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Lowering standards: Unintended Consequences of Form 990-N and Value Congruence on Donors' Decision Making

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Introduction

Recent headlines and stories (Daugherty, 2018; Davis *et al.*, 2018; Geraldo, 2017; Kanable, 2019; Seidensticker, 2019) suggest there may be a growing fraud problem for donors of small nonprofits. Academic research confirms this problem, suggesting a majority of fraud in nonprofits occurs in small organizations (Holtfreter, 2008). When suspicions of fraud arise, small nonprofit donors have few publicly available resources to turn to. One such resource of financial information is the Internal Revenue Service (IRS).[1] As noted by GuideStar (Kanable, 2019), however, it is difficult to gather much more than name, address, and existence information from the form type commonly used by small nonprofits (Form 990-N). As a result, contrary to what might be common thought in the age of GuideStar, ProPublica, Charity Navigator, GivingWell, and the internet, little to no financial information is publicly available for many small nonprofits.[2] Therefore, donors of small nonprofits are on their own. Is it possible then that, when fraud is suspected and little to no financial information is available, donors bear the burdens of paying for information or even pull their donations?

Further, while logic dictates individuals would donate to nonprofits aligned with their cause, consider for a moment a situation where such values may not be aligned (e.g., a co-worker seeking money for their child's little league; or a family member raising money as part of a charity bike ride, run, or walk; or the death of friend where a charity is identified to which to donate). It brings to question how are donor decisions altered when their own values are tightly aligned (or not) with the nonprofit? We investigate this question as well as additional donor decisions in this article.

The Internal Revenue Service (IRS) creates forms and filing requirements for nonprofit organizations seeking to maintain tax-exempt status in the United States. While many nonprofits file an IRS Form 990 or Form 990-EZ under this process, small nonprofits with gross receipts below $50,000 (changed from $25,000 prior to 2010) file Form 990-N (also called e-postcard). Form 990-N captures the name and address of the nonprofit, an attestation to its ongoing operations, and its chief principal's contact name. The stated intention of the IRS is to reduce the filing burden of small nonprofits. However, as small nonprofits are the most vulnerable to unethical behavior, it is possible this lower disclosure threshold may lead to unexpected consequences related to the cost of fraud discovery.

Situations involving information asymmetry provide opportunity for fraudulent activities. Research suggests the likelihood of fraud increases with the level of information asymmetry (Ndofor *et al.*, 2013). Indeed, some of the largest fraud events in history: Enron (Thomas, 2002; Barrionuevo, 2006), Madoff Securities (Benner, 2018; Cohn, 2018), and the

[1] The IRS and the National Center for Charitable Statistics (NCCS) report that approximately 1.56 million public charities registered for tax-exempt status; there are 1.03 million nonprofits filing Form 990-N after excluding 0.53 million filing Form 990 or 990-EZ. https://nccs.urban.org/publication/nonprofit-sector-brief-2018#highlights

[2] Information obtained from the Charity Navigator website indicates other criteria such as: 501(c) (3) public charity and filing a Form 990, existing for at least seven years, with at least half a million in public support, with fundraising and administrative expenses (https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=32, accessed 3/21/2019). GivingWell has a minimum requirement of $1 million annual spending (https://www.givewell.org/apply-for-consideration#More_information_on_the_application_process, accessed 3/21/19).

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Red Cross (Associated Press, 2017) feature taking advantage of information imbalances in the law or exploiting information imbalance loopholes to perpetrate fraud. The structure of the nonprofit industry, especially that donors are typically not the beneficiary of services, determines that nonprofits are not immune to fraud.

Small nonprofits have a lower IRS reporting burden (the e-postcard) which may actually contribute to the fraud problem in nonprofits and increase the cost of fraud discovery. We believe that when donors have suspicions of fraud, they feel the need to obtain detailed information about the nonprofit. It seems likely that when the donor's passion for the cause is high and the information is more readily available (Form 990-EZ), donors will increasingly believe they will be able to find what they seek. Further, we expect unintended consequences when information is not readily available. Namely, we believe that a lack of financial information will cause donors passionate about the nonprofit's cause to pay to use other resources and activate cost burdens of time, resources, and money. Thus, a policy change intended to reduce burden for government entities and those filing the reports may shift and/or increase the burden to others, and back to those filing the reports in unintended ways.

Literature informs our beliefs. Information asymmetry often creates the opportunity to commit fraud (Elayan *et al.*, 2008; Ndofor *et al.*, 2015). As a result. situations where information imbalances are easily measured will help researchers more completely understand the consequences that accompany regulations which may inadvertently empower fraud. Transparency, by reducing information asymmetry, supports a competitive market which distributes scarce resources to more efficient entities. Opponents to regulations argue that the burden of complying with regulations are usually high, especially to small and medium-sized organizations (Burt and Taylor, 2004). Research in nonprofit literature, however, indicates that the burden may not be as overwhelming as commonly believed. Small nonprofits file tax documents correctly more often than large counterparts, because their operations are less complex (Froelich *et al.*, 2000). And because of the simplicity in operations, financial reports can be more easily prepared; small nonprofits may even use volunteers to prepare financial statements (Salterio and Legresley, 2011). Additionally, alignment of the stakeholder's passion for a cause with the organization (value congruence) can have a strong influence on decision-making (Ashley and Van Slyke, 2012; Paarlberg *et al.*, 2017; Marudas and Jacobs, 2011). Thus, prior research suggests disclosure and value congruence matter to stakeholders seeking further information.

We develop an experiment in which the donor believes that donations are being misused and may seek out additional information about the nonprofit in order to confirm their suspicions. IRS form type (990-EZ versus 990-N) and value congruence (as aligned with the participant's own values) are manipulated to test their effect on donor decision making. The target respondents are potential and current nonprofit donors located in the United States. Data are collected through an online platform, and analysis of variance is used to estimate the model and test our hypotheses.

Our main findings suggest that value congruence significantly influences the belief donors have about the information being useful. Further, the combination of a lack of disclosure and high value congruence appears to motivate donors to pay to find the information (cost shifting) they want rather than leave. However, a subset of the same group appears to get frustrated and donate elsewhere. From these general observations we surmise the specifics due to the context of the study. That is, Form 990-N (the e-postcard), which was created to reduce resource and regulatory burden, may actually increase such burden on a net cost basis. This burden can occur by shifting the burden to donors, the IRS, state offices, and further hurt the filing nonprofit and eventually the nonprofit sector.

This study provides several important contributions. From a theoretical perspective, it helps address gaps in nonprofit literature regarding donor information discovery and value congruence. Prior literature focuses on information quality absent of fraud conditions and how it influences initial donor decisions. In contrast, our study examines existing donors' decisions in a potential fraud setting, a growing problem in nonprofits. Our findings suggest that donors whose value aligned with the nonprofit's cause tend to validate prior decisions. They view information disclosed more positively and are also more willing to invest time and money to investigate fraud when information from the organization is extremely limited. However, donors also appear to give up on the nonprofit by taking their money elsewhere when limited public information is available from the organization. Further, information asymmetry is extended to consider the consequences this imbalance can have when paired with regulation. There is plenty of such research in for-profit literature, but it is sparse in the nonprofit area. Our study adds value to this line of research by investigating the unintended consequences of an IRS policy of Form 990-N. It suggests that donors prefer the more transparent public disclosure system. Finally, practice is informed as to unexpected consequences surrounding Form 990-N. It is especially important to know that donors could walk away if there is lack of public information even if they are passionate about the cause of the nonprofit. Several suggestions to alleviate the problem concludes the study.

The remainder of the article is structured as follows. The next section informs and presents the hypotheses, including a conceptual model. Next, the research design is explained. Subsequently, the results of the statistical analysis are presented. To finish, the limitations of the study, a discussion of the findings, and ideas for further research are offered.

Literature Review and Hypothesis Development

Background

The IRS is more than a tax authority to nonprofits. The public rely on the IRS filings for financial and nonfinancial information about a nonprofit. In 2008, the IRS redesigned the tax return Form 990 for large tax-exempt organizations, significantly increasing the disclosure requirement on nonprofit governance.[3] The IRS articulates the guidelines of the redesign - enhancing transparency, promoting tax compliance, and minimizing the burden on the filing organization - in the "Background Paper: Redesigned Draft Form 990." The reason for the redesign is because the IRS filing are "the key transparency tool relied on by the public, state regulators, the media, researchers, and policymakers to obtain information about the tax-exempt sector and individual organizations." However, in opposition to the transparency the redesigned Form 990 intends to achieve, the IRS redoubled efforts (increased the threshold of filing Form 990-EZ from gross receipts of $25,000 to $50,000 in 2010) to increase the number of nonprofits that file Form 990-N (e-postcard), which discloses no financial information about the organization relative to the next level, represented by Form 990-EZ. In the instructions for filing, the IRS appears to actively encourage filing the Form 990-N over the Form 990-EZ,

> …please note that if you choose to file an annual information return (Form 990 or Form 990-EZ) instead of the e-Postcard, you must file a complete return. An incomplete or partially completed Form 990 or Form 990-EZ will not satisfy the annual filing requirement. Also, you may be assessed a late filing penalty if you file Form 990 or Form 990-EZ late (IRS, 2007).

Research is needed to study the behavior accompanying this shift.

The issue of balancing fixed or diminished resources against the needs of such resources is an age-old problem (Lindahl, 1987; Olson, 2009) and is receiving increasing attention recently (Ülgen, 2018). A trend towards decreasing information reporting requirements while increasing the overall quantity of filers (McKeever and Pettijohn, 2014) has emerged. In a time of scarce resources, the IRS appears to allocate additional audit resources to low information quality public companies, while decreasing the overall number of targets (Nessa *et al.*, 2017). Taken together, this problem points to a troubling trend: a higher quantity of filers filing low quality information, combined with resource scarcity forcing fewer audits. Further, the threshold of the single audit for nonprofits receiving federal funding has been raised from $300,000 (prior to December 31, 2003) to $500,000 (prior to December 31, 2015) to $750,000 currently. However, outside of the bunching around thresholds that occurs when nonprofits are trying to show revenue totals just below a threshold necessary to trigger full financial statement filings (St. Clair, 2016), little literature exists considering the unintended consequences of nonprofit policy. Harris *et al.* (2015) mentions this problem, addressing one aspect by suggesting that increased understanding of governance and issues related to Form 990 filings might increase our understanding of the consequences of standard setting in a nonprofit environment.

Organizational Value Congruence—Commitment to the Cause

Commitment to the cause aligns stakeholders with the mission. From this idea, a framework for matching individual and organizational values to decision-making, known as organizational value congruence, emerged (Liedtka, 1989; Molina, 2016). Outside of nonprofit literature, we know that value congruence matters. Prior literature suggests that value congruence produces positive results for the organization by allowing the organization and stakeholders to work cooperatively, and perhaps even "become more open to an exchange of resources" (Bundy *et al.*, 2018). Stakeholder's are attracted to organizations whose values are aligned with their own (Bundy *et al.*, 2018), and stakeholder trust is grounded on perceived value congruence (Pirson and Malhotra, 2008), where value congruence between stakeholder and organization contributes to views of organization legitimacy (Brummette and Zoch, 2016). Further, stakeholders appear to be more

[3] https://www.irs.gov/pub/irs-tege/summary_form_990_redesign_process.pdf

tolerant of problems in the organization if they believe the organization is aligned with their personal interests or their personal ethics (Barnett, 2014). Small stakeholders are also affected by value congruence. Literature suggests small shareholders often look beyond a profit focus alone in evaluating investment options, weighting firms whose values align with their own highly in the decision process (Chiu, 2016).

Within nonprofits, Dunn (2010) explores the relationship between value *incongruence* and donors when a donor has a scandal, finding that economic need and commitment help explain the path towards the strategy nonprofits use in response. Like small shareholders, individual giving models suggest that some donors contribute to nonprofits due to a variety of factors, some internal, such as altruism and purpose/values, and some external, such as peer pressure and recognition, while the rest may be driven by a combination of both (Gordon and Khumawala, 1999). Likewise, donors prioritize the mission of nonprofits when making funding decisions and may even be willing to lower the requirement for efficiency (Paarlberg, 2017). While efficiency of operations is valued highly by many private donors, similar donors are likely to be more influenced by the alignment of the mission with their own cause (Frumkin and Kim, 2001). At the opposite end of the spectrum, when donors fall out of value alignment with the organization, problems can quickly develop (Dunn, 2010).

Consequently, research suggests that stakeholders hold a more positive view of what an organization does if congruency exists between their values and that of the organization. Yet, this notion must be balanced against the idea that donors reward high levels of disclosure and punish low levels of disclosure in donating decision (Buchheit and Parsons, 2006; Saxton *et al.*, 2014). While it seems likely that value congruence may offer a measure of overconfidence in the fair and orderly operation of the organization, low disclosure may offset this confidence. Ultimately, the notion of value congruence is also consistent with the confirmation bias in decision-making, where one tends to search for evidence confirming his/her previous belief and ignore evidence disconfirming it (Nickerson, 1998; Wheeler and Arunachalam, 2008, Bol and Smith, 2011). As a result, we expect donors will see more value in the information provided by a nonprofit if the nonprofit's mission aligns with the donor's passion compared to those whose passion is not aligned, even when fraudulent activity is suspect, regardless of disclosure type. Formally stated:

H1: High value congruence in small nonprofits is associated with increased beliefs the disclosure provided will be partially useful when fraud is suspected.

Information Asymmetry and Resultant Donor Decisions

Information asymmetry is a challenging issue in nonprofits. Donors are not daily users of nonprofit services, which prevents them from obtaining first-hand data to evaluate nonprofits. Disclosing information serves as a bridge to overcome information asymmetry between donors and nonprofits. Some nonprofits voluntarily disclose more accountability information under media attention (Tremblay-Boire and Prakash, 2015). Some treat information disclosure as a means to establish performance relative to their peers (Eckerd, 2015). Nonprofits believe this belief is particularly necessary because low entry barriers may have encouraged less credible organizations to enter the nonprofit sector (Ortmann and Schlesinger, 1997).

In the nonprofit community, disclosure is positively viewed by, and influences, donors (Saxton *et al.*, 2014). For example, donors infer the efficiency level of a nonprofit based on its disclosed functional expenses (Buchheit and Parsons 2006). Donors also pay attention to mission related activities relative to fundraising or administration (e.g., Weisbrod and Dominguez, 1986). And even average donors are able to catch a simple indicator of inflated efficiency ratios from financial reporting (Yetman and Yetman, 2013). Sophisticated donors further detect the misreporting of efficiency ratios that were manipulated using more complicated methods (Yetman and Yetman, 2013).

Tax returns filed by nonprofits are a primary source of financial information for those outside an organization (Gordon and Khumawala, 1999; Keating and Frumkin, 2003; Feng *et al.*, 2014). The annual tax return (Forms 990, 990-EZ, or 990-N) is the only financial report that nonprofits are mandated to make available to the public (26 C.F.R. § 301.6104(d)-1(a)(4)(i)). Given that Form 990-EZ includes more financial and nonfinancial information than Form 990-N does, literature informs us to expect that donors view Form 990-EZ (high disclosure) as more useful than Form 990-N (low disclosure).

Donors must have access to information about the nonprofit, and be able to analyze the information, to form an assessment of the nonprofit (Keating and Frumkin, 2003). Donors without access to useful information will incur more costs than donors equipped with that information. In the former situation, donors incur information collection costs, while donors in the latter group are unaffected. In fact, research suggests donors are able to effectively evaluate nonprofits only after they have easy access to Form 990 information (Yetman and Yetman, 2013). When fraud occurs or is suspected, the costs borne in an investigation often exceed that of the fraud itself (Button *et al.*, 2015). Thus, it seems likely that in the hopes of rectifying a perceived problem, donors with value congruence are more likely to act when useful information is extremely limited and when fraud is suspected.

Moreover, before analyzing information, donors given a lack of useful information (low disclosure in Form 990-N) will have to search for that information first, thereby shifting costs from the organization to the donor. Literature supports this assertion, finding high information search costs will be borne, especially by younger consumers, when uncertainty about a product is high (Maity *et al.*, 2014). Thus, donors may incur both monetary and time cost by choosing to hire outsiders, like a lawyer or private investigator, or contact external organizations, such as the Better Business Bureau or the IRS, in order to obtain information, they need. By contrast, donors with useful information (high disclosure in Form 990-EZ) will be unencumbered with such issues.

Informed by literature, on the one hand, it appears the simplest action a donor could take would be to walk away when fraud is suspected. Given the expense associated with investigating and fighting fraud, it seems likely donors would simply leave the organization, as has been done before (Brown and Griekspoor 2013). Yet, on the other hand, those with shared values may be committed enough to bear costs to investigate when they perceive a problem. We believe information asymmetry will provide the fulcrum necessary to resolve the debate. Namely, the combination of shared values and a lack of information will activate their passion, overriding the instinct to leave. As a result, our second hypothesis is:

H2: High value congruence and low disclosure in small nonprofits is associated with an increased likelihood of a donor bearing additional costs when fraud is suspected.

Lastly, donors who are passionate about a nonprofit's cause may be incentivized to act (contacting or hiring others) when they suspect a problem if the nonprofit filed a Form 990-N (low disclosure). However, research suggests consumers with shared values expect the organization to bear additional costs, such as external validation, which helps to create trust that the values of the organization and consumer are aligned (Kuokkanen and Sun, 2019). Similarly, incurring "extra" time and effort in information collection is burdensome on donors (Gordon and Khumawala, 1999; Connolly and Hyndman, 2013), and may drive donors to abandon their passion or seek out one of the many alternative nonprofits with a similar cause. It is even harder for donors with no passion about the nonprofit's cause to justify the time, energy, and money of acting on suspicions. Because of this "extra" cost, donors in the low value congruence group and in the low disclosure situation also are likely to avoid the nonprofit, even if their suspicion of poor stewardship is not confirmed. This avoidance will eventually hurt the financial health of the nonprofit. Thus, our last hypothesis is stated as follows:

H3: Low value congruence and low disclosure in small nonprofits is associated with an increased likelihood of a donor taking their money elsewhere when fraud is suspected.

A conceptual model depicting the relationships of the theories and this study is captured below. [*See Figure 1, pg. 270*]

Method

Participants

This study's participants were recruited from the online crowd-sourcing platform Amazon Mechanical Turk (M-Turk). Hunt and Scheetz (2019) provide a detailed overview of how M-Turk works along with a list of articles that have been published in accounting journals that gathered participants using M-Turk.[4]

U.S. citizens 18 years of age or older were recruited who expressed interest in donation considerations for nonprofit organizations. The request for participation provided a link to the website containing the research instrument. Participants received a nominal $3.00 fee for participating. They spent an average of 8 minutes considering their responses. We had 346

[4] Use of M-Turk for participant recruitment has become acceptable in many circumstances. Journals that publish research which used M-Turk include: The Accounting Review, Contemporary Accounting Research, Accounting, Organizations and Society, Behavioral Research in Accounting, Journal of Accounting Research, Auditing: A Journal of Practice and Theory, and Journal of Information Systems.

participants who started the experiment, 52 participants did not finish due to a choice to stop early (n=32) or a failure of an attention check question (n=20). The 294 participants who completed the instrument represent 40 states and D.C. Participants were at an average age of 35, with 63% being female, and 84% with college education or above. On average participants had over five years of experience at their current employer and nearly 10 years of experience in their industry overall. Approximately 27% of participants had previously worked in a nonprofit organization, 16% previously witnessed fraud in an organization, and 6% had reported it. None of the demographic variables affect the interpretation of the results. [*See Table 1, pg. 272*]

Instrument and Independent Variables

The study was administered online with a Qualtrics research instrument adapted from the Internal Revenue Forms 990-EZ and 990-N instructions combined with the tone of fraud suspected in Archambeault *et al.* (2015). After consenting to participate and reading general instructions, participants were asked about a cause they are highly passionate about. This cause (value congruence) was manipulated randomly between-subjects, with one-half of the participants given information lacking this cause (noted as "[Condition 1. Value Congruence Absent. No text.]" in Appendix A), and the other half receiving an organization associated with this cause (noted as "[Condition 2. Value Congruence Present. Text: "dedicated to" PASSION]" in Appendix A).

The instrument describes a hypothetical situation in which a donor suspects that donations are being misused and asks for more information, receiving a copy of the IRS filing. The IRS filing type (information disclosure) is also manipulated randomly between-subjects, with half being assigned the high disclosure condition using IRS Form 990-EZ and the rest being assigned the low disclosure condition of IRS Form 990-N. All were presented information appropriate to the form type to which they were assigned (please see Appendix A), helping ensure participants have basic knowledge of the reporting requirements associated with the form. Otherwise, all participants received identical information.

Dependent and Classification Variables

After evaluating the background information, participants assessed their agreement that if there were a fraud present it would be able to be discovered. Next participants were asked if they agreed the IRS filing is of benefit in this situation. We then informed them a donation is already planned for next year and asked about the likelihood the donor will donate to this organization.

Lastly, we asked participants about cost shifting. We asked participants how much they agreed that in order to be satisfied, they would take a variety of actions ("hire an accountant", "hire a lawyer," "hire a private investigator," "contact the IRS," "contact the better business bureau," "contact the appropriate state office," "contact the chief executive with more questions"). These all represent ways in which costs can be shifted and are used in conjunction to develop a construct with which to measure overall cost shifting behavior.

The instrument also included many other measures to help explain variation in the participants' perceptions of fraud. For example, some participants witnessed or reported fraud in an organization previously. Finally, other classification variables were collected. Please see Appendix A for additional information about the variables and constructs described above.

Results

Manipulation Checks

Participants answered questions to assess their understanding of the study's information disclosure and value congruence manipulations. The first question asks whether the firm filed a Form 990-N (e-postcard). The second asks whether the participant was given information associated with a cause they are passionate about. For the 990-N question, 86% answered correctly. For the question about passion, 87% of those giving a value then represented by the organization provided the correct answer. A one-way ANOVA was run comparing the answers of the respondents to the situation they received. The data indicate statistical significance of respondents understanding the situation they received for both the information disclosure form type ($F = 296.974$, $p < 0.001$) and value congruence ($F = 70.295$, $p < 0.01$). Thus, all responses were kept and used in the analysis.

Covariates

Covariates including gender, pervious nonprofit experience, previous frauds witnessed and/or reported, professional designations, education level, age, and experience were measured and tested. Of these, previous non-profit experience was found to be significant in some of the models we examined, and thus was included in those parts of the analysis. The remainder of the covariates were found to be non-significant.

Descriptive Results

The descriptive results in Table 2 indicate that the participants in the study would likely take their donations to a different organization with the same cause (mean = 4.93), or even a different organization outside the cause (untabulated mean = 4.20). Further, donors shift costs in many circumstances. Cost shifting (an average of the 7-items following. Please see Appendix A) occurs by hiring accountants (mean = 4.39), lawyers (mean = 4.13), private investigators (mean = 4.09), contacting the Better Business Bureau (mean = 4.68), the IRS (mean = 4.83), the State (mean = 4.94), and even back onto the organization itself through the CEO (mean = 5.36). [*See Table 2, pg. 273*]

Additionally, untabulated results indicate participants believe they could locate part of the information they seek (n = 294, mean = 4.47, std. dev. = 1.63), and exhibit cost shifting behavior (n = 294, mean = 4.63, std. dev. = 1.01) regardless of circumstance. When presented in a situation without value congruence, the type of IRS filing (Form 990-N or 990-EZ) given determines the strength of this belief. Of this group, comparing their responses to a neutral indication of likelihood to act (measured as a "4" on the seven point Likert-type scale we used) those receiving the 990-N believe it is less likely (n = 73, mean = 3.64, std. dev. = 1.77, one-tail p-value = 0.0432) they will locate part of the information they seek, but those receiving Form 990-EZ (n = 76, mean = 4.92, std. dev. = 1.30, one-tail p-value < 0.001) believe it to be more likely.

Those with Form 990-N are more likely to shift costs to the donor. Donors decide to hire a private investigator (mean increase 0.62) or contact the Better Business Bureau (mean increase 0.42). Further, the IRS, whose stated desire is to reduce costs by moving more Form 990-EZs to 990-Ns, may have shifted costs back onto itself with by being asked to perform an investigation (mean increase 0.26). Of added interest, the host organization itself is more likely to bear added costs as well (mean increase 0.31). Untabulated univariate test results indicate that both form type and value congruence significantly affect the information usefulness belief (one-tailed $p < 0.05$ for both tests).

H1 Results

Hypothesis 1 proposes that value congruence influences belief that the disclosure provided will be useful. We find strong support for this notion. Independent from form type, value congruence plays a significant role in donor belief. Participants with high value congruence (n = 145, mean = 4.64, std. dev. = 1.57) were significantly more likely (F = 4.27, one-tailed p = 0.04) to believe the provided information was useful, compared to those with no value congruence (n = 149, mean = 4.30, std. dev. = 1.67). The results are presented in Table 3. [*See Table 3, pg. 273*] [*See Figure 2, Panel A, pg. 270*]

H2 Results

Hypothesis 2 indicates that the combination of low disclosure (Form 990-N) and high value congruence will most likely result in cost shifting compared to those with high disclosure (Form 990-EZ) and other combinations of these two factors. Those with high value congruence, when presented with the low disclosure of Form 990-N (n = 73, mean = 4.95, std. dev. = 0.92) are more likely to incur costs than those presented with the higher disclosure of Form 990-EZ (n = 72, mean = 4.22, std. dev. = 1.00). The opposite is true when the value congruence is absent. In this scenario, participants with the low disclosure of Form 990-N (n = 73, mean = 4.64, std. dev. = 0.92) are less likely to incur costs than those presented with the higher disclosure of Form 990-EZ (n=76, mean = 4.72, std. dev. = 1.06). The interaction of value congruence and form type is significant (F = 11.01, one-tailed p = 0.001). The results can be seen in Table 4. [*See Table 4, pg. 274*] [*See Figure 2, Panel B, pg. 271*]

In order to more precisely determine how cost shifting occurs in these groups, we asked many questions related to alternatives our participants may adopt when confronted with a situation. While initially it looks like there is little difference by way of form type in hiring others (Table 2 mean difference of the average of accountants, lawyers, and private investigators = 0.11), the interaction effect is strongest when it comes to hiring lawyers (F = 16.32, p = 0.016), private investigators (F = 25.11, p = 0.004), and contacting the Better Business Bureau (F = 22.90, one-tailed p = 0.003). Value congruence drives this difference. For example, those with high value congruence appear to be significantly more willing to hire lawyers (mean increase = 0.84, shifting from unlikely to likely to do so; t-test of differences p = 0.002) and private investigators (mean increase = 1.21, shifting from unlikely to likely to do so; t-test of differences $p < 0.001$), when receiving a Form 990-N. While Table 2 suggests that in general donors tend to contact the organization and the state office, the results here suggest when it comes to the more costly approaches such as hiring a lawyer or private investigator passion drives the action.

H3 Results

Finally, hypothesis 3 suggests that low disclosure may drive away donors with low value congruence with the nonprofit when fraud is suspected. We specifically test for this situation. We test for the effect of form type and value congruence on the likelihood of donating to a different organization with a different cause dissimilar organization. The effect is statistically significance ($F = 3.91$, one-tailed $p < 0.049$). However, the effect is stronger when value congruence is present, where those who receive Form 990-N ($n = 73$, mean = 4.42, std. dev. = 1.25) are more likely to switch their donation to a dissimilar organization, while those who received a Form 990-EZ ($n = 72$, mean = 3.85, std. dev. = 1.38) are reluctant to do so. An explanation is that donors are frustrated with the lack of information and are unwilling to incur the information collection costs. This frustration drives them away from the nonprofit, and they even lose trust in nonprofits of similar cause. It is a big loss to the nonprofit and nonprofits in similar cause. The results can be seen in Table 5. [*See Table 5, pg. 276*] [*See Figure 2, Panel C, pg. 271*]

Conclusions

Discussion

The data suggest, despite the best of intentions, the IRS policy may be unintentionally shifting costs of compliance from the filing organization to its donors, those it services, and other organizations. To some, the lost donation may outweigh the cost of filing basic financial and governance information. As a result, when a problem is perceived to exist, the lack of even basic financial information can increase the burden on those external to the organization attempting to locate discrepancies. This situation, in turn, may create a thirst for information unsated by current policy. While current policy does reduce the filing burden to being nearly nonexistent for small nonprofit organizations, we wonder if this cost shifting is justified, especially when problems inexorably are perceived to occur (Holtfreter, 2008).

Future research is warranted as to the effects of value congruence on donors, as well as the measurement of actual costs so that policymakers, researchers, filers, and donors are better informed in the decisions they make and paths they take. Future research further exploring the impact of the different IRS 990 forms compared to no forms may also inform policymakers as to the total impact these forms have on donors. Research into whether disposable income and nonprofit legitimacy (registered versus unregistered) affects decision making by form type would add to our understanding of how these forms impact donations.

Prior studies focus on large nonprofits filing Form 990 (e.g., Harris *et al.*, 2015; Marudas and Jacobs, 2011; Tinkelman and Mankaney, 2007; Froelich *et al.,* 2000). Small nonprofits represent a large portion of nonprofits overall, yet this study is the first study to look at Form 990-N and Form 990-EZ that involve small nonprofits. This study is also the first paper investigating the influence of policy on information discovery by donors. The data suggest not only does requiring basic levels of financial disclosure matter, but that the alignment of donors with the cause embodied by the organization matters as well. Further, while current literature shows that financial information (not just efficiency) affects donor decisions (e.g., Balsam and Harris, 2014), this is the first study to investigate the idea that nonprofits may have reduce costs due to the IRS tax return filing policy, but this policy may be increasing costs for the nonprofit's stakeholders. Taken together, people who consider donating because of the cause of the organization appear driven to make sure the organization is conducting its business in alignment with financial best practices.

From a research perspective, we expand knowledge surrounding information asymmetry. We do so by bridging the discussion of value congruence and cost-shifting behavior. When information asymmetry exists, as is the 990-N case in this study, stakeholders appear incentivized to locate the missing information. Tight alignment between their passion and the organization may fuel the vigor with which they investigate, costs are therefore shifted from host organizations for filing onto others in the process. In addition, at least some of the filing organizations face the consequence of losing their passionate donors, who take their money elsewhere.

We agree with the IRS that disclosure can be costly. Indeed, Lenter et al. (2003) discover that full disclosure can lead to a loss of proprietary competitiveness. However, Lenter et al. (2003) also finds that limited disclosure is much better than no disclosure. Without disclosure, market efficiencies can fade. Further, as in the case in this study, one runs the risk of shifting the burden of obtaining information onto the very parties attempting to help the organization thrive (donors and those being served).

Information available from small nonprofits is already sparse. When there is a potential problem, the one source of consistent financial information available tends to come from that which is regulated. Regulated information matters to donors of small nonprofits because they rely on public information (Connolly and Hyndman, 2013). When this information is not readily available (as in the case of the 990-N), passionate donors may incur additional costs to investigate issues, and the proportionate cost of information discovery for such donors is particularly high. Without the publicly available information, stakeholders will have a high degree of difficulty looking into the management/operation of a small nonprofit.

Our findings suggest when there is a potential problem and no financial information is available, people will seek information from other outlets, including private industry, the organization itself, and other branches of the Internal Revenue Service. Thus, in attempting to alleviate costs, policymakers may have inadvertently shifted at least part of these costs back onto their own governmental entities.

To alleviate these potential issues policymakers might consider engaging in dialogues with stakeholders concerning their information needs. Such a dialogue may contribute to increased financial sustainability within the nonprofit sector. Also, because small organizations are vulnerable to fraud due to inherent deficiencies in internal controls, policymakers may consider requiring basic disclosure and transparency, without adding unbearable costs to nonprofits (Froelich *et al.*, 2000; Salterio and Legresley, 2011). Alternatively, we propose to create a central disclosure repository where small nonprofits can voluntarily fill out basic financial information, for which they are held responsible. The repository will lower the information search cost for passionate donors, while the IRS is not burdened with additional tax returns. Organizational policymakers may consider that when their organization services a specific need, it is likely the stakeholders associated with the organization may have increased shared values. These values will not only allow the organization to thrive, but also increase action by the stakeholders when they are suspicions that things are not being run correctly. Increased transparency would likely be useful to help ward off such concerns before they can grow.

Limitations

This study has limitations. This investigation uses an experiment presenting a hypothetical scenario. Despite using actual IRS forms and shortened instructions, the study does not capture actual actions as they occur from the actual decision maker directly. While this study uses a sample familiar with nonprofits, without additional study it is possible that other characteristics of the population here were oversampled and remain undetected. This limitation includes characteristics such as the state in which the participant resides, as different states have different reporting requirements for nonprofits. Further, although priming participants to think about a charity they value should reduce the significance of our main results due to half the sample not receiving a situation associated with such priming, there is the possibility that this priming could have unmeasured influences on our results. Real world data suggests a gender imbalance skewed towards female donors (Mesch, 2010). The population we sampled is within the range of gender percentages indicated by literature and is skewed towards experienced individuals and United States citizens. Despite controlling for several variables, it is possible this skewness makes the study less generalizable. Last, while this study has sufficient power on which to perform an analysis of the data, future archival research confirming these findings would be useful to cross-validate the results. This study does attempt to control for all the limitations through rigorous design and data analysis.

Figure 1: Conceptual Model

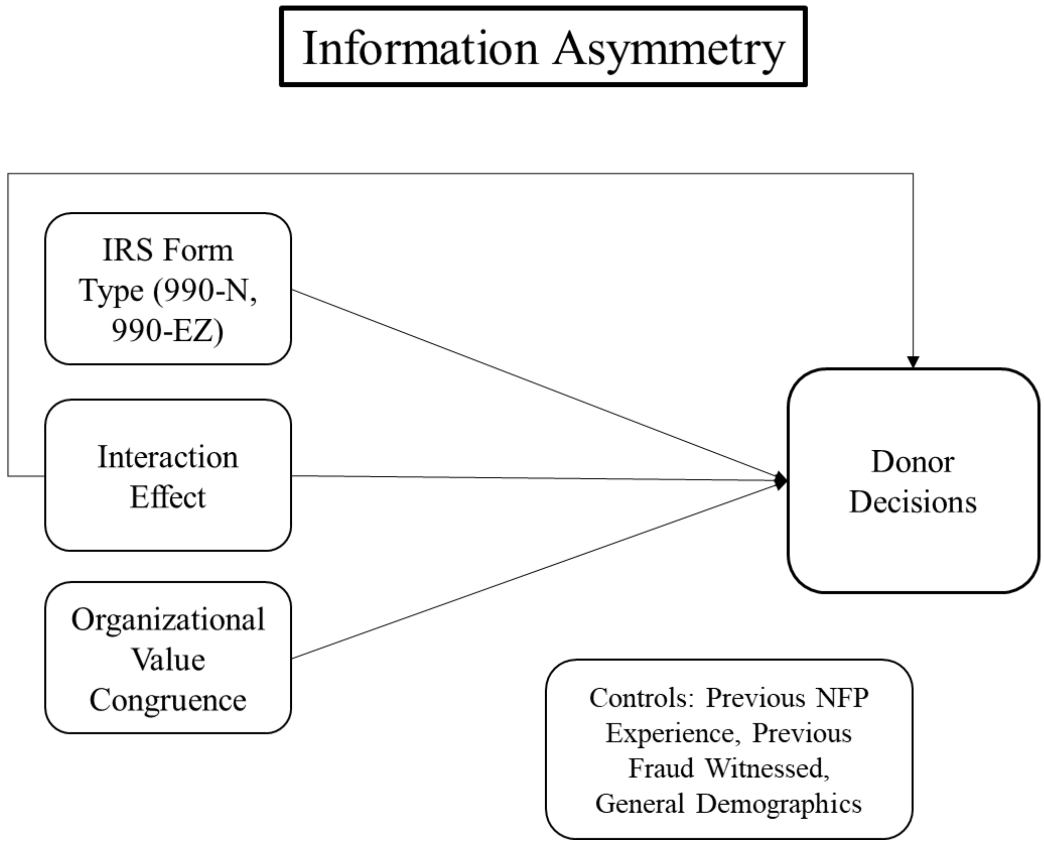


Figure 2: Interaction Effects—Panel A: Information Usefulness

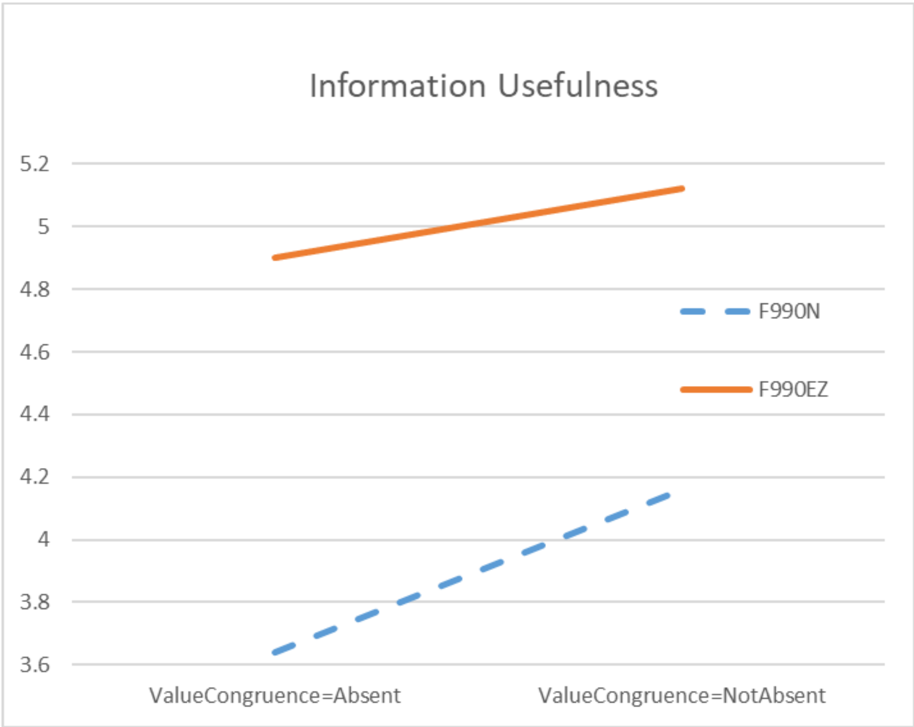
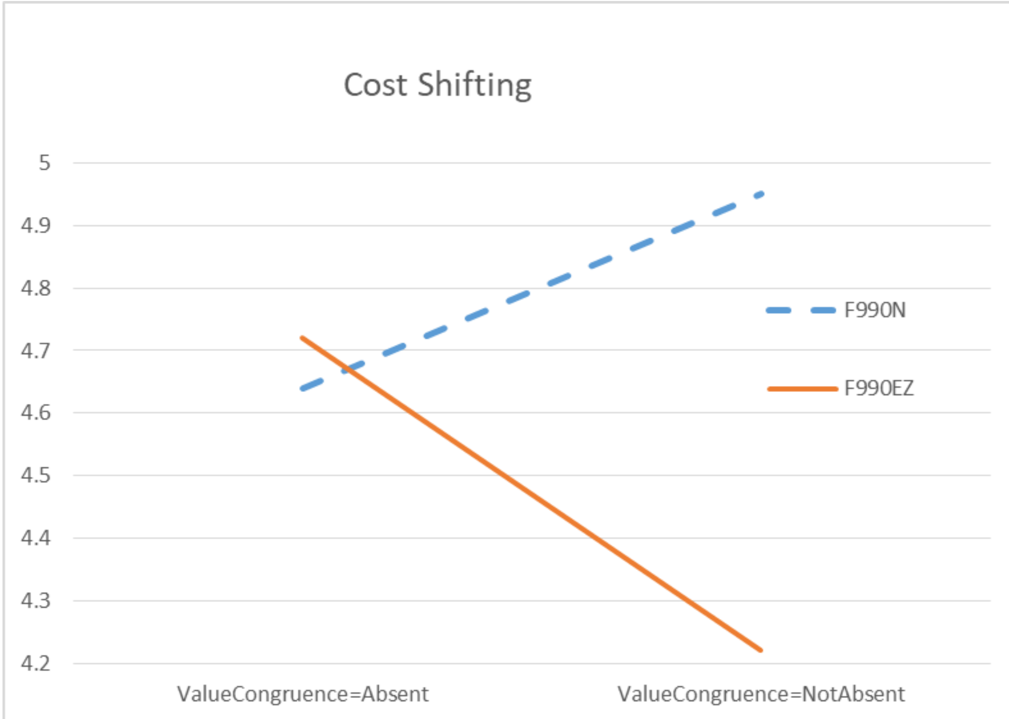


Figure 2 (Continued): Interaction Effects—Panel B: Likelihood of Donor Bearing Additional Costs



Interaction Effects—Panel C: Likelihood of Donating Elsewhere

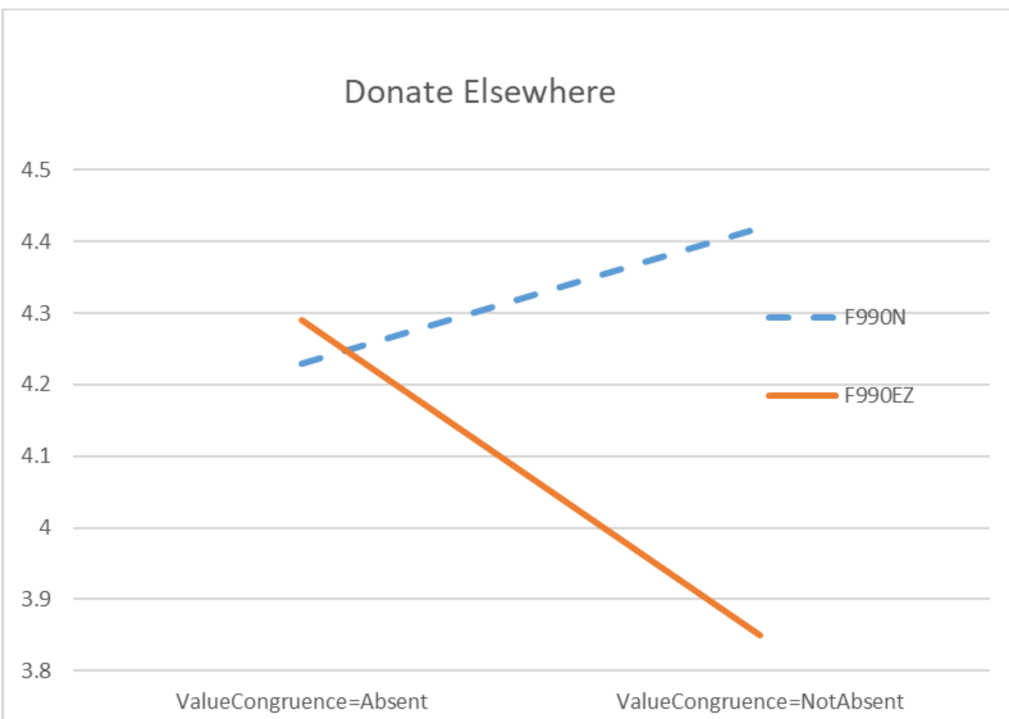


Table 1: Participant Demographics

n = 294

Gender	**Total**
Male	109
Female	185
Age	
Mean	34.71
SD	10.42
Education	
High School	48
Some College	94
Bachelor's Degree	126
MBA	10
Other Graduate Degree(s)	16
Years Employed in Industry Overall	
Mean	9.55
SD	8.04
Years at Current Employer	
Mean	5.48
SD	4.72
Professional Designation	
CFE	8
CMA	7
CPA	30
Previous nonprofit experience	
Yes	78
No	216
Previously witnessed fraud in an organization	
Yes	46
No	248
Previously reported fraud in an organization	
Yes	19
No	275
Location[5]	
Northeast (New England and Mid-Atlantic)	75
Midwest (East and West North Central)	74
South (South Atlantic, East and West South Central)	84
West (Mountain and Pacific)	61

[5] In total 40 states and the District of Columbia are represented.

Table 2: Other Measured Descriptive Statistics

	Form 990-N (n=146)		Form 990-EZ (n=148)		Total (n=294)	
	Mean	SD	Mean	SD	Mean	SD
Donate to same organization	2.47	1.41	2.80	1.44	2.64	1.43
Donate to an organization like this one, but a different organization	4.55	1.66	4.78	1.54	4.67	1.60
Donate to similar, different organization	4.88	1.38	4.97	1.23	4.93	1.31
Hire others (accountant, lawyer, private investigator)	3.94	1.56	4.05	1.49	3.99	1.53
Contact the Better Business Bureau	4.89	1.52	4.47	1.73	4.68	1.64
Contact the IRS	4.96	1.34	4.70	1.66	4.83	1.51
Contact the appropriate State Office	5.12	1.32	4.77	1.43	4.94	1.38
Contact the Chief Executive	5.52	1.31	5.21	1.62	5.36	1.48

Table 3: Test of H1—Likelihood of Information Being Useful
Panel A: ANOVA Analysis

	SS	df	MS	*F*	*p*
Form Type	93.18	1	93.18	40.65	<0.001
Value Congruence	9.78	1	9.78	4.27	0.040
Value Congruence X Form Type	1.30	1	1.30	0.57	0.453
Previous Non-Profit Experience	9.72	1	9.72	4.24	0.040
Error	662.46	289	2.29		
Total	6639.00	294			

*The p values are two-tailed. R Squared = 0.145, Adjusted R Squared = 0.134, n = 294.
Form Type = 0 if 990-EZ, 1 if 990-N. Value Congruence = 0 if absent, 1 if present.

Panel B: Response by Form Type and Value Congruence

Information Usefulness

	Form 990-N	**Form 990-EZ**	**Total**
Value Congruence Absent	Mean 3.64 SD 1.77 N 73 [***Cell E***]	Mean 4.92 SD 1.30 N 76 [***Cell F***]	Mean 4.30 SD 1.67 N 149 [***Cell EF***]
Value Congruence Present	Mean 4.16 SD 1.87 N 73 [***Cell G***]	Mean 5.12 SD 0.98 N 72 [***Cell H***]	Mean 4.64 SD 1.57 N 145 [***Cell GH***]
Total	Mean 3.90 SD 1.83 N 146 [***Cell EG***]	Mean 5.02 SD 1.16 N 148 [***Cell FH***]	Mean 4.47 SD 1.63 N 294 [***Cell EFGH***]

Table 4: Test of H2—Likelihood of Donor Bearing Additional Costs

Panel A: ANOVA Analysis

	SS	df	MS	*F*	*p*
Form Type	16.18	1	16.18	18.80	<0.001
Value Congruence	0.40	1	0.40	0.47	0.494
Value Congruence X Form Type	9.82	1	9.82	11.41	0.001
Previous Non-Profit Experience	4.89	1	4.89	5.68	0.018
Likelihood of Information Being Useful	21.97	1	21.97	25.52	<0.001
Error	247.92	288	0.86		
Total	6606.25	294			

*The p values are two-tailed. R Squared = 0.171, Adjusted R Squared = 0.157, n = 294.

Form Type = 0 if 990-EZ, 1 if 990-N. Value Congruence = 0 if absent, 1 if present.

Panel B: Response by Form Type and Value Congruence

Cost Shifting Behavior

	Form 990-N	**Form 990-EZ**	**Total**
Value Congruence Absent	Mean 4.64 SD 0.92 N 73 [***Cell A***]	Mean 4.72 SD 1.06 N 76 [***Cell B***]	Mean 4.67 SD 1.00 N 146 [***Cell AB***]
Value Congruence Present	Mean 4.95 SD 0.92 N 73 [***Cell C***]	Mean 4.22 SD 1.00 N 72 [***Cell D***]	Mean 4.58 SD 1.03 N 145 [***Cell CD***]
Total	Mean 4.79 SD 0.93 N 146 [***Cell AC***]	Mean 4.47 SD 1.06 N 148 [***Cell BD***]	Mean 4.63 SD 1.01 N 294 [***Cell ABCD***]

Table 4 (Continued)

Panel C: Specific Cost Shifting Action by Value Congruence

Hire lawyer

	Form 990-N	Form 990-EZ	Total
Value Congruence Absent	Mean 4.05 SD 1.59 N 73 [***Cell A***]	Mean 4.16 SD 1.77 N 76 [***Cell B***]	Mean 4.11 SD 1.68 N 146 [***Cell AB***]
Value Congruence Present	Mean 4.56 SD 1.55 N 73 [***Cell C***]	Mean 3.72 SD 1.73 N 72 [***Cell D***]	Mean 4.14 SD 1.69 N 145 [***Cell CD***]
Total	Mean 4.31 SD 1.58 N 146 [***Cell AC***]	Mean3.95 SD 1.76 N 148 [***Cell BD***]	Mean 4.13 SD 1.68 N 294 [***Cell ABCD***]

Hire private investigator

	Form 990-N	Form 990-EZ	Total
Value Congruence Absent	Mean 4.10 SD 1.65 N 73 [***Cell A***]	Mean 4.05 SD 1.73 N 76 [***Cell B***]	Mean 4.07 SD 1.69 N 146 [***Cell AB***]
Value Congruence Present	Mean 4.70 SD 1.56 N 73 [***Cell C***]	Mean 3.49 SD 1.87 N 72 [***Cell D***]	Mean 4.10 SD 1.82 N 145 [***Cell CD***]
Total	Mean 4.40 SD 1.63 N 146 [***Cell AC***]	Mean3.78 SD 1.81 N 148 [***Cell BD***]	Mean 4.09 SD 1.75 N 294 [***Cell ABCD***]

Table 5: Test of H3—Likelihood of Donating Elsewhere

Panel A: ANOVA Analysis

	SS	df	MS	*F*	*p*
Form Type	4.98	1	4.98	2.64	0.105
Value Congruence	1.15	1	1.15	0.61	0.435
Value Congruence X Form Type	7.38	1	7.38	3.91	0.049
Error	547.83	290	1.89		
Total	5749.00	294			

*The p values are two-tailed. R Squared = 0.024, Adjusted R Squared = 0.014, n = 294.

Form Type = 0 if 990-EZ, 1 if 990-N. Value Congruence = 0 if absent, 1 if present.

Panel B: Response by Form Type and Value Congruence

Donate Money Elsewhere

	Form 990-N	**Form 990-EZ**	**Total**
Value Congruence Absent	Mean 4.23 SD 1.58 N 73 [***Cell E***]	Mean 4.29 SD 1.27 N 76 [***Cell F***]	Mean 4.26 SD 1.43 N 149 [***Cell EF***]
Value Congruence Present	Mean 4.42 SD 1.25 N 73 [***Cell G***]	Mean 3.85 SD 1.38 N 72 [***Cell H***]	Mean 4.14 SD 1.34 N 145 [***Cell GH***]
Total	Mean 4.33 SD 1.42 N 146 [***Cell EG***]	Mean 4.07 SD 1.34 N 148 [***Cell FH***]	Mean 4.20 SD 1.39 N 294 [***Cell EFGH***]

Appendix A

Definitions

Under the high disclosure condition participant's received Form 990-EZ, and under the low disclosure condition participant's received Form 990-N.

Under the value congruence absent condition participants were given no information regarding the cause the nonprofit represented, under the value congruence present condition participants were given a nonprofit with a cause they had previously indicated they were passionate about.

Information usefulness was measured as participants' agreement that the IRS filing is of benefit in the provided situation (will find at least part of what is sought in the filing) on a 7-point Likert-type scale anchored "Strongly disagree" and "Strongly agree".

Cost shifting behavior was measured by creating a construct whereby the mean of 7-items related to cost shifting actions was computed. Each item was measured on a 7-point Likert-type sale anchored "Strongly disagree" and "Strongly agree". Participants were asked how much they agreed that in order to be satisfied, they would take a variety of actions, including: "hire an accountant", "hire a lawyer," "hire a private investigator," "contact the IRS," "contact the better business bureau," "contact the appropriate state office," "contact the chief executive with more questions".

Donate money was measured three different ways on a 7-point Likert-type sale anchored "Much lower" and "Much higher". Participants were told there was previously a plan to donate a substantial amount in total next year to charities. Then they were asked how much more or less likely the donation would be to: (1) This organization, (2) An organization like this one, but a different organization, (3) An organization unlike this organization.

Previous nonprofit experience was measured with a "Yes" or a "No" to the question: have you previously worked 20 or more hours a week for a non-profit?

Appendix B

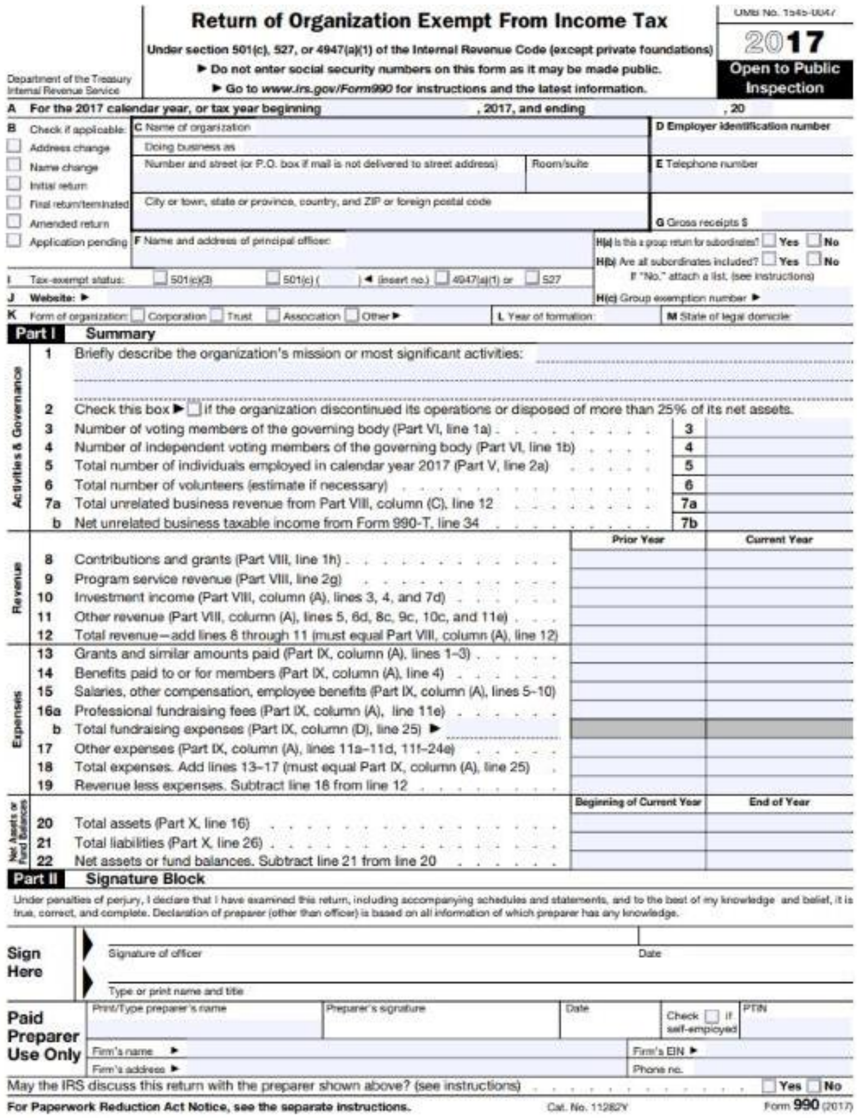
Research Instrument Background

A.1. Form 990-EZ

Marion donates to a small non-profit [Condition 1. Value Congruence Absent. No text.] [Condition 2. Value Congruence Present. Text: "dedicated to" PASSION]. Unfortunately, Marion suspects some of the donation is not being used properly. Marion thinks some of the money might be going to extra salaries, personal expenses, or the like. Because of this, Marion asked for financial information. The chief executive provided the IRS filing, saying that was all the executive had time to deliver.

The organization filed the IRS Form, ***which requires detailed financial information*** regarding governance, revenues, expenses, net assets, compensation, pledges, and services provided. You may find an example of this form here: https://www.irs.gov/pub/irs-pdf/f990ez.pdf

A copy of the first page of a typical form is below:



Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

▶ Do not enter social security numbers on this form as it may be made public.

▶ Go to *www.irs.gov/Form990* for instructions and the latest information.

OMB No. 1545-0047

2017

Open to Public Inspection

A For the 2017 calendar year, or tax year beginning , 2017, and ending , 20

B Check if applicable: Address change; Name change; Initial return; Final return/terminated; Amended return; Application pending

C Name of organization

Doing business as

Number and street (or P.O. box if mail is not delivered to street address) | Room/suite

City or town, state or province, country, and ZIP or foreign postal code

D Employer identification number

E Telephone number

G Gross receipts $

F Name and address of principal officer:

H(a) Is this a group return for subordinates? Yes No

H(b) Are all subordinates included? Yes No

If "No," attach a list. (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status: 501(c)(3) 501(c) ( ) ◀ (insert no.) 4947(a)(1) or 527

J Website: ▶

K Form of organization: Corporation Trust Association Other ▶ | L Year of formation: | M State of legal domicile:

Part I Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities:			
	2	Check this box ▶ if the organization discontinued its operations or disposed of more than 25% of its net assets.			
	3	Number of voting members of the governing body (Part VI, line 1a)	3		
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4		
	5	Total number of individuals employed in calendar year 2017 (Part V, line 2a)	5		
	6	Total number of volunteers (estimate if necessary)	6		
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a		
	b	Net unrelated business taxable income from Form 990-T, line 34	7b		
				Prior Year	**Current Year**
Revenue	8	Contributions and grants (Part VIII, line 1h)			
	9	Program service revenue (Part VIII, line 2g)			
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)			
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)			
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)			
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)			
	14	Benefits paid to or for members (Part IX, column (A), line 4)			
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)			
	16a	Professional fundraising fees (Part IX, column (A), line 11e)			
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶			
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)			
	18	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)			
	19	Revenue less expenses. Subtract line 18 from line 12			
				Beginning of Current Year	**End of Year**
Net Assets or Fund Balances	20	Total assets (Part X, line 16)			
	21	Total liabilities (Part X, line 26)			
	22	Net assets or fund balances. Subtract line 21 from line 20			

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here ▶ Signature of officer | Date

▶ Type or print name and title

Paid Preparer Use Only Print/Type preparer's name | Preparer's signature | Date | Check if self-employed | PTIN

Firm's name ▶ | Firm's EIN ▶

Firm's address ▶ | Phone no.

May the IRS discuss this return with the preparer shown above? (see instructions) Yes No

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11282Y Form **990** (2017)

Marion realizes if there is a problem discovered, the organization and those who rely on it may suffer.

A.2. Form 990-N

Marion donates to a small non-profit [Condition 1. Value Congruence Absent. No text.] [Condition 2. Value Congruence Present. Text: "dedicated to" PASSION]. Unfortunately, Marion suspects some of the donation is not being used properly. Marion thinks some of the money might be going to extra salaries, personal expenses, or the like. Because of this, Marion asked for financial information. The chief executive provided the IRS filing, saying that was all the executive had time to deliver.

The organization filed the IRS Form, ***which requires no financial information*** other than a confirmation that the organization is small and continues to operate. You may find a listing of the requirements here: https://www.irs.gov/charities-non-profits/information-needed-to-file-e-postcard A copy of a typical form is below:

(e-Postcard)

Organizations who have filed a 990-N (e-Postcard) annual electronic notice. Most small organizations that receive less than $50,000 fall into this category.

Tax Year 2017 Form 990-N (e-Postcard)

Tax Period:
2017 (01/01/2017 - 12/31/2017)

EIN:
XX-XXXXXXX

Legal Name (Doing Business as):
Name of Business

Mailing Address:
Address
CITY, ST ZIP
United States

Principal Officer's Name and Address:
Name

Address
CITY ST ZIP
United States

Gross receipts not greater than:
$50,000

Organization has terminated:
No

Website URL:

Marion realizes if there is a problem discovered, the organization and those who rely on it may suffer.

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