Financial disclosure management in the nonprofit sector: A framework for past and future research

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ABSTRACT

This paper provides a review and synthesis of past research regarding financial disclosure management by nongovernmental nonprofit organizations and suggests directions for future study. The primary purpose of this review is to summarize the evidence on financial disclosure management to help regulators and other stakeholders understand why, how, and to what extent nonprofits engage in this behavior. The paper begins by defining disclosure management in nonprofit organizations and exploring the motivations for why it might occur. Next is a survey of the nongovernmental nonprofit financial reporting environment: objectives, common practices, and the informational needs of users of nonprofit financial reports. Research exploring the motives, methods, and consequences of disclosure management is summarized. The evidence suggests that nongovernmental nonprofit managers have a variety of incentives to manage reported numbers and that they do in fact alter spending decisions, choose accounting methods, and design cost allocations to achieve certain performance benchmarks. Furthermore, this review sheds light on the consequences of disclosure management and what can or should be done to limit it.

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