



# The Transparency of Czech Foundations

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## Abstract

Non-governmental non-profit organizations can strive to gain the confidence of the general public in various ways, one of which is the meeting of basic legal requirements for transparency – the disclosure of financial statements. Based on a set of 528 Czech foundations, the article illustrates how the organizations approach their legal obligations and look for features that contribute to the long-term fulfillment of this obligation. On average, 51.32 % of entities do not fulfill their obligations across the years. The organizations with a website (35.58 % of entities do not fulfill their legal obligations to disclose financial statements) and organizations that received public support in the form of a contribution from the Foundation Investment Fund (25.62 % of subjects do not fulfill) are better off. Statistical testing has revealed that younger organizations (14 years or less) are more responsible (continuous performance). They usually have a functioning website, are headquartered in the capital, and have a single founder (natural or legal). With the help of an expert panel composed of both academics and representatives of the non-governmental non-profit sector, the conclusions are set in an overall context. In its approach and results, the article builds on previous Czech (the description of the conditions of fulfillment of duties) and foreign (the search for signs contributing to the fulfillment of duties) findings and complements them appropriately.

## Key words:

Transparency; non-governmental non-profit organizations; foundations; financial statements.

## 1. Introduction

Non-governmental non-profit organizations (NGOs), whose activities affect the lives of all of us while providing a whole scale of services (for more see, e.g., Pej-

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cal and Dostál 2017; Zabolotnaya and Larionov 2019), have recently faced attacks by some politicians or public representatives. Part of the criticism (e.g. concerning the use of public resources) can certainly be considered unjustified and based on false claims. It is precisely such criticism that may contribute to the low public confidence (according to the Public Opinion Research Centre results of September 2019, only 37 % of respondents trust NGOs in the Czech Republic, whereas 53 % of respondents do not). This kind of false criticism may be handled in various ways. Perhaps the best defense or credibility tool (Ball 2009; Gazzola and Ratti 2014) is to use all possible communication activities serving to the open and transparent behavior of NGOs. This kind of open behavior may also be beneficial when acquiring additional funding to cover the NGOs' activities (for more see, e.g., Hladká et al. 2017; Makýšová and Vaceková 2017).

The aims of the article presented here are as follows: to reveal the reality of meeting the basic legal requirements in the case of a selected group of Czech NGOs (the legal form of the foundation), as well as to identify the features that contribute to the long-term fulfillment of these obligations. In comparison with previous – rather fragmentary – knowledge of Czech practice, the article deals with the long-term approach of individual organizations to their “disclosure” through the publication of their basic financial statements (balance sheet and profit and loss account) as an elementary tool for building credibility.

The article will briefly introduce the terms “transparency” and “accountability.” The research that has dealt with the issue so far both in the Czech Republic and abroad will be mentioned. Furthermore, the article will focus on the fundamental legislative requirements including their fulfillment, which have been imposed on Czech NGOs as a prerequisite for gaining public confidence. The fulfillment of the basic requirements of a selected group of Czech NGOs has been verified by analyzing both their websites and the relevant Collections of Instruments of the Public Registers (administered by the Czech Ministry of Justice). The results of the analysis (both descriptive and econometric) are then presented and subjected to a discussion. This discussion takes into account the opinions of the expert panel. The conclusion of the article contains, in addition to a summary of the basic findings, an outline of possible implications, especially in the framework of public policies or in the framework of further research.

## **2. The transparency of NGOs – previous findings**

Transparency is close to meeting predetermined requirements (e.g. contractual or even legal ones). Thus, it is possible to consider it an essential element of fulfilling the principles of accountability (Stone and Wilbanks 2012), i.e. the ability to be answerable to all stakeholders from the ranks of clients, donors, public sector and,

last but not least, to all taxpayers through a narrowly defined retrospective activity in the form of statements, reports or accounts (Pospíšil 2006).

The pressure on transparency or accountability has been increasing in recent years mainly due to three aspects related to the functioning of the non-governmental non-profit sector. They are as follows: 1) growth in the number and size of NGOs; 2) increased flow of funds to NGOs; 3) higher “loudness” of NGOs in shaping public policy (Jordan and Tuijl 2006). NGOs are subject to the three imaginary levels of responsibility: 1) organizational (linked to informing about day-to-day NGO operations); 2) resulting from the fulfillment of the mission (by NGOs towards the needy); 3) arising from stakeholder requirements (both influencing NGO activities and influenced by them) (Jordan and Tuijl 2006).

Thus, the public – as indicated above – is increasingly asking for more information on how NGOs work, how they are funded, managed, etc. (Cornforth and Edwards 1999; Stone and Wilbanks 2012), which also implies greater interest from researchers. Research in this area has started relatively recently, especially in the US, where it is associated with a decline in NGOs’ confidence due to various problems in their functioning (Jordan and Tuijl 2006; Ball 2009). Research enters the Czech milieu at a later stage and, to a certain extent, follows foreign trends.

Foreign researchers are concerned with the definition of the terms “transparency” and “accountability” (at the different levels of responsibility according to Jordan and Tuijl 2006), as well as with the search for good practice (various associations such as GuideStar 2009 or CharityNavigator). They also deal with the practical fulfilment of these terms in the functioning of the selected groups of NGOs, or they are involved in the search for variables that directly influence the open behavior of the organizations.

An example of the first approach to research is Ball (2009), who deals with the issue of transparency or accountability from different perspectives, or McConville (2017), who looks for the strong points related to organizational transparency.

The fulfillment of transparency or accountability (at various levels) in the reality of the non-governmental non-profit sector has been dealt with in the USA, for example, by Lee and Joseph (2013) who examined the content of 154 organizations’ websites with the conclusion that the majority of NGOs did not publish the recommended information (e.g. audited financial reports had been published only by 4.5 % of NGOs). Gazzola and Ratti (2014) analyzed the websites of 100 Italian NGOs to find whether the organizations released their Sustainability Report (the financial report was disclosed by 64 % of NGOs in 2010 and by 67 % of NGOs in 2011).

The search for the variables that affect the openness of the organization (again at different levels) has so far been dealt with by a greater number of authors. For example, in the USA, Behn et al. (2010) investigated the willingness of 300 big organi-

zations to disclose their key audited annual reports over 4 years to the public. 67.6% of the addressed NGOs sent researchers their financial report. Authors found out that the decision to share audited financial statements is related to the **larger size of the organization** (total asset), higher debts, higher contribution rate, higher executive compensation ratio and to the area of activity (Higher Education). Saxton and Guo (2011) researched the content of 117 community NGOs' websites within the so-called web-based accountability (including both "disclosure" and "dialogue" dimensions with the incorporation of the following indexes: "Financial Disclosure Index" and "Performance Disclosure Index"). They found that web-based accountability practices are significantly related to the **organizational capacity** (total asset) and **governance** (board performance) of NGOs. Authors revealed that the audited financial statements were disclosed by 44% of NGOs included in the research. Lee et al. (2012) looked at 125 NGOs' websites and financial data at a level similar to the previously mentioned approach (Saxton and Guo 2011). The authors revealed that "online accountability implementation efficiency" is connected to **younger and smaller NGOs** (total revenue and total asset). In other countries, it is certainly worth mentioning the research of fulfilling the obligation to submit financial statements to the supreme authority for 40 NGOs in the field of health care in Taiwan conducted by Saxton et al. (2012) with the conclusion that 37.5% of NGOs disclose their reports. Authors detected that **smaller organizations (total revenues) with lower financial leverage (ratio of long-term debt to total asset) and with larger boards with more inside members tend to disclose their financial information voluntarily**. More recent research conducted by Zainon et al. (2014) examined the accountability practice (through its own "NPOs Reporting Index" comprising 489 items) on the sample of 101 Malaysian NGOs. The research detected a positive effect of an external audit and type of funding (high share of governmental funds on the NGO's financial portfolio) on information disclosure. Within the Chinese non-profit sector, Nie et al. (2016) examined (through a "Voluntary Disclosure Index" composed of 14 variables) 2,074 Chinese foundations over the years 2005–2011 with the emphasis on the relationship between openness and public support. The authors revealed that foundations that depend more on donations, collect more restricted funds, receive fewer government funds and are under less government control have a higher probability of offering voluntary disclosure. We cannot neglect the research carried out in Portugal, where Carvalho et al. (2017) examined the reasons for reporting (the fulfillment of the "Statement of Recommended Practice" including 31 variables) in 142 foundations. The researchers found out that organizations' characteristics (large organizations with more projects, staff members and with more public funds) reflect the willingness to have regular auditing and to volunteer information disclosure. And it is also important to mention a follow-up article (Carvalho et al. 2020) focused on websites and self-publishing (in the form of a higher number of indexes: "Operational Disclosure Index," "Human Resources Disclosure Index," "Management Disclosure Index," "Financial Statements Disclosure Index,"

“Annual Report Disclosure Index,” “Total Disclosure Index”) in a similar group of 287 charity organizations in Portugal. This research signifies that the willingness to disclose information is related to the certification of accounts (external auditing) and **organization size** (total asset).

As can be seen from the above, most authors who search for variables affecting NGOs’ open approach work with the evaluation of the organizations’ transparency or accountability by means of operationalizing the terms into their own or previously defined indexes. These indexes cover a greater number of aspects of the organizations’ activities. There have been rare reports (Behn et al. 2010; Saxton et al. 2012) that dealt only with a partial aspect (e.g. in the form of financial statements), which is an approach commonly used in Czech research work.

To a certain extent, the research carried out in the Czech milieu follows foreign studies and is connected mainly with the examination of transparency, which is the first and basic level of accountability (according to Jordan and Tuijl 2006). The Czech research focuses primarily on a short period of meeting the statutory obligations by a limited group of entities defined according to the legal form as foundations (Hyánek et al. 2004<sup>2</sup>; Vajdová 2005<sup>3</sup>; Stránský 2007, 2009; Bachmann 2012). The research carried out in the Czech Republic also aims at a limited number of the addressees of public support (Bachmann 2017, 2018), or it aims at the combination of the above – at foundations supported from the public budget (Još 2016, 2017). In the Czech Republic, the researchers mostly deal with the analysis of the content of the Public Register (more precisely, the Collection of Instruments) or of the websites of the organizations concerned. In their research, they monitor the presence of documents required by law.

In particular, the authors focus on the presence of the statute, annual reports, financial statements. Exceptionally, they focus on audits and information about auditors, strategic documents, etc., which is largely followed by the existing certifications of Czech associations bringing together various types of NGOs (e.g. the Association of Foundations<sup>4</sup> or the Association of Public Benefit Organizations<sup>5</sup>). In order to indicate the approaches used so far, including the identification of other facts about the individual types of realized Czech research (e.g. other monitored variables), see the table below.

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- 2 Carried out as part of a larger project aimed at exploring different legal forms from different perspectives. Compliance with legal obligations is therefore only a partial segment of a larger study describing the functioning of the Czech non-profit sector.
  - 3 Carried out within the CIVICUS project, involving 50 countries. The project resulted in an evaluation of civil society in the given country through the Civil Society Index. Legal compliance is only part of a larger study.
  - 4 Asociace nadaací herein the Association of Foundations.
  - 5 Asociace veřejně prospěšných organizací herein the Association of Public Benefit Organizations.

**Table 1**  
The survey of realized research on the topic of transparency in the Czech Republic

	<b>Hyánek et al. 2004</b>	<b>Vajdová 2005</b>	<b>Stránský 2007, 2009</b>	<b>Bachmann 2012</b>	<b>Jošt 2016</b>	<b>Jošt 2017</b>	<b>Bachmann 2017</b>	<b>Bachmann 2018</b>
time period:	2002	2002	2004–2006	2011–2012	2009–2013	2009–2013	2015	2016
sample:	178 foundations	NA	164 foundations	2400 NGOs (100 foundations)	74 beneficiaries of public support – NIF (73 foundations, 1 philanthropic fund)	140 foundations (70 non-beneficiaries and beneficiaries of public support – NIF)	22 (without foundations)	28 (without foundations)
object of analysis:	Public Registers (and their Collection of Instruments)	NA	yes	–	yes	yes	–	–
	websites of NGOs	NA	yes	yes	yes	yes	yes	yes
share of transparent NGOs:	56.18%	50%	78%	19% (profit and loss account) 18% (balance sheet)	average: 86.49%	average: 89.71% (beneficiaries) average: 97.99% (non-beneficiaries)	46.4%	45.5%

other variables:	annual report	yes	NA						yes	-	yes	-	-					
	statute (or other documents about NGOs)	-							yes	yes	yes	yes	yes	yes	yes	yes	yes	
	information about audit (auditors, audit report...)	-							yes	yes	yes	yes	yes	yes	yes	yes	-	
	grant rules	-							yes	yes	-	-	yes	yes	-	-	-	
	rules on administrative costs	-							yes	yes	yes	yes	yes	yes	yes	-	-	
	websites of NGOs	-							-	-	-	-	-	-	-	yes	yes	
	strategic documents of NGOs	-							yes	-	-	-	-	-	-	yes	yes	
	other	-							e.g. list of donors and beneficiaries of foundations' contributions, list of important peoples etc.	-	-	-	-	e.g. list of donors and beneficiaries of foundations' contributions	-	-	-	

Source: the author's own processing based on literature review.

While the above-mentioned transparency studies in the Czech milieu dealt with rather a limited period of time and a limited group of entities, this article looks at the segment of NGOs defined by the legal form throughout the entire existence of their individual representatives. This article also enriches the existing findings with the determination of the features that contribute to the long-term fulfillment of obligations. In this way, it follows the foreign inspiration in the form of the above-mentioned contributions by Behn et al. (2010) and Saxton et al. (2012).

### **2.1 The operationalization of transparency for the Czech milieu**

The “new” Civil Code (Act No. 89/2012 Coll.) plays a fundamental role in defining the narrowest circle of NGOs in the Czech Republic. It also names the basic reporting obligations associated with their existence (extends the related Act No. 304/2013 Coll. on the Public Registers of Legal and Natural Persons, or, in better words, Act No. 563/1991 Coll. on Accounting).<sup>6</sup>

Since 2014, all NGOs, registered in the Public Registers (they cannot be established without registration) managed by the Ministry of Justice, are obliged to publish their financial statements (i.e. a balance sheet and a profit and loss account; Nebuželská 2016). The obligation to disclose financial statements is related to all entities regardless of their size (e.g. number of employees or amount of economic activities) or purpose of existence. The disclosure requirement is connected to the principles of Public Registers (principle of material and formal publicity); their aim is to protect the general public in contact with NGOs (Act No. 304/2013 Coll.). Until 2014, the fulfillment of this obligation was associated only with some less numerous but not less socially important legal forms (foundations and public benefit corporations). Other legal forms were left out by the original legislation (Brhlíková 2004, for example, points out the lack of transparency in some legal forms).

By its very nature, the current regulation is intended to enable the general public to look into the economics of all non-governmental non-profit entities (mentioned, for example, by Ronovská et al. 2015). Thus, it is supposed to offer opportunities for their evaluation or mutual comparison. However, for the purposes of this article, it will serve to define the essential aspects of credibility.

## **3. Materials and methods**

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### **3.1 A selected group of NGOs**

This article follows the above-mentioned facts and seeks answers to the following questions: How do the representatives of the granting organizations (defined by Frič

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6 However, the authors of the current legislation wanted to go even further by creating a so-called public-benefit status that would bring more light to the NGO sector. Due to the opposition of some strong players, the intention was abandoned after longer discussions.



2015) deal with their legislative obligations in the long run? What are the common features of the organizations that contribute to the long-term fulfillment of obligations? The granting entities, more specifically foundations<sup>7</sup>, can be considered a suitable group of organizations for the actual research, mainly because they represent the large property representatives of the non-governmental non-profit sector (based on their assets). Despite their small number (out of a total of approximately 140,000 NGOs in the Czech Republic, they account for approximately 1% – Czech Statistical Office 2019), these organizations have a significant social impact (such as public support). They are also characterized by a high level of activity (e.g. in comparison with the previously mentioned associations – according to the conclusions of the Supreme Audit Office 2018).

In our territory, foundations, as important actors of public benefit and charitable activities, were active already before the Second World War. After a period of repression (the Nazi German occupation and later the communist regime<sup>8</sup>), which were connected with the restriction or direct cancellation of civic activities, the foundations could start again after 1989. The functioning of new foundations was provisionally and vaguely regulated by the amended Economic Code (Act No. 109/1964 Coll., or Act No. 103/1990 Coll., amending and supplementing the Economic Code). The provisional period associated with the growth in the number of foundations was only completed by the adoption of the Act on Foundations and Funds (Act No. 227/1997 Coll., Effective as of 1 January 1998), which determined the basic requirements for establishing and administering foundations as well as the scope of their performance (including the requirement to publish financial statements as part of the mandatory annual reports).

Among other things, the new law brought a reduction in the number of foundation entities (according to Hyánek et al. 2004, the number decreased to 1/5 between 1997 and 1999). After 1998, the state contributed significantly to strengthening foundations through the distribution of the so-called Foundation Investment Fund (Nadační investiční fond – NIF). It collected part of the funds obtained from the second wave of voucher privatization. The distributed NIF funds thus contributed significantly to the increase in endowment assets (managed assets of foundations) of selected foundations<sup>9</sup> and indirectly contributed to the transparency of these entities. (The beneficiaries of NIF contributions and their annual reports were temporarily under closer supervision by the Government Council for NGOs.) The current regulation of foundations and philanthropic funds is provided by the aforementioned new Civil Code (Act No. 89/2012 Coll.).

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7 Another example of Czech granting organizations are philanthropic funds, which we will not deal with for capacity reasons.

8 An exception is the period from 1945 to 1953, when foundations could be established in a relatively free way and could carry out their activities.

9 Foundations applied for a contribution from the Foundation Investment Fund in the form of a selection procedure (tender).

According to the Business Register of the Czech Statistical Office, as of March 2019, there were 543 foundations in the Czech Republic. Despite the lack of detailed data, the small segment of the Czech non-governmental non-profit sector can be attributed a significant share of employment (overall 2.01 % for NGOs – Czech Statistical Office 2019) as well as the share of the gross domestic product of the Czech Republic.

### **3.2 Data and data sources**

The period from 1997 to the present day can be considered a suitable period for reflecting on how foundations have met the basic credibility-building requirements. (For the sake of simplicity we identify credibility building with the disclosure of previous financial statements.) Nevertheless, the actual observation ends with the financial statements for the period 2017, because according to Act No. 563/1991 Coll., On Accounting, financial statements for the subsequent accounting period need not be published yet (at the time of preparation of the article). For this reason, it is necessary to narrow the population to the entities that existed until the last included year – 2017: Their number is 528.

The following sources were used to collect quantitative and qualitative data on the defined group of NGOs: the relevant Public Registers (Foundation Register and its Collection of Instruments), statistical data processed within the Business Register, a list of beneficiaries of the Foundation Investment Fund (obtained from the relevant Czech Government Resolution) as well as the websites of the given foundations (set up at 53.41 % of subjects). The table below provides a list of collected variables: the organization's own characteristics, data on their functioning, and data on submitted financial statements and their form/completeness. The table also contains a basic description of the actual situation (absolute case frequency for defined variables, average and median values).

### **3.3 Methods used**

Basic research methods were used to fulfill the expected goal: general analysis, synthesis, deduction, and induction. In addition to descriptive statistics used to outline how the selected organizations are dealing with their responsibilities in the long run, the independence test – the Pearson chi-square test – was used to find common features contributing to long-term fulfillment of obligations. The chosen statistical test is the basic and most frequently used test of independence in the table of correlations (based on a comparison of observed and expected frequencies). The null hypothesis was, in this case, the existence of independence between the variables mentioned and the fulfillment of the basic requirement for building credibility (i.e. the disclosure of financial statements). In addition to the above, the interpretation of the conclusions was strengthened by the view of the expert panel, which included

researchers dealing with the topic in the past as well as the representatives from the foundation sector.

Thanks to the above-mentioned basic and advanced interpretation methods, as well as to consultations with the representatives of the expert panel, it is possible to submit the processed data in the form of conclusions and recommendations.

## 4. Results and discussion

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### 4.1 The fulfillment of the basic requirement of the Czech NGOs' credibility building

A continuous series of financial statements covering the entire existence of the organizations (i.e. beginning in 1997 or in the year of their establishment and ending in 2017) could only be generated for a fraction of the NGOs considered. Out of a total of 528 entities, only 90 foundations (i.e. 17.05% of entities) meet the basic requirement for publishing financial statements. These are usually generally known foundations, such as the Charter 77 Foundation, the Jan Hus Educational Foundation, the Open Society Fund Prague Foundation, the Česká spořitelna Foundation, the ČEZ Foundation, the O2 Foundation, etc.

Some organizations only made financial statements available for selected periods. Aside from the continuity requirement, it can be stated that 51.32% of organizations have not respected their legal obligations over the years. Taking a more cautious look that would disregard the first three years of the available time series of data (from 1997 to 1999) and thus offer the sector a certain “protection season” from the start of the new legislation, the average for the organizations that did not comply with their legal obligations would be 46.86% of NGOs. On the other hand, with a more critical view of the last 7 years (2011 to 2017), which also took into account the quality<sup>10</sup> of the individual financial statements (i.e. balance sheets and profit and loss accounts), the share of “dilettantes” will increase to 53.1%. The figures below show the development of the number of foundations over the years and the proportion of compliance and non-compliance with legal obligations.

If the sample is narrowed only to the foundations that have a functional website (i.e. a number of 282 entities) and for which a greater effort to build credibility in the eyes of the public can be expected, there will be a significant reduction in the number of NGOs that have not respected their legal obligations over the years. There are 35.58% of such organizations. A more cautious view (excluding the period from 1997 to 1999) is more favorable to the outcome of organizations and rests at the level of 29.56% of entities that have neglected the legal requirement. The critical view (taking into account only the period from 2011 to 2017) offers a value

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<sup>10</sup> For example, completeness, readability, and the mathematical correctness of statements were taken into account.

**Table 2**  
The overview of the variables used with the data sources and the values they acquire (frequency, average, median)

Variable	Operationalization	Frequency	Average / Median	Source
continuous series of financial statements	1: yes	90	-	own data collection
	0: no	438	-	
employees	1: 1-5	93	5.68/3	Business Register (classification adopted)
	2: 6-9	12		
	3: 10-19	14		
	4: 20-24	1		
	5: 25-49	3		
	NA	405		
age	1: 29-25	153	17.33/19	Business Register (own calculation)
	2: 24-20	109		
	3: 19-15	79		
	4: 14-10	70		
	5: 9-5	63		
	6: 4-0	54		
web accessibility	1: yes	282	-	own data collection
	0: no	246		
founder	1: natural person	271	-	Foundation Register
	2: legal entity	92		
	3: other NGO	52		
	4: public sector	45		
	5: mix	38		
	NA	30		

number of founders	1: 1	302	2.14/1	Foundation Register
	2: 2-5	161		
	3: 6 and more	35		
	NA	30		
registered capital (CZK thousands)	1: 500	220	17,366/568	Foundation Register
	2: 501-1,000	107		
	3: 1,001-2,000	38		
	4: 2,001-5,000	31		
	5: 5,001-25,000	32		
	6: 25,001-50,000	43		
	7: 50,001 and more	31		
NA	26			
registered capital – structure (%):	1: 0-20	-	Foundation Register	
• money	2: 21-40	80.56/100		
• securities	3: 41-60	2.25/0		
• real estate	4: 61-80	10.06/0		
• movables	5: 81-100	6.20/0		
• other	NA	0.74/0		
registered office	1: Prague	255	-	Business Register
	2: regional centre	103		
	3: other	170		
addressee of public contribution – NIF 1	1: yes	36	-	resolutions of the Government
	0: no	489		
	2: return	3		

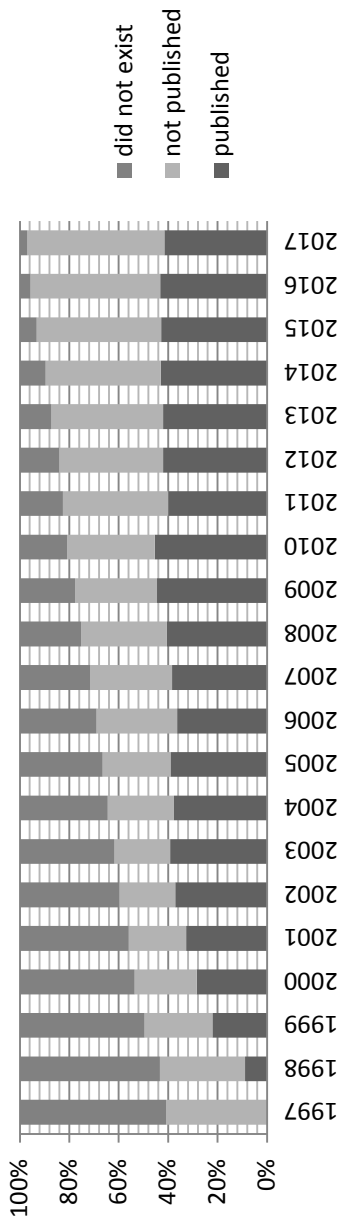
Table 2 (continuation)

Variable	Operationalization	Frequency	Average / Median	Source
addressee of public contribution – NIF 2	1: yes	64	-	resolutions of the Government
	0: no	464		
addressee of public contribution – NIF – in general	1: yes	73	-	resolutions of the Government
	0: no	455		
sum of public contribution – NIF (CZK thousands) (n=73)	amount	-	33,683/32,110	resolutions of the Government

Source: the author's own processing based on data from the Foundation Register, the Business Register and relevant resolutions of the Government of the Czech Republic.

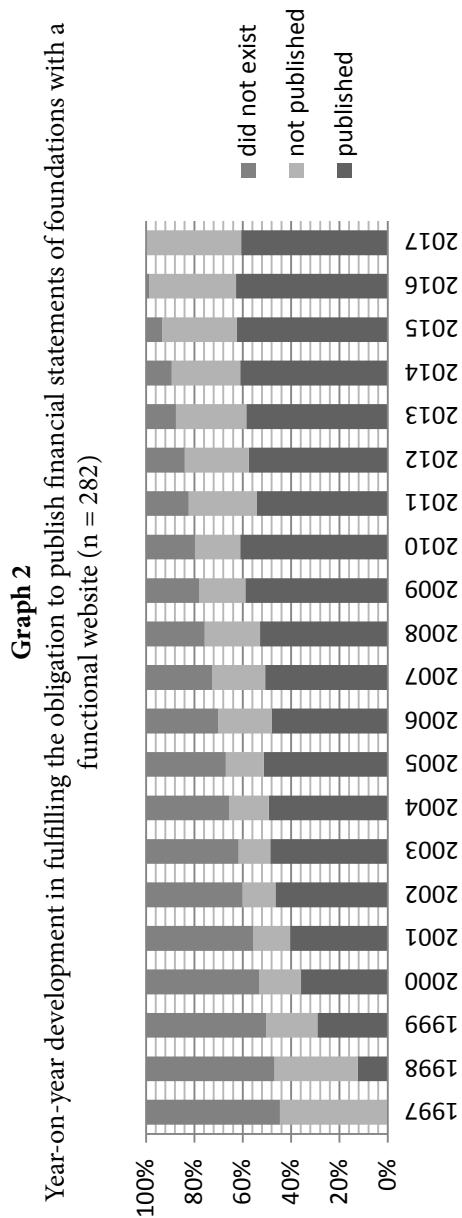
Graph 1

Year-on-year development in meeting the obligation to publish financial statements of foundations (n = 528)



Source: the author's own processing based on data from the Foundation Register, the Business Register and other sources (e.g. websites of individual NGOs).

of 34.17% of “dilettantes”. The development of the number of foundations – with a functional website – that have or have not fulfilled legal obligations over the years is again shown in Graph 2 below.



Source: the author’s own processing based on data from the Foundation Register, the Business Register and other sources (e.g. websites of individual NGOs).

If the sample is narrowed only to foundations that were the recipients of state support from the funds of the Foundation Investment Fund (i.e. a number of 73 entities in both rounds of support) subject to greater supervision by the public sector, the number of NGOs failing to comply over the years is rapidly reduced to 25.62%. A cautious look (excluding the period from 1997 to 1999) will offer a share of 18.48% of NGOs that did not comply with their legal obligations. In spite of the critical view (only the period from 2011 to 2017 was taken into account), there was an increase in the fulfillment of obligations. “Only” 18.59% of subjects did not comply with the obligation.

The findings obtained through the analyses of the Collections of Instruments of the Foundation Registers and the websites of individual organizations can, therefore, be summarized in such a way: A considerable part of the foundation entities (51.32%) do not take their legislative obligations into account. If we look at entities with a functioning website, where both dynamic activity and a greater willingness to transparency can be expected, the situation will improve slightly (35.58%). In the case of a narrowly defined group of organizations that received support from the Foundation Investment Fund in the past (and thus seemingly under the supervision of higher authorities), it can be stated that on average “only” a quarter of organizations (25.62%) do not fulfill their legal obligations. The rest of the supported entities are thus aware of their social responsibility.

As can be seen from the individual charts and from the text mentioned above, the organizations have become accustomed to their new legal obligations only gradually. Between 1997 and 1999, only 21.88% of entities on average published their financial statements. Limiting the range of organizations to those with a website, the average increased to 28.35%. For organizations that received contributions from the Foundation Investment Fund, the average increased to 31.49%.

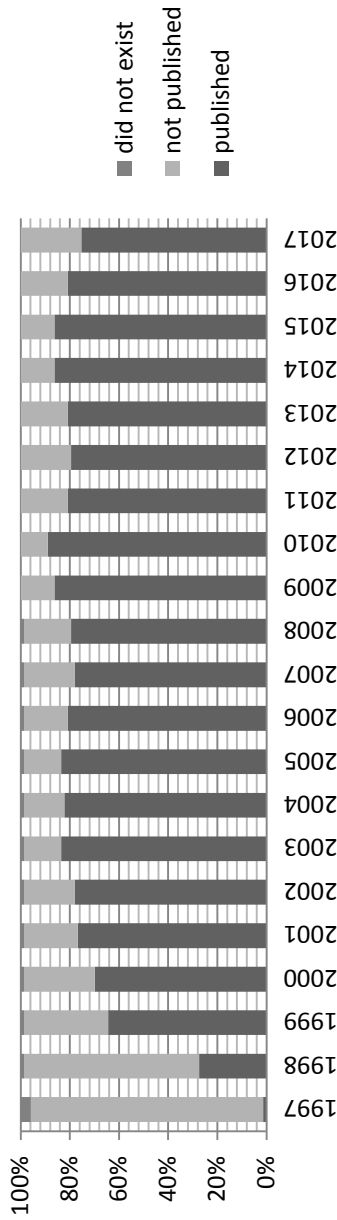
The results of the critical view (the average for the period 2011 to 2017), in which not only the presence of obligatory published documents but also their quality was evaluated, indicate that the established trend of all foundations to meet their obligations is rather improving in the long run. On average, 53.1% of all foundations did not fulfill their duties for the period under critical review. Specifically, 34.17% of organizations with a website and 18.59% of recipients of contributions from the Foundation Investment Fund did not fulfill their obligation.

#### **4.2 The features contributing to the long-term fulfillment of the requirement of the Czech NGOs’ credibility building**

The results presented above do not, in any way, deviate from the results of previous research conducted in the Czech milieu on narrower samples of similarly defined organizations using similar methods. To date, however, Czech findings have not identified the common features of organizations that contribute to the long-term fulfillment of obligations. For this task, the independence test – the Pearson Chi-



**Graph 3**  
 Year-on-year development in meeting the obligation to publish financial statements of foundations supported by the Foundation Investment Fund (n = 73)



Source: the author's own processing on the basis of data from the Foundation Register, the Business Register, the relevant Government Resolution and other sources (e.g. websites of individual NGOs).

square test – was used to identify variables for which the null hypothesis could be rejected (i.e. independence between the named variables and the long-term disclosure of financial statements as a dependent variable).

Table 3 shows the basic test results, which took into account the whole range of variables obtained. The table not only informs about rejecting or non-rejecting the independence hypothesis but also discusses the significance level (P-value) and the possible occurrence of an approximation error (because of the low number of cases). Table 3 is then complemented by Table 4, which sets the considered variables in the overall context.

On the basis of the independence test, it is possible to reject the null hypothesis of the independence of variables: age, website availability, founder, number of founders, money (share in the structure of the registered capital)<sup>11</sup> and headquarters – at a 5 % significance level.

Through the methods used, it was statistically confirmed that an organization with fewer than five employees fails to fulfill its legal obligations to publish financial statements 3 times more often. An entity with employees ranging from 6 to 9 employees publishes financial statements only 1.4 times. An entity with employees ranging from 10 to 19 publishes its statements even 1 to 1. In the case of an 8 % error of the 1<sup>st</sup> grade (we reject independence, although they are independent), it is possible to state that the tendency to disclose financial statements is dependent on the number of employees. Entities with more employees are more likely to publish their financial statements than not to publish, which is to some extent linked to the expected professionalization and larger personal and financial capacity of larger entities.

The test also revealed that the age of the organization is negatively reflected in the desire to fulfill legal obligations. When an organization publishes its financial statements, it tends to be younger. Two thirds of organizations fulfilling their obligations are under 14 years of age, while 71 % of non-publishing organizations are entities over 15 years of age. Younger organizations can thus be expected to be aware of the need for transparency and the changing culture of the non-profit sector, which also leads to some transparency. This finding is consistent with the previous research (e.g. Saxton and Guo 2011 and Saxton et al. 2012).

Organizations complying with the legal requirement have a statistically significantly more accessible website than non-complying organizations. Three quarters of organizations that submit financial statements have a website in operation, so they can be expected to achieve greater transparency or to use the web as a channel of communication with the wider public.

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<sup>11</sup> For example, completeness, readability, and mathematical correctness of statements were taken into account.

**Table 3**  
Independence test results at 5 % significance level

<b>Variable</b>	<b>P-value</b>	<b>Risk of an approximation error</b>	<b>Rejection of H0: independence</b>
employees	0,079	YES	NO
age	0,000		<b>YES</b>
web accessibility	0,000		<b>YES</b>
founder	0,002		<b>YES</b>
number of founders	0,035		<b>YES</b>
registered capital (CZK thousands)	0,458		NO
registered capital – structure (%):			
– money	0,046	YES	<b>YES</b>
– securities	0,368	YES	NO
– real estate	0,910	YES	NO
– movables	0,055	YES	NO
– other	0,640	YES	NO
registered office	0,022		<b>YES</b>
addressee of public contribution – NIF 1	0,731	YES	NO
addressee of public contribution – NIF 2	0,617	YES	NO
addressee of public contribution – NIF – in general	0,515		NO
sum of public contribution – NIF	0,743		NO

Source: the author's own processing

The order of the percentage distribution among the founders (natural person, legal entity, etc.) for organizations both fulfilling and not fulfilling their obligations copies the description of the total data shown in the table above. It is all the more surprising that it was possible to prove a statistically significant relationship between the submission of financial statements and the number of founders and their legal forms (entities or legal persons).

NGOs with one founder fail to meet their legal obligations 3.7 times more often. NGOs with more founders even 6.5 times. 71 % of organizations that publish long-term financial statements have just one founder. Based on the findings it can be claimed that the assumed saying “two heads are better than one” is not valid in our case; on the contrary, it can be concluded that “two heads cause more chaos”. This finding is inconsistent with previous research (e.g. Saxton and Guo 2011 and Saxton et al. 2012). However, it is important to note that the founder is not the same as a board.

88 % of legal entities fulfilling their legal obligations were established by a natural or legal person. However, in the case of the entities that do not disclose their financial statements, the most frequent founder is also a natural person. But other forms of persons are also becoming more important. Every ninth organization that fails to fulfill its obligations is set up by a different NGO, every tenth is set up by the public sector. The reason why legal persons with natural persons fulfil their legal obligations more often could be connected with the expectable professionalism and experience legal persons gained in business.

Statistically, organizations from Prague (61 %) most often fulfill their legal obligations. This may be due to the fact that most foundations are registered in the capital.

The results of the statistical testing outlined above can be summarized in a prototype of an NGO that meets its basic transparency requirements. This is the NGO under 14 years of age, with a functional website, based in Prague and one founder, a natural or legal person. Such organizations include, for example, the Leontinka Foundation, the World Children’s Fund, etc. There are 33 such organizations in the sample (6.25 %), of which 19 (overall majority) fulfill their obligations absolutely. By narrowing it down to prototyping organizations, the continuous compliance rate (i.e. the submission of financial statements) will increase from the original 17.05 % (90 out of 528 entities) to 57.58 % (19 out of 33).

The search for features contributing to the long-term fulfillment of legal requirements in the Czech milieu has not yet occurred, and it is therefore obvious to put the above-mentioned results in the context of the foreign findings. However, the approach to the definition of the dependent variable (i.e. the long-term disclosure of financial statements) is problematic. The foreign authors focus on a broader “scope” of transparency or directly on the definition of accountability.

Only a small number of foreign authors (e.g. Behn et al. 2010; Saxton et al. 2012) focus on the same narrowly defined element – winning public confidence – as the author of this article does. In addition, these foreign authors identified as important especially the variables focusing on the economic aspects of the functioning of the organizations (Behn et al. 2010: higher organization debt, higher donations to total revenues, organization activities, higher wage costs to total costs; Saxton et al. 2012: smaller organization size, lower organization debt, more board members with a higher proportion of internal members). This is a level that has been only marginally taken into account in this article (number of employees, amount and structure of basic capital). According to the conclusions, this level is not likely to manifest itself in the fulfillment of legal obligations.

Even when keeping a broader view of foreign researchers (e.g. Carvalho et al. 2017), which formulates the dependent variable through an index that takes into account multiple aspects of the organization's functioning (fulfilling the "Statement of Recommended Practice" comprising 31 variables), there is no significant intersection of knowledge. It is because the key variables defined by them (the presence of public resources, the size of the organization, the membership structure of the organization, the projects of the organization, the form of the audit of the organization) do not find much use in our research presented, either.

**Table 4**

The variables considered within the independence test, supplemented by absolute and relative frequencies (n = 528)

Variable	Operationalization	Continuous series of financial statements		Frequency
		yes	no	
		<i>relative frequency in rows (%)</i>		
employees *	1: 1–5	23	70	93
		63.89	80.46	-
	2: 6–9	5	7	12
		13.89	8.05	-
	3: 10–19	7	7	14
		19.44	8.05	-
	4: 20–24	1	0	1
		2.78	0	-
	5: 25–49	0	3	3
		0	3.45	-
	NA	-	-	405

Variable	Operationalization	Continuous series of financial statements		Frequency
		yes	no	
		<i>relative frequency in rows (%)</i>		
age	1: 29–25	11	142	153
		<i>12.22</i>	<i>32.42</i>	-
	2: 24–20	5	104	109
		<i>5.56</i>	<i>23.74</i>	-
	3: 19–15	13	66	79
		<i>14.44</i>	<i>15.07</i>	-
	4: 14–10	21	49	70
		<i>23.33</i>	<i>11.19</i>	-
	5: 9–5	20	43	63
		<i>22.22</i>	<i>9.82</i>	-
web accessibility	1: yes	67	215	282
		<i>74.44</i>	<i>49.09</i>	-
	0: no	23	223	246
		<i>25.56</i>	<i>50.91</i>	-
founder	1: natural person	53	218	271
		<i>58.89</i>	<i>53.43</i>	-
	2: legal entity	26	66	92
		<i>28.89</i>	<i>16.18</i>	-
	3: other NGO	6	46	52
		<i>6.67</i>	<i>11.27</i>	-
	4: public sector	2	43	45
		<i>2.22</i>	<i>10.54</i>	-
	5: mix	3	35	38
	<i>3.33</i>	<i>8.58</i>	-	
	NA	-	-	30
number of founders	1: 1	64	238	302
		<i>71.11</i>	<i>58.33</i>	-
	2: 2–5	24	137	161
		<i>26.67</i>	<i>33.58</i>	-
	3: 6 and more	2	33	35
		<i>2.22</i>	<i>8.09</i>	-
	NA	-	-	30

Variable	Operationalization	Continuous series of financial statements		Frequency
		yes	no	
		<i>relative frequency in rows (%)</i>		
registered capital (CZK thousands)	1: 500	42	178	220
		46.67	43.2	-
	2: 501–1,000	16	91	107
		17.78	22.09	-
	3: 1,001–2,000	6	32	38
		6.67	7.77	-
	4: 2,001–5,000	2	29	31
		2.22	7.04	-
	5: 5,001–25,000	8	24	32
		8.89	5.83	-
	6: 25,001–50,000	10	33	43
		11.11	8.01	-
	7: 50,001 and more	6	25	31
		6.67	6.07	-
NA	-	-	26	
registered capital – structure (%): *				
• money	1: 0–20	9	82	91
		10	20.2	-
	2: 21–40	2	2	4
		2.2	0.49	-
	3: 41–60	0	5	5
		0	1.23	-
	4: 61–80	0	3	3
		0	0.74	-
	5: 81–100	79	314	393
		87.78	77.34	-
NA	-	-	32	

Variable	Operationalization	Continuous series of financial statements		Frequency
		yes	no	
		<i>relative frequency in rows (%)</i>		
• securities	1: 0-20	88	393	481
		97.78	96.8	-
	2: 21-40	1	1	2
		1.11	0.25	-
	3: 41-60	1	4	5
		1.11	0.99	-
	4: 61-80	0	0	0
		0	0	-
	5: 81-100	0	8	8
		0	1.97	-
	NA	-	-	32
• real estate	1: 0-20	82	359	441
		91.11	88.42	-
	2: 21-40	0	2	2
		0	0.49	-
	3: 41-60	1	5	6
		1.11	1.23	-
	4: 61-80	0	1	1
		0	0.25	-
	5: 81-100	7	39	46
		7.78	9.61	-
	NA	-	-	32
• movables	1: 0-20	88	374	462
		97.78	92.12	-
	2: 21-40	0	2	2
		0	0.49	-
	3: 41-60	0	2	2
		0	0.49	-
	4: 61-80	0	3	3
		0	0.74	-
	5: 81-100	2	25	27
		2.22	6.16	-
	NA	-	-	32



Variable	Operationalization	Continuous series of financial statements		Frequency
		yes	no	
		relative frequency in rows (%)		
• other	1: 0–20	90	402	492
		<i>100</i>	<i>99.01</i>	-
	2: 21–40	0	0	0
		<i>0</i>	<i>0</i>	-
	3: 41–60	0	0	0
		<i>0</i>	<i>0</i>	-
	4: 61–80	0	1	1
		<i>0</i>	<i>0.25</i>	-
	5: 81–100	0	3	3
		<i>0</i>	<i>0.74</i>	-
	NA	-	-	32
registered office	1: Prague	55	200	255
		<i>61.11</i>	<i>45.66</i>	-
	2: regional centre	11	92	103
		<i>12.22</i>	<i>21</i>	-
	3: other	24	146	170
	<i>26.67</i>	<i>33.33</i>	-	
addressee of public contribution – NIF 1	1: yes	6	30	36
		<i>6.67</i>	<i>6.85</i>	-
	0: no	84	405	489
		<i>93.33</i>	<i>92.47</i>	-
	2: return	0	3	3
	<i>0</i>	<i>0.68</i>	-	
addressee of public contribution – NIF 2	1: yes	9	55	64
		<i>10</i>	<i>12.56</i>	-
	0: no	81	383	464
		<i>90</i>	<i>87.44</i>	-
addressee of public contribution – NIF (in general)	1: yes	10	63	73
		<i>11.11</i>	<i>14.38</i>	-
	0: no	80	375	455
		<i>88.89</i>	<i>85.62</i>	-

Source: the author's own processing.

Note: \* indicates the occurrence of an approximation error.

### 4.3 The evaluation of the findings presented by an expert panel

In an effort to better interpret the results of the research, selected experts were addressed. The basic prerequisite for their participation – as addressees of the request for consultations – was the existing research or applied experience in the field of the transparency of Czech NGOs. Among the recipients were authors of the previously mentioned Czech publications (Hyánek et al. 2002; Vajdová 2005; Stránský 2007, 2009; Bachmann 2012, 2017, 2018; Jošt 2016, 2017), as well as the representatives of Czech NGO associations that strive for transparency of the sector through their codes (The Association of Public Benefit Organizations, or the Association of Foundations).

Five authors (researchers in the area of NGOs) and two representatives of NGOs associations were addressed in total. The list of respondents and the list of questions asked are mentioned below.

List of respondents:

Doc. Ing. Pavel Bachmann – academia (University of Hradec Králové)

Doc. Ing. Vladimír Hyánek – academia (Masaryk University)

Ing. Marek Jost, Ph.D. – academia (University of Economics, Prague)

PhDr. Tereza Pospíšilová, MA, Ph.D. – academia (Charles University) – *I did not receive a response.*

Ing. Jakub Stránský – academia (previously University of Economics, Prague)

Ing. Marek Šedivý – NGOs (Association of Public Benefit Organizations)

Mgr. Klára Šplíchalová – NGOs (Donors Forum, respectively Foundation Association)

Questions:

- 1) *Why do you think the situation is as indicated by the results? What do you see as the cause of such low compliance with legal requirements?*
- 2) *Do you think that the error is rather on the part of NGOs or of the public sector, which does not enforce legal obligations?*
- 3) *What do you think would improve the situation?*

The respondents' answers to the questions mentioned above suggest that the foundations rank among the more responsible organizations of the Czech non-governmental non-profit sector (Šplíchalová), which to a certain extent outperform organizations of the profitable sector (Bachmann, Jošt).

The majority of respondents agree that the reluctance to publish the required documents stems from a lack of qualified professionals both among employees and

among the members of the Board of Directors (hence the lack of knowledge of requirements and deadlines). However, they also agree that another reason is the lack of sanctions or neglected public inspection over a long period (Bachmann, Hyánek, Jošt, Stránský, Šedivý, Šplíchalová). However, a low publication priority (Bachmann, Stránský) or an overload of the organization's management (Šedivý) may also play a role. Such behavior is dangerous for individual organizations, but also for the whole sector and may result in low public confidence (Hyánek).

Therefore, according to respondents, the error lies on both sides, i.e. on the side of the public sector and on the side of NGOs themselves (Bachmann, Hyánek, Jošt, Šedivý, Šplíchalová). Naturally, NGOs should be willing to communicate, even without pressure from the wider public, which does not require transparency (or efficiency of funds) to some extent from NGOs (Stránský). As a result, the wider public tends to describe NGOs as “bad and untrustworthy” without any further specifications (Šedivý).

According to respondents, a change in the fulfillment of legal obligations could come in a situation where the public sector would start enforcing the publication of financial statements through controls or subsequent sanctions (Jošt). However, a change in the approach of the public sector cannot be relied on. To some extent, it cannot be regarded as meaningful either – for example because of the high costs of such measures (Bachmann). Other instruments of the public sector could be helpful: more education (Jošt), the identification of inactive organizations (Šedivý), or, for example, the organization of public collections conditioned by the official authority (Hyánek). Other partial tools that can help greater transparency arise directly within the NGO sector. Such tools are, for example, the rating of the “TOP100 Foundations and Funds” carried out by the Donors Forum (Hyánek) or the “Reliability Mark” certification carried out by the Association of Public Benefit Organizations (Bachmann, Šedivý). However, both of these instruments have so far faced a critically low number of entities (voluntarily) involved, among which it is difficult to find the key players in the non-governmental non-profit sector (Šedivý).

## 5. Conclusion

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NGOs can use different ways to build their credibility. As the results presented through our own analysis and statistical testing indicate, many Czech organizations – the legal forms of the foundation – do not use even the elementary methods. The year-on-year average indicates that 51.32 % of existing foundations (or 35.58 % of foundations with a functioning website, or 25.62 % of foundations supported from public funds through the Foundation Investment Fund) have failed to fulfill their legal obligations in the form of financial statements (within Public Registers or websites) on their economy. Organizations fulfilling their obligations are, according to

the statistical testing, rather younger, have a functional website, reside in the capital and have one founder (natural or legal person).

Based on the consultation of the results with representatives from both the research and application spheres, the results were set in the overall context of the functioning of the Czech non-governmental non-profit sector. Here, the issue of transparency seems to be less important for various reasons – both for public-sector representatives and for most NGOs (regardless of legal form).

The findings presented above are linked to a certain amount of restriction. Of course, the crucial one is the choice of the given group of NGOs, which is not and does not have the ambition to be a representative sample for the whole Czech non-governmental non-profit sector. Thus, the presented conclusions cannot be generalized. Another significant limitation is the specificity of the chosen approach, which (unlike foreign publications) focuses only on one aspect of fulfilling the basic requirements of credibility (the fulfillment of a partial legal requirement). For this reason, it is very difficult to put our own findings into the context of the existing findings from abroad.

However, the presented results can be considered the cornerstones of further possible research carried out in the Czech milieu. It is a type of research: 1) that would focus on a broader understanding of transparency or broader aspects related to the credibility of organizations (e.g. in the form of indexes commonly used in research abroad); 2) that would take into account the broader base of variables dealing with NGOs' own economy (e.g. economic results, revenue and cost aspects including its structure, etc.); 3) that would not be satisfied with only one group of actors (i.e. that would involve a greater number of legal forms of the non-governmental non-profit sector).

Despite the above-mentioned limitations, the presented results can surely be understood as an important mirror set for the whole Czech non-governmental non-profit sector (whose image before the public is the primary issue). These results may also be seen as important feedback for public-sector institutions, which are to some extent responsible for setting up and, above all, enforcing the legislative requirements imposed on other actors in the national economy.

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