number of stakeholders: 'the disclosure of a major quantity and more detailed information through voluntary reporting formats can be a device to achieve this.' Finally,Prencipe's (2004) work suggests that production and dissemination costs for generating greater levels of information are relatively lower for larger firms. Prencipe (2004) discusses the fixed component of such costs and suggests that larger firms voluntarily report more because the costs of doing so are lower.

Additionally, given that larger organizations will be required to adopt SORP in the near future, we expect that larger organizations will preemptively adopt Charities SORP. This is consistent with prior literature which finds that early adopters are typically larger organizations with the administrative capacity to implement voluntary disclosures more quickly (Bhimani et al., 2016; Callaghan & Nehmer, 2009). Based on this, we predict that larger nonprofits in terms of total assets will be better equipped to adopt SORP, leading to our second hypothesis:

H2: Irish nonprofit organizations with more resources have a greater likelihood of voluntarily adopting Charities SORP.

III.5. Consequences of Charities SORP adoption

In addition to understanding the types of organizations electing to voluntarily adopt and adhere to Charities SORP, we are also interested in the funding consequences of voluntary adoption. Prior literature supports the notion that organizations will elect to voluntarily disclose information if the benefits of doing so outweigh the costs (Depoers, 2000). Therefore, we discuss the cost-benefit tradeoff that nonprofit organizations face when deciding to voluntarily adopt SORP. In terms of the costs associated with implementing Charities SORP, we conjecture that organizations may require additional accounting staff time in order to adhere to the expanded reporting requirements outlined by Charities SORP. Other expenses may include consultation or hiring of external auditors or accounting professionals to aid in the implementation of Charities SORP. In terms of non-financial costs, we expect that proprietary costs common in the for-profit sector would play less of a role in the charity setting, given that fewer proprietary products or services are provided by nonprofit organizations. Nonetheless, we might expect nonprofits to compete and strategically position themselves in the market for donations and labor. In this scenario, proprietary costs could arise, for example, if competing nonprofit organizations use the information from Charities SORP to attract another organization's talent.

To examine the benefits of adopting Charities SORP, we draw from literature focused on the effects of voluntary financial reporting in the nonprofit context. Specifically, US nonprofit literature has found that nonprofit financial reports are an important source of information for donors and grantors in their decisions to support a particular organization (Gordon & Khumawala, 1999; Parsons, 2003; Trussel & Parsons, 2007). Additional studies confirm that donors care about the quality of the disclosures made by charities, confirming that organizations providing more robust information are rewarded with higher future donations (Atan et al., 2012; Calabrese, 2011; Khumawala et al., 2010; Parsons, 2007; Rossi et al., 2020; Saxton et al., 2014). In particular, Calabrese (2011) finds that donors expect US nonprofit organizations to provide accrual-based financial reporting. Parsons (2007) finds that participants in a lab experiment are more likely to donate when voluntary disclosures are provided. Khumawala et al. (2010) confirm that organizations voluntarily providing an annual report to donors receive more in future donations. Similarly, Saxton et al. (2014) find that donors are willing to 'pay' for web disclosures of

financial information. Focusing on UK and Italian community foundations, Rossi et al. (2020) confirm that donors' sensitivity and willingness to donate are positively influenced by the amount of financial and performance information provided by nonprofits. Finally, Atan et al. (2012) study a sample of Malaysian nonprofits and find a positive association between financial disclosures and donations.

Despite these findings, there are reasons to believe prior studies may not extrapolate to the Irish setting. First, while the Irish economy boasts a healthy nonprofit sector, funding and reporting for charitable causes in Ireland is quite different from other countries. In fact, the average nonprofit organization in Ireland receives over 40% of its revenue from the government.[10] This compares to US nonprofits that receive the majority of their funding from program service revenues (or earned revenue) as well as individual and corporate donations (IRS, 2022) and Chinese nonprofits that receive less than 5% of their income from the government (Nguyen, 2015).[11]

Second, donor informational demands are thus far unknown in the Irish charity setting. Anheier et al. (2001) identifies seven European nonprofit models in accordance with their: (i) overall importance; (ii) operating foundations; (iii) grant-making foundations; and (iv) borderlines with the state and business sector.[12] Following this structure, Ireland is classified as having a peripheral model given that Irish nonprofit organizations have low overall importance, few grant-making foundations and 'complex historical links to dominant religion, patriarchy, immigration patterns' Anheier et al. (2001, p. 71). As a result, social norms and cultural differences provide reasons to believe that Irish donors will not respond to financial information in the same way as those in other jurisdictions (Breen & Carroll, 2015). Moreover, the fact that Charities SORP will be made mandatory in the near future allows us to gauge donor reaction to voluntary adoption in an environment where organizations that have not yet implemented SORP may be penalized for not proactively adopting. Despite this tension in our setting, we expect Irish donors and grantors will value the additional information provided by Charities SORP, consistent with prior literature, giving way to our third and final hypothesis:

H3: Charities SORP is positively associated with future donations and government grants.

IV. Models and Sample

IV.1. Models

We offer two models to test our hypotheses. The first is our determinants model which predicts the likelihood of an organization following Charities SORP as a function of oversight

[10]Individual Irish Government departments accept applications for funding on an annual basis which align with key policy objectives and disperse grants accordingly. For further details, see: https://www.audit.gov.ie/en/find-report/publications/2015/chapter-5-management-of-government-grants.pdf

[11]To provide context for these figures, we note that in Canada, government support is the most significant funding component for nonprofits (Canada Revenue Agency, 2021), representing between 50-75% of all nonprofit income (Blumberg, 2023). In Australia, government contributions are also significant and comprise approximately 50% of the total revenue for charities (ACNC, 2022). Across Europe, nonprofit funding is varied. Specifically, in the Netherlands, government funding is as high as 60% of overall sector funding, approximately 50% in Austria and France, about a third in Norway, Finland, and Switzerland (Nguyen, 2015), 25% in the UK (NCVO, 2022), and not material in Germany (Nguyen, 2015). In Asia, government funding is also more varied: governments in South Korea and Taiwan provide relatively high levels of support to the nonprofit sector, representing up to 25% of total nonprofit income, while government funding is typically low elsewhere (less than 10%), e.g., China, Indonesia, Vietnam (Nguyen, 2015). In Africa, research is limited but suggests that government funding is approximately 10% of total nonprofits income in South Africa but lower elsewhere (Onwujuba, 2002). In South America, research is also limited but findings pertaining to Mexico suggest that government funding is less than 10% of total nonprofits income (Nguyen, 2015).

[12]The seven European nonprofit models include: social democratic model; state-centered model; corporatist model; liberal model; peripheral model; mediterranean model; and post-statist model (Anheier et al., 2001).

Table 1. Variable definitions.

Variable name	Definition
SORP	= 1 for Irish nonprofit organization-years reporting using Charities SORP; 0 otherwise.
SORP First Adoption	= 1 for Irish nonprofit organization-years adopting Charities SORP for the first time; 0 otherwise.
CRO	= 1 for Irish nonprofit organizations incorporated under Irish Company Law; 0 otherwise.
CRA	= 1 for Irish nonprofit organizations registered with the Irish Charities Regulator; 0 otherwise.
Audit	= 1 for Irish nonprofit organizations with nonzero audit services expenses; 0 otherwise.
DonationRatio	= the ratio of donations to total revenues
GrantsRatio	= the ratio of government grants to total revenues
TotalAssets	= natural log of total assets (in € Euros)
Donations	= natural log of donations (in € Euros)
Efficiency	= the ratio of program expenses to total expenses
FundExps	= natural log of fundraising expenses (in € Euros)
GovGrants	= natural log of government grants (in € Euros)
ProgramRevs	= natural log of program revenues (in € Euros)
Small Organizations	= 1 for Irish nonprofit organizations with less than €250,000 gross income or gross expenditure; 0 otherwise
Large Organizations	= 1 for Irish nonprofit organizations with more than €250,000 gross income or gross expenditure; 0 otherwise
Education	= 1 for Irish nonprofit organizations categorized as an educational institution; 0 otherwise
SORP_PeerIndustry	= mean of SORP for nonprofits in the same industry and year
SORP_PeerCounty	= mean of SORP for nonprofits in the same county and year
SORP_PeerIndustryCounty	= mean of SORP for nonprofits in the same industry, county, and year

mechanisms and resources. All model variables are described below as well as in Table 1. We define our dependent variable, *SORP,* as an indicator equal to one for *observations* (organization-years) voluntarily preparing and presenting their financial information in accordance with Charities SORP during the fiscal period; and zero otherwise. While we do find that our *SORP* variable is rather 'sticky' over time (auto-correlation of 0.8014), this measure varies by year for each sample organization depending on if the organization's financial statements were prepared in accordance with Charities SORP in that particular year or not.

We operationalize oversight from Irish regulatory bodies using two separate test variables. First, *CRO* is an indicator variable equal to one for organizations incorporated under Irish Company Law; and zero otherwise. Second, *CRA* is an indicator variable equal to one for organizations registered with the Irish Charities Regulator; and zero otherwise. In terms of audit oversight, we include *Audit*, an indicator variable equal to one for organizations that received a financial statement audit during the period; and zero otherwise. To capture oversight from donors and grantors, we include two variables which measure an organization's reliance on outside funding, defined as the ratio of donations (*DonationRatio*) and government grants (*GrantsRatio*) to total revenues, respectively. Given that we expect the oversight mechanism will play a role in the decision of whether to follow SORP in a given year or not, we use lagged versions of these measures to allow organizations time to incorporate regulatory oversight status into their SORP decision. Following our discussion above, we expect organizations that have more external oversight to be more likely to voluntarily follow Charities SORP, and

therefore expect positive coefficients on these variables (*CRO, CRA, Audit, DonationRatio* and *GrantsRatio*).[13]

To test our second hypothesis, we include logged, lagged total assets (*TotalAssets*) as our measure of nonprofit resources. Our conjecture is that larger organizations are better equipped to adopt Charities SORP, and we therefore expect to find a positive coefficient on *TotalAssets* consistent with Hypothesis 2. Finally, we include industry, year, and county fixed effects to control for variations in the adoption of SORP across charity mission types as well as economic conditions present over our sample years and regions.[14] In sum, we offer Model 1 to test Hypothesis 1 and Hypothesis 2 using logistic regression. All continuous variables are winsorized at the 1 and 99% levels to mitigate the influence of outliers, and organization subscripts have been suppressed for ease of exposition.[15]

$$\begin{aligned} SORP_t = {} & \beta_0 + \beta_1 CRO_{t-1} + \beta_2 CRA_{t-1} + \beta_3 Audit_{t-1} + \beta_4 DonationRatio_{t-1} \\ & + \beta_5 GrantsRatio_{t-1} + \beta_6 TotalAssets_{t-1} + Industry\ Fixed\ Effects \\ & + Year\ Fixed\ Effects + County\ Fixed\ Effects + \alpha \end{aligned} \tag{1}$$

Our third hypothesis evaluates donor and grantor response to the voluntary use and adoption of Charities SORP. To test this conjecture, we augment the standard donations demand model first conceived by Weisbrod and Dominguez (1986) and refined by the accounting and economics literature over the years. In particular, we include our *SORP* test variable (defined as above) along with several known contribution covariates to model donor and grantor response to voluntary financial reporting. Our response variable *Donations* is the logged level amount of future (time t + 1) contributions from individual donors and legacies as well as corporate donors. *GovGrants* is the logged level amount of future (time t + 1) grants from state granting agencies.

In addition to measures included in prior literature, we also include two additional control variables specific to our setting. First, we include *CRO* to capture the incorporation status of the organizations in our sample, given the variation in reporting requirements across organizations (as outlined in online Appendix B). We also include *CRA*, to control for additional support provided to organizations registered with the Irish Charities Regulator.

In terms of the standard donations demand model covariates, following prior literature which finds that supporters reward organizations that spend more on their mission (Baber et al., 2002), we include lagged organizational efficiency (*Efficiency*) defined as program expenses scaled by total expenses. We also include lagged *FundExps*, the natural log of total fundraising expenses, to control for the amount of solicitation the organization takes on to attract supporters (Tinkelman, 1999). We include lagged *Total Assets* to capture organizational size defined as the natural log of year-end total assets (Krishnan & Schauer, 2000).

Finally, we include the natural log of lagged donations (*Donations*), government grants (*GovGrants*), and program revenues (*ProgramRevs*) to control for prior year revenue sources.[16] Nonprofit literature is mixed in terms of prior period funding from other sources, 'crowding-in' or 'crowding-out' donations and grants in the current period.[17] As such, we include these

[13] While we believe that regulatory oversight would precede the adoption and use of Charities SORP, we also confirm that our Model 1 results are unchanged when we alternatively use contemporaneous specifications of our oversight variables.

[14] Our results are robust when we alternatively run Model 1 individually for each of the six years in our sample. Additionally, given that *SORP* is rather sticky (untabulated autocorrelation of 0.80) we confirm the robustness of Model 1 to including lagged *SORP*.

[15] Our Model 1 results are also robust to using ordinary least squares (OLS) regression techniques.

[16] Our Model 2 results are also robust to excluding the lagged dependent variable.

[17] Some studies propose that funders refrain from supporting organizations that receive high levels of donations, government grants, and program revenues in the prior period because supporters may feel that the nonprofits' financial needs

three variables to control for the presence of income sources considered either to be substitutes or complements, however, given the mixed results of prior literature, we do not make sign predictions for these variables.[18] We also include industry, year, and county fixed effects to control for variations in industry, economic, and regional demand for donations and grants.[19] In sum, we specify the following OLS model to test our third hypothesis, where we, once again, winsorize continuous variables at the 1 and 99% levels and suppress nonprofit subscripts:

$$\begin{aligned} DonationsorGovGrants_{t+1} = {} & \beta_0 + \beta_1 SORP_t + \beta_2 CRO_t + \beta_3 CRA_t + \beta_4 Efficiency_t \\ & + \beta_5 FundExps_t + \beta_6 TotalAssets_t + \beta_7 GovGrants_t \\ & + \beta_8 Donations_t + \beta_9 ProgramRevs_t + Industry\ Fixed\ Effects \\ & + Year\ Fixed\ Effects + County\ Fixed\ Effects + \alpha \end{aligned} \quad (2)$$

IV.2. Sample

To test both our determinants and funding consequences models we compile an industry diverse set of Irish nonprofit organization-years. We chose the Irish nonprofit setting for our analysis because it is uniquely suited for analyzing voluntary adoption of financial reporting standards given that Charities SORP is currently a recommended practice. Our sample is drawn from the dataset of Irish nonprofit organizations maintained by Benefacts Legacy between 2015 and 2020.[20] According to the Benefacts 2021 'Nonprofit Sector Analysis' report, nonprofit data was collected from more than 40 sources including public disclosures to the Charities Regulator (CRA), the Companies Registration Office (CRO), the Library of the Oireachtas, the Registrar of Friendly Societies, and the Standards in Public Office Commission.[21] From the full sample of 35,713 organization-years with financial data available in the Benefacts database as of May 2022, we exclude 3,954 organization years with missing Charities SORP adoption information, as this is our primary variable of interest.[22] We are also forced to exclude 8,635 organization-years for observations with missing detailed financial data needed for our models.[23] Our final sample comprises 23,124 nonprofit-year observations for 6,593 unique Irish nonprofit organizations.[24] See Table 2 for a tabular presentation of our sample selection procedures.

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are being met from other sources (Posnett & Sandler, 1989; Weisbrod & Dominguez, 1986). However, other literature has documented that donors may feel more comfortable contributing to a nonprofit that has other sources of revenue (Okten & Weisbrod, 2000; Petrovits et al., 2011; Yetman & Yetman, 2013).

[18] Model 2 is also robust to including *Audit* as an additional control variable.

[19] Our results are robust when we alternatively run Model 2 individually for each of the six years in our sample.

[20] Benefacts was an independent nonprofit that compiled nonprofit data for Irish nonprofit organizations between 2015 and 2021. In March of 2021 the organization 'ceased trading following the decision of the Minister for Public Expenditure & Reform to terminate funding for the company.' Benefacts now goes by the name Benefacts Legacy and provides historical data and reports to users on their website at: https://benefactslegacy.ie/.

[21] https://benefactslegacy.ie/wp-content/uploads/2022/03/benefacts-nonprofit-sector-analysis-2021.pdf

[22] We confirm that excluded observations follow similar size and industry distributions as our sample observations providing comfort that our sample of nonprofits with SORP data are not biased in terms of size or industry.

[23] We confirm that excluded observations follow similar size and industry distributions as our sample observations providing comfort that our sample of nonprofits with all financial data are not biased in terms of size or industry.

[24] The Benefacts legacy database includes all nonprofits included on one or more of the Irish public registers. In addition to these, Benefacts harvested names for 3,139 religious bodies (published by Church authorities) – and local nonprofits (listed on the websites of Public Participation Networks for each county in Ireland). This data has been used to produce annual giving reports as well as annual Nonprofit Sector Analysis reports prepared by Benefacts and disseminated for public use on the Benefacts legacy website between 2017 and 2021. Finally, between 2020 and 2022, data and/or analysis reports were provided to several Irish governmental and societal groups (i.e., the Housing Section of the Department of Housing, the research unit of the Department of Children, Equality, Disability, Integration and Youth, Tusla, the Social

Table 2. Sample selection.

Irish nonprofit organization-years with financial data included in the Benefacts Legacy database as of May 2022	35,713
Less organization-years with missing SORP adoption information	− 3,954
Less organization-years with missing data necessary for our analyses	− 8,635
Final Sample	**23,124**
Unique organizations	*6,593*

V. Results

This section provides descriptive statistics as well as the results of Models 1 and 2 which test our hypotheses. We first offer online Appendices C, D, and E which provide graphical representation of SORP adoption over time, by Industry, and by Irish County. We include these figures to highlight the richness of our novel, large-scale Irish nonprofit dataset. We then present descriptive statistics for our model variables, followed by multivariate analyses.

V.1. Descriptive Statistics

We start with online Appendix C which shows Charities SORP usage over time. Here we find that, on average, 14% (3,208 organization years) have voluntarily adopted Charities SORP over our six-year sample period. Moreover, Appendix C shows a steady increase in the usage of Charities SORP and that adopters have more than doubled in the study's timeframe from 8% (346 observations) in 2015 to 21% (613 observations) in 2020. The rise in Charities SORP adoption during the study's timeframe coincides with the CRA starting a public consultation in 2016 on draft charity reporting. At the time of this writing the reporting is pending approval in the form of the draft Charities (Amendment) Bill 2022, which will require Charities SORP adoption. Appendix C also provides the percentage of organizations adopting SORP for the first time. Here we note that 7% of sample organizations adopted SORP for the first time in 2015, this decreases to 4% in 2016, 2% in 2017, 3% in 2018 and 2019, and 2% in 2020.[25] These *SORP First Adoption* statistics coincide with the overall increase in the percentage of SORP adopters presented over our sample period. As the overall number of observation-years for organizations following SORP increases, a lower percentage of organizations are newly adopting SORP. We incorporate *SORP First Adoption* as an alternative variable of interest in our additional analyses below.

Online Appendix D provides industry distributions for SORP organizations. There are 12 industry categories in our sample, as defined by the Benefacts Legacy database. The two most common industries in our sample are: local development, housing (27%); and social services (21%). These are followed by: education, research (8%); health (8%); arts, culture, media (7%); and recreation, sports (7%). We find that industries most frequently adopting Charities SORP are international (51%); philanthropy, voluntarism (37%); and health (27%).[26] We find relatively

Enterprise unit of the Department of Rural & Community Development, the Public Pay and Pensions division of the Department of Public Expenditure & Reform). We believe the widespread use of the Benefacts dataset provides comfort in the reliability of this data source.

[25] In the event that our data did not provide information for prior year SORP adoption we code *SORP First Adoption* equal to zero. For example, for a 2015 observation with $SORP = 1$ for which we do not have 2014 SORP information, *SORP First Adoption* is coded $= 0$ in 2015.

[26] Unfortunately, we do not have any concrete information related to why international organizations are so much more likely to adopt SORP. We can conjecture that these organizations endeavor to be as transparent as possible so as to attract international support for their causes. Given that the UK requires SORP adoption, it follows that UK donors (for example) would expect to see Charities SORP information when considering a donation to an Irish nonprofit organization

low adoption in the local development, housing (6%) category, likely because there is a separate SORP for housing associations.[27]

Online Appendix E presents SORP adoption by Irish counties, which are similar to regions or states in other jurisdictions. Interestingly we find that 24% of nonprofits in Dublin have adopted SORP, which is higher than the full sample average of 14%. Counties surrounding Dublin (e.g., Louth, Meath, Kildare and Wicklow) are the next most frequent with 15% adoption.

In Table 3, we examine descriptive statistics for our model variables. First, we present means and medians for our full sample. Consistent with our understanding of the funding structure for Irish nonprofits we find that, on average, sample organizations attract 5% of their revenue from donors, while 42% is provided by government sources. That is, donations are, on average, much less (€94,000) than government grants (€1.4 million). In terms of size, we find that mean total assets come in just above €4 million. Sample organizations are very efficient in terms of spending on their programs with on average over 99% of funds directed toward program expenses. This is consistent with very low fundraising expenses, on average, of just over €36,000. Finally, we find that program revenues are on average €1.7 million and approximately half of sample organizations are considered *Small*, while 8% are educational institutions.

In addition to our full sample descriptives we also provide mean comparisons for organizations adopting, and not adopting, SORP. Consistent with our expectations for external oversight, we find that organizations that have adopted SORP are incorporated (*CRO*) and registered with the Charities Regulator (*CRA*) significantly more often than organizations not following SORP. Moreover, we find that organizations adopting SORP are significantly more likely to have a financial statement audit. We also find that organizations adopting SORP have significantly more funder oversight (in the form of donations and government grants) than non-adopters.[28] In addition, we find that the average total assets of an organization using SORP are significantly higher at €13.1 million compared to an average of €2.6 million for organizations not using SORP. Furthermore, we find that organizations following SORP have less efficient operations (*Efficiency*) as well as higher fundraising expenses (*FundExps*), despite larger amounts of government funding (*GovGrants*) and program revenues (*ProgramRevs*).

Finally, in Table 3, we show, as expected, that smaller organizations (*Small*) do not use SORP as often. However, we do find that educational institutions (*Education*) appear to follow SORP more often. This is an interesting finding given that the 2022 Charities Amendment Bill will not require educational institutions to adopt Charities SORP (Breen & Smith, 2022). We do note that the organizations classified as 'education, research' in our sample are relatively large in size

serving a mission primarily outside of Ireland. Additionally, we have noted that the international organizations in our sample have mean *Total Assets* in excess of the sample mean. Therefore, international organizations, which appear to adopt Charities SORP more readily, are also larger than average organizations in our sample, consistent with our second hypothesis. To confirm that international observations are not driving any of our study interferences, we confirm the robustness of our results to two separate sub-samples. First, we re-run both our determinants (Model 1) and consequences (Model 2) analyses excluding international organizations, finding that in our determinants model we lose significance on the CRO variable, but continue to find that our remaining external monitoring mechanisms are positively associated with SORP adoption. In terms of our consequences model, we continue to find that SORP adoption is positively related to future donations and government grants. Second, we re-run both our determinants and consequences tests only including international organizations, finding robust results for all analyses. We also note that we are unable to identify the amount of international oversight or funding provided to observations falling in this industry category, however, given the robustness of our results, we have no reason to believe that these monitors or donors are biasing our findings.

[27]Given the relatively low SORP adoption rate at local development, housing organizations we also confirm the robustness of our results to both sub-samples of only these organizations as well as excluding these organizations. Using these sub-samples, we find that our results are qualitatively the same for both our determinants and consequences models.

[28]Our results are consistent for all measures of funder oversight (i.e., *DonationRatio*, *GrantsRatio*, *Donations* and *GovGrants* as defined in Table 1).

Table 3. Descriptive statistics.

	Full Sample (N = 23,124)		SORP = 1 (N = 3,208)		SORP = 0 (N = 19,916)		
	Mean	Median	Mean	Median	Mean	Median	t-statistics
CRO_{t-1}	0.948	1.000	0.981	1.000	0.943	1.000	9.012***
CRA_{t-1}	0.678	1.000	0.978	1.000	0.629	1.000	40.670***
$Audit_{t-1}$	0.652	1.000	0.826	1.000	0.624	1.000	22.538***
$DonationRatio_{t-1}$	0.051	0.000	0.131	0.005	0.039	0.000	27.528***
$GrantsRatio_{t-1}$	0.420	0.371	0.501	0.560	0.407	0.325	12.277***
$TotalAssets_{t-1}$	€4,054,128	€185,133	€13,121,848	€705,993	€2,593,531	€148,378	14.455***
$Donations_{t+1}$	€94,569	€0	€550,967	€4,679	€21,054	€0	26.078***
$Efficiency_t$	0.991	1.000	0.929	1.000	0.993	1.000	8.893***
$FundExps_t$	€36,357	€0	€233,687	€0	€4,571	€0	33.995***
$GovGrants_{t+1}$	€1,439,930	€51,526	€4,446,347	€336,123	€955,667	€34,071	15.401***
$ProgramRevs_t$	€1,705,812	€105,714	€4,721,975	€0	€1,219,979	€75,721	13.699***
$Small_t$	0.476	0.000	0.209	0.000	0.519	1.000	33.458***
$Education_t$	0.076	0.000	0.087	0.000	0.074	0.000	2.646***

See Table 1 for variable definitions.
Continuous variables are presented in unlogged form for ease of interpretation.

Table 4. Determinants of SORP.

	Full Sample	*Small Organizations*	*Large Organizations*
	I	II	III
Dependent variable: $SORP_t$	Coefficient *t-statistic*	Coefficient *t-statistic*	Coefficient *t-statistic*
Constant	− 9.200***	− 6.920***	− 9.544***
	− 28.24	*− 9.31*	*− 22.00*
$\boldsymbol{CRO_{t-1}}$	**0.748*** **	**1.324** **	**0.643*** **
	4.06	***2.17***	***3.13***
$\boldsymbol{CRA_{t-1}}$	**2.462*** **	**2.007*** **	**2.789*** **
	18.52	***10.32***	***15.16***
$\boldsymbol{Audit_{t-1}}$	**1.171*** **	**0.869*** **	**1.353*** **
	20.40	***8.66***	***18.72***
$\boldsymbol{DonationsRatio_{t-1}}$	**1.528*** **	**0.873*** **	**2.262*** **
	14.03	***5.50***	***13.78***
$\boldsymbol{GrantsRatio_{t-1}}$	**1.026*** **	**0.328*** **	**1.226*** **
	14.98	***2.51***	***13.60***
$\boldsymbol{TotalAssets_{t-1}}$	**0.296*** **	**0.088*** **	**0.302*** **
	24.26	***3.48***	***17.48***
Industry Fixed Effects	YES	YES	YES
Year Fixed Effects	YES	YES	YES
County Fixed Effects	YES	YES	YES
Standard errors clustered by organization	YES	YES	YES
N	23,124	11,005	12,119
Pseudo R^2	0.3214	0.2157	0.3328
ROC score	0.8783	0.8436	0.8769
Small versus Large CRO_{t-1} t-test *p*-value		*0.2714*	
Small versus Large CRA_{t-1} t-test *p*-value		*0.0035***	
Small versus Large *Audit* t-test *p*-value		*0.0001****	
Small versus Large $DonationsRatio_{t-1}$ t-test *p*-value		*0.0000****	
Small versus Large $GrantsRatio_{t-1}$ t-test *p*-value		*0.0000****	

See Table 1 for variable definitions.
*significant at 10% level, **significant at 5% level, ***significant at 1% level (two-tailed for our control variables and one-tailed for bolded test variables).

with mean *Total Assets* in excess of €12 million (untabulated) which could indicate that they are larger, more sophisticated organizations with the ability to implement Charities SORP.

V.2. Determinants of Charities SORP (Hypothesis 1 and Hypothesis 2)

Table 4 Column 1 presents regression results for Hypothesis 1 and Hypothesis 2. Consistent with our expectations, the results show significant positive coefficients on CRO_{t-1} ($p < 0.01$) and CRA_{t-1} ($p < 0.01$), suggesting that *SORP* is positively associated with regulatory oversight. We also find a significant positive coefficient on $Audit_{t-1}$ ($p < 0.01$), indicating that *SORP* is positively associated with organizations who have had a financial statement audit. Our results additionally highlight significant positive coefficients for both $DonationsRatio_{t-1}$ and $GrantsRatio_{t-1}$ ($p < 0.01$), supporting our conjecture that organizations with more outside funding and oversight are more likely to voluntarily adopt Charities SORP. Collectively, our results suggest that external oversight leads to Irish nonprofit organizations voluntarily adopting Charities SORP, consistent with Hypothesis 1. Table 4 also presents results for Hypothesis 2. Here we find that larger organizations in terms of $TotalAssets_{t-1}$ are more likely to adopt SORP ($p < 0.01$), consistent with our expectations.

To illustrate the economic significance of these results, we calculate (untabulated) the increased likelihood of SORP adoption by each type of oversight function as well as our total assets resource measure. We find that organizations in our sample that are incorporated under Irish Company Law are over a hundred times more likely to voluntarily adopt Charities SORP in advance of required adoption than those that are not incorporated. Moreover, we find that those registered with the Irish Charities Regulator are over a thousand times more likely to voluntarily adopt SORP than those that are not registered.[29] We find that nonprofits receiving an audit are over two hundred times more likely to follow SORP than those that do not undertake a financial statement audit. We also find that those with a higher proportion of donations and grants revenue are over 350 and 175 times more likely to adopt SORP, respectively. Finally, we find that with a one Euro increase in total assets, organizations are 30 times more likely to adopt SORP.

We further analyze our results in Table 4 by dividing the sample into two sub-samples with size thresholds: (i) small, $<$ €250,000 income/expense; and (ii) large, $>$ €250, 000 income/expense. As discussed in Section II, the draft Charities (Amendment) Bill 2022 will require large Irish charities with more than €250,000 gross income or gross expenditure to adopt Charities SORP in the near future. Therefore, we expect that organizations meeting this size threshold will be more likely to voluntarily follow Charities SORP.

As presented in Table 4, we find that both small (Column II) and large (Column III) organizations that have external oversight (in any of the three forms: regulatory, audit and funder oversight) are more likely to voluntarily adopt Charities SORP. However, we find that the coefficients are significantly higher ($p < 0.01$) for large organizations. These higher coefficients suggest that large Irish nonprofit organizations are preemptively adopting Charities SORP in advance of the new amendment legislation being enacted and are even more likely to do so if they have outside monitoring mechanisms in place.

V.3. Funding Consequences of Charities SORP (Hypothesis 3)

Table 5 presents regression results for Hypothesis 3. Consistent with our conjectures, the results in Table 5 Columns I and II show significant positive coefficients on *SORP* ($p < 0.01$) suggesting that both future *Donations* and *GovGrants* are positively associated with the use of Charities SORP. In terms of the magnitude of the coefficients, we find that donors appear to reward SORP adoption more compared to grantors. That is, we note a marginally significant ($p < 0.10$, one-tailed) difference between the coefficient of 0.549 on *SORP* in our donations model versus the 0.393 coefficient on *SORP* in our grants model.

Taken together these results indicate that Irish nonprofit organizations following Charities SORP receive more future support from donors and government grantors than organizations not adopting SORP. In terms of the economic interpretations of our funding consequences results, we calculate that organizations adopting Charities SORP receive on average 73% higher donations, and 48% higher government grants, confirming the economic significance and substantial impact of SORP in our sample.[30]

Given that we are the first study to examine the donations demand model in the Irish nonprofit sector, we are also interested in confirming that our control variables are consistent with prior studies in other contexts. Specifically, we confirm that Irish donors and grantors reward

[29] We arrive at these figures using the following calculation: 100[exp(c) – 1] where C is the coefficient estimate. See Halvorsen and Palmquist (1980) for a complete explanation.

[30] As earlier, we arrive at these figures using the following calculation: 100[exp(c) – 1] where C is the coefficient estimate. See Halvorsen and Palmquist (1980) for a complete explanation.

Table 5. Funding consequences of SORP.

	Donations$_{t+1}$	**GovGrants$_{t+1}$**
	I	II
Dependent variable: defined in column heading	Coefficient t-statistic	Coefficient t-statistic
Constant	− 0.542	− 1.283
	− 0.46	*− 0.77*
SORP$_t$	**0.549*** **	**0.393*** **
	9.35	***0.000***
CRO$_t$	0.002	0.048
	0.02	*0.40*
CRA$_t$	0.278***	0.138***
	6.92	*2.40*
Efficiency$_t$	0.394**	0.969***
	1.97	*3.37*
FundExps$_t$	0.130***	0.047***
	17.24	*4.37*
TotalAssets$_t$	0.025***	0.125***
	3.27	*11.14*
GovGrants$_t$	0.013***	0.805***
	2.81	*125.86*
Donations$_t$	0.746***	− 0.005
	171.57	*− 0.82*
ProgramRevs$_t$	− 0.015***	− 0.028***
	− 3.32	*− 4.33*
Industry Fixed Effects	YES	YES
Year Fixed Effects	YES	YES
County Fixed Effects	YES	YES
Standard errors clustered by organization	YES	YES
N	23,124	23,124
Adjusted R^2	0.6983	0.7040

See Table 1 for variable definitions.
*significant at 10% level, **significant at 5% level, ***significant at 1% level (two-tailed for our control variables and one-tailed for bolded test variables).

more efficient organizations (*Efficiency*) confirming a long line of literature which finds that more efficient organizations are rewarded with more support (Baber et al., 2002; Okten & Weisbrod, 2000; Parsons, 2003; Posnett & Sandler, 1989; Weisbrod & Dominguez, 1986). We also find that organizations that spend more on advertising their mission (*FundExps*) are associated with higher future donations consistent with prior literature (Tinkelman, 1999; Weisbrod & Dominguez, 1986). In terms of organization size, we find that larger organizations (*TotalAssets*) receive higher levels of future donations also in line with prior literature (Krishnan & Schauer, 2000). With respect to the crowding in or out of alternative revenue sources, we find a positive association between government grants and donations, indicating that donors give more to organizations with more government support. Inversely, we find that donors give less to organizations with more program revenues, consistent with program revenues crowding-out donations and prior literature which finds a similar result in the US nonprofit context (Okten & Weisbrod, 2000; Petrovits et al., 2011; Yetman & Yetman, 2013). Turning to grantor response, we find a similar crowding-out effect for program revenues but fail to find that grantors give more or less in response to the level of donations received. Finally, consistent with prior literature and our expectations, we find strong positive associations between our dependent variables and the lagged variations of these variables.

VI. Additional Analyses

VI.1. Peer Organization SORP Adoption

Appendices D and E present Charities SORP adoption across the unique nonprofit industries and Irish counties represented in our sample. Given the substantial variation across these mission types and regions we extend our analyses to understand if peer organization adoption is an important element in the decision to report using Charities SORP. That is, in addition to our main determinants models, we are also interested in understanding if the propensity to report using Charities SORP is greater for organizations in industries and regions with more peer organizations that have already adopted SORP. To do so we draw from corporate peer effects literature which suggests that 'the average behavior of a group influences the behavior of individual group members' (Bourveau et al., 2020, p. 1). This research is built on the premise that for-profit firms use voluntary disclosures to attract investor attention and build a reputation of transparency (Bamber & Cheon, 1998; Fernando et al., 2018). As a result, firms failing to provide voluntary disclosures, compared to their peers, may be perceived as less transparent or of lower quality, thereby incentivizing firms to adopt disclosures similar to their peers (Akerlof, 1970; Fishman & Hagerty, 1989; Tuo et al., 2020). In the nonprofit context we expect that organizations focused on attracting donations, via voluntary disclosures, will likewise be affected by peer organization disclosure strategies. Therefore, we expect that organizations will be more likely to adopt Charities SORP in settings where more peer organizations have already adopted SORP.

To test peer effects in our setting, we follow for-profit research which measures the impact of peer firms on corporate disclosure decisions (Bourveau et al., 2020). Specifically, we include the average SORP adoption rate for Irish nonprofits in the same industry and year, which we call $SORP\_PeerIndustry_{t-1}$, as an additional test variable in our determinants model.[31] Using this measure of peer SORP adoption, we find that, indeed, organizations are more likely to adopt Charities SORP when peer organizations in the same industry have already adopted SORP. We additionally define $SORP\_PeerCounty_{t-1}$ for the average number of organizations adopting SORP in the same Irish county and year, as well as $SORP\_PeerIndustryCounty_{t-1}$ for the average number of nonprofits adopting SORP in the same Irish county, industry and year. As presented in Table 6, we find positive relationships between our SORP response variable and all three peer test variables.[32] We interpret this to mean that nonprofits are more likely to adopt SORP when peer organizations in the same industry, county, or industry and county have already adopted.[33]

VI.2. Organizations that will not be required to adopt SORP

In the near future, Irish charity regulation will require large organizations to report in accordance with Charities SORP. As discussed in Section II (Background), the draft Charities (Amendment) Bill 2022 will amend provisions in the Charities Act 2009. Large Irish charities with more than €250,000 gross income or gross expenditure will be required to adopt Charities SORP. Small

[31] In calculating our peer adoption measures we are careful to exclude the focal organization in the calculation of the average SORP adoption rate. This avoids a potential mechanical relation between the individual outcome and the peer-level variables that arises because the focal (individual) organization is part of the peer-group (average).

[32] Note that in column (I) which presents the results for our *SORP_PeerIndustry* test variable we exclude industry fixed effects to avoid over specification given that our SORP peer measure is calculated by industry. We similarly exclude county fixed effects in our *SORP_PeerCounty* model in column (II) and exclude both industry and county fixed effects in column (III) when we include our *SORP_PeerIndustryCounty* measure.

[33] Despite these interesting results, we acknowledged the possibility that an omitted correlated variable at the peer-group level could be driving SORP adoption.

Table 6. SORP spillover from peer organizations.

	I	II	III
Dependent variable: $SORP_t$	Coefficient *t-statistic*	Coefficient *t-statistic*	Coefficient *t-statistic*
Constant	− 9.955*** *− 31.35*	− 10.99*** *− 36.73*	− 10.80*** *35.28*
***SORP_PeerIndustry*$_{t-1}$**	**4.381***** ***18.20***		
***SORP_PeerCounty*$_{t-1}$**		**7.369***** ***23.58***	
***SORP_PeerIndustryCounty*$_{t-1}$**			**6.291***** ***35.28***
CRO_{t-1}	0.814*** *4.54*	0.673*** *3.91*	0.756*** *4.40*
CRA_{t-1}	2.503*** *19.75*	2.448*** *18.47*	2.363*** *18.68*
$Audit_{t-1}$	1.164*** *20.38*	1.143*** *20.01*	1.146*** *19.77*
$DonationsRatio_{t-1}$	1.628*** *15.23*	1.547*** *14.27*	1.632*** *14.92*
$GrantsRatio_{t-1}$	0.932*** *14.83*	1.030*** *15.04*	0.926*** *14.48*
$TotalAssets_{t-1}$	0.281*** *23.52*	0.301*** *24.85*	0.300*** *24.66*
Industry Fixed Effects	NO	YES	NO
Year Fixed Effects	YES	YES	YES
County Fixed Effects	YES	NO	NO
Standard errors clustered by organization	YES	YES	YES
N	23,124	23,124	23,124
Pseudo R^2	0.3116	0.3113	0.3185
ROC score	0.8742	0.8733	0.8779

See Table 1 for variable definitions.
*significant at 10% level, **significant at 5% level, ***significant at 1% level (two-tailed for our control variables and one-tailed for bolded test variables).

Irish charities and educational bodies (excluding university foundations) will not be required to adopt Charities SORP (Breen & Smith, 2022). Therefore, in addition to our main funding consequences model, in Tables 7 and 8 we partition our sample by organization size and educational institutions (i.e., comparing organizations that *will* and *will not* be required to adopt SORP), respectively. Ceustermans and Breesch (2017) find that voluntary financial disclosures by small, private companies are positively related to trade credits, arguing that disclosures work to mitigate information asymmetries present in small private Belgium firms. Consistent with this reasoning we expect that smaller organizations as well as educational institutions with potentially greater information asymmetries, given fewer reporting requirements, have more to gain in terms of donor and grantor support following voluntary SORP adoption.

Our results for organization size are presented in Table 7. Columns I and II show significant positive coefficients on *SORP* ($p < 0.01$) for both small organizations as well as large organizations. These findings suggest that both size organizations benefit from increased future donations in response to Charities SORP adoption. However, consistent with our conjecture that smaller organizations have the most to gain given they have to overcome the largest information asymmetries, we find that the *SORP* coefficient is significantly higher for small organizations ($p < 0.01$). That is, donors appear to provide more support to smaller organizations voluntarily adopting SORP than to large organizations, who will soon be required to adopt SORP. This is in line with

Table 7. Funding consequences of SORP by organization size.

	Donations$_{t+1}$		**GovGrants$_{t+1}$**	
	Small Organizations	Large Organizations	Small Organizations	Large Organizations
	I	II	III	IV
Dependent variable: defined in column heading	Coefficient t-statistic	Coefficient t-statistic	Coefficient t-statistic	Coefficient t-statistic
Constant	0.655	−0.612	1.030	−0.301
	0.90	*−1.22*	*0.99*	*−0.42*
SORP$_t$	**0.770*** **	**0.446*** **	**0.229**	**0.422*** **
	7.34	***6.06***	***1.53***	***4.01***
CRO$_t$	0.192*	−0.147	0.051	−0.263
	1.78	*−1.13*	*0.33*	*−1.42*
CRA$_t$	0.255***	0.308***	0.145*	0.386***
	4.83	*4.91*	*1.92*	*4.30*
Efficiency$_t$	0.430	0.227	0.862**	0.995**
	1.47	*0.78*	*2.05*	*2.41*
FundExps$_t$	0.111***	0.122***	0.039*	0.037***
	5.92	*13.21*	*1.45*	*2.78*
TotalAssets$_t$	0.008	0.048***	0.053***	0.057***
	0.69	*3.50*	*3.32*	*2.94*
GovGrants$_t$	0.011**	0.015**	0.781***	0.791***
	1.83	*2.24*	*87.81*	*82.80*
Donations$_t$	0.718***	0.760***	−0.003	−0.003
	109.27	*129.18*	*−0.31*	*−0.35*
ProgramRevs$_t$	−0.012**	−0.019***	−0.013*	−0.050***
	−2.00	*−2.74*	*−1.46*	*−5.10*
Industry Fixed Effects	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES
County Fixed Effects	YES	YES	YES	YES
Standard errors clustered by organization	YES	YES	YES	YES
N	11,005	12,119	11,005	12,119
Adjusted R^2	0.5835	0.7440	0.6688	0.6574
Small versus Large SORP$_t$ t-test *p*-value	*0.0103***		*0.2876*	

See Table 1 for variable definitions.
*significant at 10% level, **significant at 5% level, ***significant at 1% level (two-tailed for our control variables and one-tailed for bolded test variables).

the additional benefits of a formal reporting framework when information asymmetry is high, such as in smaller organizations with less financial reporting requirements.

Table 7, Columns III and IV present results for our government grants model. Here we find that only large organizations adopting SORP receive significantly more *GovGrants* ($p < 0.01$). Further, while the coefficient for large organizations is higher than the coefficient for small organizations, these coefficients are not significantly different from each other. This indicates that grantors do not support large organizations that adopt SORP any more or less than small organizations voluntarily adopting SORP.

Table 8 presents Model 2 partitioned by educational institutions. The four columns in Table 8 show a significant positive coefficient on *SORP* ($p < 0.01$) for both educational and non-educational institutions. Interestingly, the coefficient is higher for educational institutions than non-educational institutions for both *Donations* and *GovGrants*. However, it is only significantly higher for grantors ($p < 0.01$), suggesting that grantors provide more support for educational

Table 8. Funding consequences of SORP by Educational Institutions.

	Donations$_{t+1}$		**GovGrants$_{t+1}$**	
	Educational	Non-Educational	Educational	Non-Educational
	I	II	III	IV
Dependent variable: defined in column heading	Coefficient t-statistic	Coefficient t-statistic	Coefficient t-statistic	Coefficient t-statistic
Constant	− 0.343	0.897**	− 1.119	− 0.832
	− 0.22	*2.09*	*− 0.54*	*− 1.34*
SORP$_t$	**0.570*** **	**0.542*** **	**0.900*** **	**0.319*** **
	2.80	***8.80***	***3.34***	***3.58***
CRO$_t$	− 1.260***	0.139	− 1.088***	0.280**
	− 4.29	*1.59*	*− 2.81*	*2.20*
CRA$_t$	0.396**	0.265***	− 0.260	0.142**
	2.37	*6.38*	*− 1.18*	*2.36*
Efficiency$_t$	0.209	0.409**	1.885	0.933***
	0.22	*2.00*	*1.49*	*3.16*
FundExps$_t$	0.165***	0.129***	0.045	0.051***
	4.71	*16.63*	*0.97*	*4.55*
TotalAssets$_t$	− 0.037	0.028***	0.139***	0.123***
	− 1.22	*3.50*	*3.51*	*10.47*
GovGrants$_t$	0.006	0.012**	0.857***	0.794***
	0.40	*2.44*	*44.31*	*116.30*
Donations$_t$	0.723***	0.747***	− 0.021	− 0.003
	46.06	*164.57*	*− 1.03*	*0.51*
ProgramRevs$_t$	− 0.008	− 0.015***	− 0.057***	− 0.022***
	− 0.53	*− 3.08*	*− 2.72*	*− 3.19*
Industry Fixed Effects	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES
County Fixed Effects	YES	YES	YES	YES
Standard errors clustered by organization	YES	YES	YES	YES
N	1,753	21,371	1,753	21,371
Adjusted R^2	0.6301	0.7040	0.7360	0.7014
Educational versus non-educational *SORP$_{t-1}$* t-test *p*-value	*0.9016*		*0.0700**	

See Table 1 for variable definitions.
*significant at 10% level, **significant at 5% level, ***significant at 1% level (two-tailed for our control variables and one-tailed for bolded test variables).

institutions that adopt SORP than non-educational institutions that adopt SORP. These results are consistent with educational institutions (excluding university foundations) that will be wholly exempt from adopting SORP, therefore, once again creating greater information asymmetries.

VI.3. First Time SORP adoption

In addition to our main analyses which study organizations that have adopted and continue to use SORP on an ongoing basis, we also consider the first year an organization adopts SORP. To do so we define an alternative test variable, *SORP First Adoption*, an indicator variable equal to one for organizations in the first year of adopting Charities SORP; and zero otherwise. We present results using *SORP First Adoption* in Table 9, Panels A and B for our determinants and funding consequences models, respectively. Beginning with Panel A, we find that *SORP First Adoption* is positively associated with *CRO$_{t-1}$*, *CRA$_{t-1}$*, *Audit$_{t-1}$*, *DonationsRatio$_{t-1}$* and *GrantsRatio$_{t-1}$*, indicating that organizations with more oversight are also more likely to adopt SORP for the

Table 9. Determinants and funding consequences of SORP first adoption.

Panel A: Determinants of SORP First Adoption

	Full Sample	*Small Organizations*	*Large Organizations*
	I	II	III
Dependent variable: *SORP First Adoption*$_t$	Coefficient *t-statistic*	Coefficient *t-statistic*	Coefficient *t-statistic*
Constant	− 10.230***	− 7.553***	− 10.610***
	− 14.99	*− 6.00*	*− 12.34*
***CRO*$_{t-1}$**	**1.651*** **	**0.798**	**1.859*** **
	3.18	***0.78***	***3.08***
***CRA*$_{t-1}$**	**2.160*** **	**1.811*** **	**2.440*** **
	9.94	***5.77***	***7.96***
***Audit*$_{t-1}$**	**0.348*** **	**0.433** **	**0.353*** **
	3.35	***2.32***	***2.78***
***DonationsRatio*$_{t-1}$**	**0.732*** **	**0.280**	**1.027*** **
	4.21	***0.97***	***4.57***
***GrantsRatio*$_{t-1}$**	**0.871*** **	**0.573*** **	**0.902*** **
	7.93	***2.68***	***6.50***
***TotalAssets*$_{t-1}$**	**0.170*** **	**0.051**	**0.156*** **
	9.16	***1.22***	***6.17***
Industry Fixed Effects	YES	YES	YES
Year Fixed Effects	YES	YES	YES
County Fixed Effects	YES	YES	YES
Standard errors clustered by organization	YES	YES	YES
N	23,124	11,005	12,119
Pseudo R^2	0.1763	0.1237	0.1769
ROC score	0.8209	0.7966	0.8087
Small versus Large *CRO*$_{t-1}$ t-test *p*-value		*0.3642*	
Small versus Large *CRA*$_{t-1}$ t-test *p*-value		*0.1524*	
Small versus Large *Audit*$_{t-1}$ t-test *p*-value		*0.7278*	
Small versus Large *DonationsRatio*$_{t-1}$ t-test *p*-value		*0.0443***	
Small versus Large *GrantsRatio*$_{t-1}$ t-test *p*-value		*0.2070*	

Panel B: Funding consequences of SORP First Adoption

	Donations$_{t+1}$	**GovGrants$_{t+1}$**
	I	II
Dependent variable: defined in column heading	Coefficient t-statistic	Coefficient t-statistic
Constant	0.943**	− 0.619
	2.27	*− 1.04*
***SORP First Adoption*$_t$**	**0.124***	**0.288****
	1.39	***2.26***
CRO$_t$	− 0.003	0.041
	− 0.04	*0.35*
CRA$_t$	0.303***	0.153***
	7.55	*2.65*
Efficiency$_t$	0.412**	0.983***
	2.05	*3.42*
FundExps$_t$	0.150***	0.060***
	20.70	*5.76*
TotalAssets$_t$	0.029***	0.127***
	3.77	*11.38*
GovGrants$_t$	0.014***	0.806***
	3.05	*125.94*

(*Continued*)

Table 9. Continued.

Panel B: Funding consequences of SORP First Adoption

	Donations$_{t+1}$	**GovGrants$_{t+1}$**
	I	II
Dependent variable: defined in column heading	Coefficient t-statistic	Coefficient t-statistic
Donations$_t$	0.751***	− 0.002
	173.98	*− 0.29*
ProgramRevs$_t$	− 0.014***	− 0.028***
	− 3.04	*− 4.20*
Industry Fixed Effects	YES	YES
Year Fixed Effects	YES	YES
County Fixed Effects	YES	YES
Standard errors clustered by organization	YES	YES
N	23,124	23,124
Adjusted R^2	0.6972	0.7038

See Table 1 for variable definitions.
*significant at 10% level, **significant at 5% level, ***significant at 1% level (two-tailed for our control variables and one-tailed for bolded test variables).

first time. In terms of resources, while we find that larger organizations are more likely to adopt SORP for the first time, we also find that large organizations with more donor support are also more likely to adopt SORP for the first time (t-test $p < 0.05$).

Turning to our funding consequences model in Panel B of Table 9, we also find results consistent with our main analyses. Specifically, we find that organizations adopting SORP for the first time are associated with higher future donations and government grants. In untabulated analyses, we also find results similar to our main analyses across our size- and education- partitioned funding consequences models. That is, smaller organizations as well as educational institutions, i.e., charities that will not be required to adopt SORP under the 2022 proposed amendment, receive more future support following their first year of SORP adoption.

In addition to our *SORP First Adoption* test variable, in untabulated analyses, we alternatively employ a *SORP Change* test variable calculated as the change in *SORP* from t-1 to t. We find that *SORP Change* is equal to zero 96% of the time (or for 22,129 observations), *SORP Change* is equal to one for 4% (or 843 observations) of our sample, and *SORP Change* is equal to negative one for less than 1% (or 152 observations) of the organization-years we study. When we include *SORP Change* in our determinants and funding consequences models we find results consistent with our *SORP First Adoption* analyses. That is, we continue to find that organizations adopting SORP for the first time are associated with more external monitoring, more total assets, as well as increased future donations and government grants.

VI.4. Alternative Resources Measures

In addition to the total assets measure used to test Hypothesis 2, we also conjecture that nonprofit organizations with more employees will have the capacity to take on the additional data gathering and reporting functions required for organizations adopting SORP. As discussed above, Charities SORP requires additional accounting expertise. Requirements include fund accounting, as well as adherence to specific rules for the recognition of donation and grant revenues, donated assets and services, transactions with related parties, trustee pay and expenses, and accounting for heritage assets. We expect these expanded reporting guidelines to require additional time and expertise from accounting staff. Accordingly, we posit that organizations with more employees

will have an increased ability to take on the additional data collection and expertise required to prepare their financial information in accordance with Charities SORP. In untabulated analyses we find results consistent with our expectations. That is, we find a positive relationship between *SORP* and the total number of employees in our determinants Model 1.

In untabulated analyses we also test the expectation that more complex organizations will be more likely to adopt Charities SORP. We define complexity following Petrovits et al. (2011) as a simple sum of indicators for donations, government grants, and program service revenues producing a variable with values from 0 to 3. When we include this complexity measure in Model 1, we find a positive and significant association between *SORP* and complexity, as expected.

VI.5. Sensitivity Analysis/Endogeneity

Endogeneity is a common concern in donation demand models, such as our funding consequences model (Model 2). In our setting, it is possible that donations are simultaneously determined or that the exogenous determinants of an organization's likelihood of adopting SORP influence the amount of donations received. To mitigate these concerns, we implement four separate techniques to address endogeneity. First, we include the lagged dependent variable in our funding consequences models. If donations (government grants) and the likelihood of adopting Charities SORP are simultaneously determined, then including lagged donations (government grants) should reduce the observed association between current donations (government grants) and lagged voluntary adoption decisions. The practice of including lagged donations in the donations demand model follows prior nonprofit literature. For example, Harris et al. (2015) report that including the lagged dependent controls for all other time-invariant organizational characteristics not already controlled for in the donations demand model. We control for lagged donations in all of the consequences models presented in our study.

As an alternative to this specification, in untabulated analyses, we also interact our lagged dependent variable with *SORP* in an effort to isolate an abnormal increase in donations or government grants in the year after SORP adoption. Here we find positive and significant coefficients on the interaction terms in both our donations and government grants models, consistent with the positive effect of SORP adoption on future funding. Additionally, as another alternative to including the lagged dependent variable to control for time invariant organizational characteristics, in untabulated analyses we also include organization fixed effects. Using these fixed effects models, we find qualitatively the same results as those in our main analyses.

Second, we run Model 1 and Model 2 simultaneously. Specifically, we test our models simultaneously using two-stage least squares (2SLS) regression analysis where the likelihood of adopting Charities SORP and the funding consequences of doing so are modeled simultaneously. This technique allows for interdependence between the responses of donations and grants to Charities SORP adoption and its characteristics. Using this alternative specification, we continue to find results consistent with our main study analyses in both simultaneous models of the determinants of *SORP* and *Donations*, as well as simultaneous models of the determinants of *SORP* and *GovGrants*. We also analyze Model 1 as well as both specifications of Model 2 (*Donations* and *GovGrants*) simultaneously. Here, once again, we find results consistent with our main analyses: that organizations voluntarily adopting Charities SORP are associated with higher future donations and government grants. We also find consistent results for our partitioned samples; for brevity, we refrain from tabulating these simultaneous models.[34]

[34]Our instrumental variables in these models are lagged donations and lagged government grants, respectively. While not completely exogenous, these lagged variables are considered pre-determined. All remaining independent variables are included in both funding equations as exogenous covariates to avoid biased estimates (Angrist & Pischke, 2009, p. 126).

Third, following Heckman (1979), we calculate the Inverse Mills Ratio (IMR) using Model 1 and include it in Model 2 to control for the likelihood that an Irish nonprofit will adopt Charities SORP in the first place.[35] Specifically, this two-stage approach first models the probability that an organization will adopt Charities SORP using the variables outlined in Model 1 and then controls for the likelihood of adopting Charities SORP using an IMR control variable in Model 2. The benefit of the Heckman (1979) two-stage process is the ability to control for the likelihood that a nonprofit will adopt SORP in our funding consequences models. We include this additional control variable in untabulated analyses and continue to find that both donors and grantors reward organizations for adopting Charities SORP. We also find robust results for our cross-sectional models when we include IMR.

Our fourth and final means of addressing endogeneity in our analyses is by matched sample design. Here we employ both entropy balanced and propensity score matched (PSM) samples. Hainmüller (2012) argues that entropy balancing is the best method for improving the covariate balance between treatment and control groups when the treatment is a binary variable, such as the adoption of Charities SORP. Another benefit of entropy balancing is that it allows us to maintain all sample observations by reweighting observations based on the matching variables.[36] Using all of the variables in Model 1 as our matching variables, we re-run our Model 2 donations and government grants models. In these untabulated analyses, we continue to find that organizations voluntarily adopting Charities SORP are associated with higher future donations and government grants. We also re-run our cross-sectional donations and government grant models, once again finding robust results.

Finally, we construct a PSM matched sample of SORP adopting and non-SORP adopting organizations using the variables outlined in our determinants model (Model 1). Specifically, we match each treatment organization with a control organization with the closest propensity score (nearest neighbor, without replacement) and re-run our donations and government grants consequences models.[37] Using this PSM matched sample, we once again find that *Donations* and *GovGrants* are higher for Irish nonprofit organizations voluntarily adopting Charities SORP (once again, untabulated for brevity). While the effects of endogeneity can never be fully ruled out, we find comfort in the stability of our results using these multiple, rigorous alternative model specifications.

VII. Conclusion

Several charity scandals (e.g., Bóthar, Central Remedial Clinic, Console, GOAL, Irish Red Cross and Rehab) have been reported in Ireland during or just before our study's timeframe. In response to these and other high-profile cases involving fraudulent financial reporting, O'Callaghan (2016) encourages nonprofits to adopt the expanded reporting framework provided by Charities SORP, in an effort to rebuild stakeholder trust. David Hall (2016) also highlights that Charities SORP will make it 'impossible for items to be hidden by omission.' In light of these recommendations,

[35] We calculate IMR as the ratio of the standard normal probability density function over standard normal cumulative density function from the first stage regression presented in Table 5, Column I. Please note that the following variables are not included in Model 1 to satisfy the exclusion variable qualification: *Efficiency, FundExps,* and *ProgramRevs* as we have no reason to believe these measures would predict the likelihood of SORP adoption in the first stage.

[36] Our entropy balancing provides an exact match on three moments of covariate distributions (mean, variance, and skewness) following Hainmüller and Xu (2013) and Hainmüller (2012).

[37] Untabulated tests of mean and median differences in the covariates between treatment and control variables provide comfort that the sample is balanced appropriately. We also note that our PSM matching process uses 'common support' which discards inappropriate matches.

we shed light on the types of organizations already implementing Charities SORP, as well as the benefits of this expanded reporting.

Our findings suggest that Irish nonprofit organizations with more external oversight – through regulators, auditors and funders – are more likely to adopt Charities SORP than organizations with less external oversight. We find that organizations are more likely to adopt Charities SORP when peer organizations in the same industry/county have already adopted SORP. We also find that organizations with more resources are more likely to adopt Charities SORP. In terms of consequences, our study reports that organizations adopting SORP receive more future support from both donors and government grantors. We also show that smaller organizations with more information asymmetry benefit the most.

Despite these findings, our study is not without limitations. A key constraint is the availability of Irish nonprofit data. Our sample is limited to a six-year time period (2015–2020) and to nonprofits where a full set of financial data is available. While we make first steps with the limited data we have, a full set of available data over an expanded time period would offer additional insights. Second, the available data does not offer the opportunity to study the Irish charity sector post 2020. Therefore, our study is unable to offer an examination of the impact that the global pandemic has had on charity sector funding and reporting in Ireland. Additionally, we are limited to financial reporting data and therefore cannot speak to the impact of governance, compensation, or mission performance on the determinants and funding consequences of Charities SORP. Finally, we do not have any reason to believe our findings would not be generalizable to other common law countries, especially those considering mandatory charity reporting regulations. However, we must be mindful that our data is gathered from a single country where cultural differences may render our findings less generalizable to other jurisdictions.

These limitations, however, open the door for future research. As better and more data become available, it would be worthwhile to study the implications of adopting important governance mechanisms at Irish charities. It would also be interesting to understand how governance impacts the adoption of Charities SORP. It might also be fruitful to consider the implications for non-adopters once Charities SORP is required of certain organizations. Moreover, a follow-up qualitative study using interviews could shed further light on the decision to adopt SORP. In addition, a qualitative study of the reasons behind smaller organizations voluntarily adopting SORP. Despite smaller organizations being exempt from future mandatory SORP reporting, it may be an interesting way to better understand the costs and benefits of voluntary SORP adoption at Irish nonprofit organizations. Finally, we believe it will be especially interesting to see whether charity scandals will rise or fall in the future following the mandatory adoption of SORP.

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Data availability statement

Irish nonprofit data is available from the Benefacts Legacy Project at https://benefactslegacy.ie/.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Supplemental Data and Research Materials

Supplemental data for this article can be accessed online at https://doi.org/10.1080/09638180.2024.2384376.
Appendix A: Statement of Financial Activities (SOFA) examples
Appendix B: Current Irish Nonprofit Reporting Requirements
Appendix C: SORP over time
Appendix D: SORP by Industry
Appendix E: SORP by Irish County

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