Investigating the Impact of Religion Regarding Internal Control in Nonprofit Organizations

Abstract

This dissertation first synthesizes existing research on the intersection between religion and two key economic behaviors: financial risk-taking and financial reporting. It then empirically examines how the degree of religiosity of the geographical area surrounding the nonprofit organization – or of the country in which it is located – influences either the likelihood or the number of internal control deficiencies (ICDs) reported by the organization.

The first chapter of the dissertation provides a structured review of selected studies on religion's influence, regarding financial risk-taking and financial reporting. The main insight from these studies is that religion promotes positive economic behaviors, such as ethical financial practices and reduced risk-taking, rooted in its moral guidelines and conservative ethos. Despite this, some research finds negative outcomes associated with religion under certain circumstances. Thus, the context can shift religion's influence on economic behaviors. To facilitate future research, a conceptual model is proposed, highlighting interactions between religion and individuals, organizations, and their respective behaviors. This framework aims to support further exploration into how religious social norms influence economic behaviors in different contexts.

Focusing on nonprofit organizations, the second chapter examines whether the likelihood of ICDs is associated with religiosity. Using U.S. data and factor analysis to develop a religiosity score, this study finds that the higher the degree of religiosity in the geographic area surrounding a nonprofit organization, the more prone the organization is to ICDs. This risk is moderated by organizational size, which aligns with the notion that larger organizations have more resources to establish robust internal controls. My findings highlight the potential

risk posed by religious social norms. This raises important considerations for the management of nonprofit organizations, their external auditors, and funding agencies, such as whether to implement specific governance mechanisms to address the religiosity-associated risk.

The third chapter explores the role of religiosity as a risk factor for Seventh-day Adventist Church entities located in emerging economies, focusing on whether audit committees can moderate the associated risk. Using data of those entities and factor analysis to develop a country-level religiosity score, this study finds an association between the number of newly reported ICDs (hereafter, new ICDs) and the degree of religiosity, corroborating the similar religiosity-associated risk found in the U.S. context of the second chapter. Importantly, I find that the presence of an audit committee — particularly one with financial expertise and at least two meetings per year — moderates the religiosity-associated risk for both repeated and new ICDs. The study reveals that an audit committee can counteract the religiosity-associated risk and enhance financial reporting reliability, providing actionable insights for church leadership, auditors, and regulators in emerging economies where the influence of religiosity is significant.

Together, the studies in this dissertation reveal a nuanced landscape where religious environments characterized by county-level or country-level religiosity scores can foster challenging outcomes in internal controls, besides the beneficial outcomes in other domains documented in prior research. While religion may encourage ethical behaviors and risk aversion, it can also lead to oversight complacency in certain institutional contexts. This dissertation provides a framework for understanding the influence of religiosity on ICDs and highlights the need for robust governance in nonprofit organizations surrounded by religious environments.