

Conceptual Understanding of Transparency of Nonprofit Organizations in South Korea

- Comparing the Perceptions of Press, academia, Donors and non-donors, and NPO staffs-

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I. Introduction

The transparency of nonprofit organizations (NPOs) is one of the highlighted issues in nonprofit sector in South Korea. By nonprofit tax law in South Korea, Public-interest nonprofit organizations possessing KRW 500 million or more in assets or generating revenue of KRW 300 million or more a year are now required to report their financial information to the National Tax Service (NTS). Because NPOs receive donations from the public as well as special tax breaks from the state, they have the duty to disclose, in all transparency, the details of their business and financial operations. Numerous researchers and journalists have already stressed that NPOs in Korea would amass greater donations with improved transparency. Since Guidestar Korea has unveiled a system of assessing NPOs on the basis of financial information so disclosed by NPOs themselves, transparency related to financial circumstances in nonprofits is impelled as a significant issue in the sector in South Korea.

The Hankook Ilbo (2015, December 22) reported that 20.8 percent of the public participating in a poll conducted by the Ministry of Health and Welfare (MOHW) in 2014 answered that they “did not trust the organizations to which they donated.” The daily then organized its own research, which projected that NPOs’ revenue from donations would increase by 4.9 percentage points in response to each 10-percent increase in their transparency scores. Transparency promotes trust, and, in turn, attracts donations. 2014 Giving Korea (2014), affiliated with the Beautiful Foundation, also saw that 58.9 percent of respondents participating in its poll on how donations could be encouraged pointed to the enhancement of transparency as the first and foremost key.

Before discussing how NPOs should enhance their transparency, we should first identify the conceptual definition of transparency for nonprofit organizations in South Korea. The purpose of this study is to identify conceptual understanding about transparency for

nonprofit organizations from major nonprofit stakeholders, including Press, professionals in academia, individual donors, and staffs at nonprofit organizations.

II. Prior Study: Transparency of Nonprofit Organizations

1. Transparency of NPOs

What does transparency mean for nonprofit organizations? Does it consist solely in the common-sense disclosure of information, as countless newspaper articles would imply? The concept, as understood in research settings, carries not only the lexical meaning of “a state of free and complete flows of information,” but also empirical associations with things that are open, uncovered, clear, honest, undisguised, evident, and fair. Transparency as a value and experience is thus generally understood as a condition or state in which outsiders could easily view the inside. Transparency thus requires the complete and free disclosure of information on subjects being observed. Complete information here refers to accurate, undistorted, and un-false information that can sufficiently answer all questions. Free information flows refer to the accessibility of such information to anyone in need of it (Hyeon, 2009).

Vashwanath and Kaufman (1999) explain transparency in terms of accessibility, comprehensiveness, timeliness, relevance, and quality and reliability. The two main structural characteristics of transparency is the accessibility and completeness of information. First, the accessibility of information to the general public is essential to an open democratic society. Here the accessibility of information consists of institutions and procedures via which the public can gain the information necessary to view and review the internal workings of social organizations. Access-guaranteeing institutions and procedures must be broad in scope, open, fair, diverse, free, convenience, uncostly, and simple and user-friendly. Second, the completeness of information requires that information provided to the public satisfy both

quantitative and qualitative standards. Transparency does not consist solely of accessibility. It requires that sufficient amounts of accurate, relevant, timely, trustworthy, clear, plain and consistent information be provided to the general public.

Consider the example of Foundation Center's "Glass Pockets." The Glass Pockets use 23 indicators of transparency to measure the accessibility of transparency-related information on some 1,600 leading NPOs in the United States, and provide information on the geographical reaches and scales of support provided by nonprofit foundations and how the affluent are participating in Giving Pledge, a charity club of the well-off (Lee, 2014).

Glass Pockets embody a view of transparency as not only requiring the sharing of information, but also as an instrument for enhancing the relations between, and accountability of, NPOs, donors, supporters, partners, and beneficiaries. In a guidebook entitled "Opening Up : Demystifying Funder Transparency" on Grantcraft Website, Foundation Center makes the following emphasis:

Transparency is, in a word, openness. A foundation that operates transparently is one that shares what it does, how it does it, and the difference that it makes in a frank, easily accessible, and timely way.....But Transparency is not just about sharing information and processes. It is also a means to greater accountability, and to building relationships between a foundation and other key groups such as grantees, applicants, partners, and other funders.

Although discussions on the transparency of NPOs in Korea are mostly focused upon the disclosure and reporting of accounting information, transparency indeed encompasses a much broader scope of concerns, including the accessibility, reliability and completeness, and timeliness and relevance of information. Transparency is therefore inseparable from accountability. Accountability is a broader concept that comprehends transparency and

involves making the decision-making processes on NPOs' activities clearer and more comprehensible to the public, and actively communicating the processes and outcomes of those activities with donors, beneficiaries, partners, and other stakeholders. Transparency should thus figure as the foremost factor of consideration in all the accountability-enhancing mechanisms—reporting/disclosure, performance evaluation, self-regulation, and participation—in all aspects of NPOs' operations, such as finance, governance, performance management, and the fulfillment of missions.

Table 1. Characteristics of Accountability Mechanisms

Accountability How? (tool or process)	Accountability to Whom? (upward, downward, internal)	Accountability for What? (finances, governance, performance, mission)	Inducement (internal or external)	Organizational Response (compliance or strategic)
Disclosures/ Reports (tool)	Upward to funders and oversight agencies Downward (to a lesser degree) to clients or members who read the reports	Finances and performance, depending on what is being reported	Legal requirement Tax status Funding requirement (external threat of loss of funding or tax status)	Primarily compliance, with a focus on letter of law and short-term results
Evaluation and Performance Assessment (tool)	Upward to funders Significant potential for downward from nonprofits to communities and from funders to nonprofit	Performance, often short-term outputs but with increasing emphasis on impact	Funding requirement (external) Potential to become a learning tool (internal)	Primarily compliance at present, with possibilities for longer-term strategic assessment
Self-Regulation (tool and process)	To nonprofits themselves, as a sector To donors as a seal of good housekeeping	Finances and governance, depending on what the codes of standards emphasize	Erosion of public confidence due to scandals and exaggeration of accomplishments (external loss of funds : internal loss of reputation)	Strategic if it raises industry standards and enables policy voice Compliance if it standards are weak and adopted pro-forma

Participation (process)	Downward from nonprofits to clients and communities Internally to nonprofits themselves Significant potential downwards from funders to nonprofits	Depends on the purpose of participation, e.g., whether to seek input on implementation(performance) or to influence agendas (governance)	Organizational values (internal) Funding requirement(external)	Primarily compliance if participation is limited to consultation and implementation Strategic if it increases power of clients in influencing nonprofit agendas, or increases power of nonprofits in influencing funders
Adaptive Learning (process)	To nonprofits themselves Downward and upward to stakeholders	Mission and performance	Improve performance in orders to achieve mission (internal)	Strategic if it focuses attention and resources on how to solve social problem

* source: Ebrahim. 2003. Accountability in Practice, World Development 31(5)

2. Korean Perceptions of the Transparency of NPOs in Korean Medias

The perception of transparency of NPO from newspapers is important to understand the conceptual definition of transparency of NPOs in Korea. NPOs can't afford to spend enough budget for PR and communication channel. The newspapers has big influence to public perception. The press continues to churn out articles and feature reports on a variety of issues involving NPOs in Korea. Some reports focus upon negative cases, encouraging the public to doubt the transparency of NPOs. These reports are about how NPOs used donations for the good of the management instead of intended beneficiaries and how NPOs have failed to disclose the complete details of their financial executions. These reports make us almost think whether there is any single organization that deserves our most basic trust. These reports also

strongly stress the need for governmental watch and supervision. The table below lists the titles of some of such reports.

Table 2. Examples of the Titles of Newspaper Articles on the Transparency of NPOs

Source	Title
<i>The Kookmin Ilbo</i> , April 2014	“Rising Demand for Transparency of NPOs a Global Trend”
<i>The Maeil Kyungje</i> , May 2014	“Transparently Disclose Process and Execution of Fundraising for <i>Sewol-ho</i> Victims and Families”
<i>The Segye Ilbo</i> , May 2014	“Law of Mistrust Still Governs Philanthropic Organizations: Critical to Ensure Transparency of Financial Executions”
<i>The Hankook Ilbo</i> , December 2014	“Of 30,000+ NPOs, Less Than 1 Percent Checked Clear”
<i>The Hankook Ilbo</i> , December 2014	“Donations Spent Without the Public Knowing How”
<i>The Dong-a Ilbo</i> , October 2015	“Donations for Humanitarian Endeavors Spent to Maintain Offices”
<i>The Hankook Ilbo</i> , December 2015	“Ads for Donations Keep Playing on TV, But NPOs Report Zero Spending on Advertising Campaigns”
<i>The Hankook Ilbo</i> , December 2015	“Public Still Wary of NPOs That Received Grade ‘D’ for Transparency”
<i>The Hankook Ilbo</i> , December 2015	“With Over 1.6 Million NPOs, U.S. Shows No Mercy on Incomplete Disclosure and Slack Management Practices”
<i>The Hankook Ilbo</i> , December 2015	“NPOs Complain Full Disclosure Make Them Look Incompetent”
<i>The Hankook Ilbo</i> , December 2015	“How Can You Make Donations When You Have No Way of Knowing How They Are Spent?”
<i>The Hankook Ilbo</i> , December 2015	“Donations Will Increase with Transparency”
<i>The Maeil Kyungje</i> , January 2016	“Tax Priests, Enhance Transparency of Their Accounting”

All the articles listed above argue that the public’s trust in NPOs is dwindling because NPOs use donations without clear and consistent guidelines, while failing to report, transparently, on their financial executions. Articles like these have forced NPOs to concentrate their

transparency-enhancing efforts on introducing more forms and training for public disclosure of accounting information.

The major intermediaries like Guidestar Korea and NPO Korea accepted, uncritically, the press' criticism on the lack of detail and transparency in NPOs' financial reports on the costs of wages and projects. They have been encouraging NPOs to reform their public disclosure forms related to fiscal information and recommending to enhance more nonprofit accounting skills and knowledge. Guidestar Korea, in particular, has teamed up with the NTS and helped the latter develop a database on the information disclosed by public-interest corporations in Korea, thereby providing financial information on these organizations and simultaneously training them more rigorously in a systemic manner. For example, Samil Future Foundation in Korea has officially endorsed strengthening systemic control over organizational management as the chief approach to enhancing transparency. These organizations continue to distribute transparency manuals and online training programs for NPOs in Korea.

Although practitioners and Medias have devoted their energy and time to addressing significance of the transparency of NPOs in Korea, it is fact that the conceptual understanding of the transparency is not clearly identified. This study is initiated as the following questions: Are these efforts really effective, though? Are we demanding greater transparency with a firm consensus on what the concept might mean and require? What do different stakeholders, including donors, working-level officials of NPOs, the press, and academia, understand transparency to mean, and what approaches do they advocate? Although transparency is inseparable from the accountability of finance, governance, and performance, we Koreans are still continuing discussions on transparency that is too narrowly conceived.

III. Research Method

1. Theoretical framework

1) Design Thinking and Adaptive Leadership

Adaptive design proposes the combination of design thinking and adaptive leadership as the most effective way for finding creative and realistic solutions. In order to understand adaptive design, we should first understand design thinking and adaptive leadership.

Table 3. Design Thinking and Adaptive Leadership

	Design Thinking	Adaptive Leadership
Overview	<ul style="list-style-type: none"> - Began at Hasso Plattner Institute of Design at Stanford University. - Emphasizes principles and approaches of ergonomic design to problem-solving. <p>Problem-solving process: Empathy → Definition → Ideation → Prototyping</p> <ul style="list-style-type: none"> - Empathy: Gathering insights into the actual needs of users/beneficiaries. - Definition: Specifying the tasks ahead and converting them into opportunities. - Ideation: Brainstorming as many ideas as possible. - Prototyping: Developing prototypes based upon ideas. 	<ul style="list-style-type: none"> - Began at Kennedy School at Harvard University. - Encourages all participants to take up leadership, irrespective of their official positions, over problem-solving. <p>Problem-solving process: Observation → Interpretation → Intervention.</p> <ul style="list-style-type: none"> - Observation: Observing and drawing a big picture. - Interpretation: Focusing upon conflicts and losses, which may run into resistance, but which is necessary for genuine change. - Intervention: Undertaking experiments catering to individuals' needs and desires (focusing upon the human factor of change).
Pros	<ul style="list-style-type: none"> - Understanding of users/beneficiaries. - Advocates intuitive and spontaneous change. - Instills creative thinking in individuals and organizations. - Encourages collaboration, optimism, and risk-taking. 	<ul style="list-style-type: none"> - Maintains a balance between optimism on change and realism on obstacles. - Differentiates between technical problems and adaptive problems.

Cons	<ul style="list-style-type: none"> - Possibly threatening to well-established organizations. - Fails to provide conceptual and empirical tools with which identified risks can be managed. - Could generate changes that challenge the status quo. 	<ul style="list-style-type: none"> - Almost lacking imaginations about the future and specific interventions necessary to bring about the desired future. - A relatively dull process devoid of joy or inspiration.
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* source: Bernstein, M. and Marty Linsky. 2016. Leading Change Through Adaptive Design. Stanford Social Innovation Review

2) Adaptive Design

We may bring design thinking and adaptive leadership together to arrive at the following two approaches.

Table 4. Adaptive Design Approach 1

Stage	Description
Empathy + Definition	Approaching from design thinking: Gathering information on organizations and their capabilities
Political and psycho-social problems: Unsolvable through design thinking	
Observation, interpretation, and intervention	Approaching from adaptive leadership: Interpreting given issues, finding ways to intervene, and developing solutions
Ideation and prototyping for intervention	Design thinking

* source : Bernstein, M. and Marty Linsky. 2016. Leading Change Through Adaptive Design. Stanford Social Innovation Review

Table 5. Adaptive Design Approach 2

Stage	Description
1. Empathetic observation	Analysis of (cultural, linguistic, value) environments Political mapping: Review of given values, partners, and threats
2. Interpretation	Approaching from adaptive leadership: Interpreting given issues, finding ways to intervene, and developing solutions
3. Ideation	Design thinking: Generating new/innovative ideas
4. Prototype intervention	Developing new products Uncovering capabilities of organizations to embrace change

* source : Bernstein, M. and Marty Linsky. 2016. Leading Change Through Adaptive Design. Stanford Social Innovation Review

We break through the current rut in the discourse on the transparency of NPOs in Korea by approaching the issue from the perspective of adaptive design, particularly by applying Approach 1 in this study.

In this paper, we use the “Empathy + Definition” stage to gather information on how different stakeholders understand transparency. The stakeholders include Press, professional in relevant academia, individual donors, and NPO staffs. All the data is collected by individual and focus group interview.

2. Data collection

As show in Table 5, we interviewed with two reporters, one social work professor, and four focus groups. The four focus group included five regular donors, four irregular donors, and five non-donors, and five working-level NPO staffs. All interviews accompanied note-taking and audio-recording on site. Each focus group interview (FGI) lasted for approximately two hours, with questions addressing all participants in common and other questions targeting specific participants.

Table 6. Interview Participants and Schedule

Type	Date	Participant	Mode
Press (1)	August 24, 2016	One reporter for a daily	In-person interview
Press (2)	September 27, 2016	Another reporter for a daily	Written interview
Academia	August 30, 2016	One professor of social welfare	In-person interview
Regular donors	September 8, 2016	Five regular donors at a nonprofit organization	FGI
Irregular donors	September 22, 2016	Four irregular donors	FGI
Non-donors	December 8, 2016	Five non-donors	FGI
Officials	December 20, 2016	Five working-level NPO officials	FGI

The questions asked to all participants were: “What do you think transparency specifically means?”, “Could you share your own experience with transparency?”, and “Do you think transparency promotes charitable donations?” In addition to exploring what participants individually expected of transparency, we also showed them the articles from *The Hankook Ilbo* on transparency and asked them whether such reports made any difference to their feelings or thoughts on transparency.

IV. Results

1. Empathy: How does each stakeholder view transparency in the nonprofit sector?

Summaries of the interviews with each type of stakeholders on transparency in the nonprofit sector are provided below.

1) The Press

Journalists/reporters understood transparency chiefly as a state of ease in accessing the necessary information, which, from their perspective, included details on individual

donations and public funds to NPOs. They also highlighted the necessary information that the public should be able to access as the transparency of NPOs with financial information about fundraising, and organizational level of administrative expenses. The reporters pointed out that financial information from NPOs that are released to public are hard for the lay public to understand, and that mere enumerations of numerical figures would not do much to improve transparency in the nonprofit sector. The reporters stressed that enhancing transparency required improving organizational management and government structures and also introducing effective measures to monitor the performances of nonprofit projects.

Although the public is aware of the necessity of administrative expenses involved in nonprofit work, the reporters argued that NPOs' failure to explain to what actual benefits such administrative expenses went was what made the public obsess over the amounts of such expenses. Individuals who were compelled, perhaps more strongly than they desire, to donate are even more critical of administrative expenses. These expenses are associated with the scandals of corruption and embezzlement involving social service and religious organizations and have thus come to taint the rest of the nonprofit sector. The reporters were convinced that the majority of NPOs were in fact more ethical and transparent than the press reports would have the public believe, but explained that the press, by its nature, tends to focus on scandalous and negative cases. According to these reporters, the utter lack of mutual trust throughout the Korean society and NPOs' own incompetency in communication—whether online, in person, or via the press—led the public to underestimate the transparency of the nonprofit sector than actually warranted.

The reporters also pointed out that the majority of NPOs disclosing their financial information to the NTS are well-established and large in size, but the nonprofit sector is mostly made up of small organizations run by committed, yet unprofessional, members of clergy. When the public questions the transparency of the nonprofit sector, what is on the

public's mind are the examples of these small and inexpert organizations. The public thinks nonprofit work is something that well-meaning people do out of religious convictions rather than with professionalism, and many NPOs are indeed run in that way. The reporters thus advised the importance of enhancing the brand values of NPOs, better paying nonprofit workers, and collaborating with outside experts as the key to changing this public perception of NPOs. The reporters also emphasized the need for federations or intermediary organizations of NPOs capable of developing transparency guides and organizing civilian watch.

2) Academia

Much of the discourse on the transparency of NPOs today concerns financial disclosure almost exclusively, but we ought not to neglect the transparency of governance and personnel. Numerous social service organizations have decisions on the personnel and other public matters made by the families in charge of those organizations, and today's finance-focused system of disclosure has no way of detecting these practices. There are also organizations that produce perfect accounting results, but are in fact quite inefficient in nonprofit work. Some have even separated executive functions from fundraising functions with the intent of making operating expenses appear lower than actual.

Korea is home to a variety of types of NPOs. Facilities that provide welfare services are a category unto themselves distinct from NPOs, but are still subjected to the same standard. Advocacy, social service, and resource distribution organizations are all quite different in their missions and functions. It is therefore senseless to assume that there is only a single standard of transparency governing these diverse organizations. Expert organizations, such as attorneys working pro bono, necessarily spend much on remunerations for members. In fundraising organizations like the Community Chest of Korea, wages are part of operating

expenses. We should not, therefore, demand that all NPOs treat wages as operating expenses and minimize them. And what is the logic behind the blind assumption that using all funds raised as operating expenses amounts to financial transparency? How NPOs spend the funds they have raised should be judged according to their missions and roles.

Insisting upon a monolithic standard of transparency, without differentiating among diverse types of NPOs, can further generate confusion. The press, in the meantime, focuses excessively upon special or exceptional cases as if they were representative of the entire nonprofit sector. The blatant breaches of transparency reported by the press mostly concern unlicensed organizations or corrupt NPOs that are intent on embezzling government subsidies. The majority of NPOs remain under the government watch, complying with accounting and management guidelines. Embezzlement of government subsidies is also a matter separate from the misappropriation of private donations.

The scholar we interviewed stressed that, in order to improve the transparency of NPOs, we need, first, to establish a Korean scale of transparency that assesses whether NPOs' governance complies with law and democratic principles. Second, we also need to tailor our standard of transparency to different types of NPOs.

3) Regular and One-Time Donors

The five regular donors of a community Foundation in Korea that participated in our FGI. They were also regularly donating to other charity organizations. The interviewees who have made monthly pledges to charitable organizations said they had not had many opportunities to think deep and hard about the activities and performances of their organizations. These donors agreed that they took time to select which organizations to support quite at length only at first, and would not examine these organizations' activities unless some special issues arise such as a financial scandal or ethical controversy case. These donors, moreover, did not spend time to read newsletters from their charity organizations. Yet

these donors held a high standard on the extent to which NPOs should disclose information on their activities. They were aware that they were entitled to receiving annual reports and newsletters from the organizations they supported, even if they rarely read these texts in detail. Although these donors realized misappropriations of donations as a serious problem, they were reluctant to dig up hidden information about the possible wrongdoings of the organizations they supported insofar as those organizations made gestures to cater to their expectation of transparency.

One of the donors, however, pointed out the difficulty of understanding financial statements that NPOs disclosed pursuant to the legal requirement of disclosure. Nevertheless, the donors agreed that NPOs' efforts to disclose detailed information convinced them of NPOs' sincerity. Another donor explained that she did not invest much meaning in accounting information as it was produced according to a rigid procedure. She emphasized that it was more important for NGOs to establish and follow a clear process on recording the details of how decisions have been made.

Regular donors did not go out of their ways to examine whether NPOs satisfied their standard of transparency insofar as those organizations did nothing to break their trust. These donors gave a number of well-known NPOs in Korea as examples of transparency. The Community Chest of Korea, for instance, was regarded as employing "a rigorous standard of financial execution." Greenpeace was perceived as a bullish, dedicated to the fulfillment of clear missions. Doctors Without Borders were also generally regarded as transparent. A donor commented that no NPO would realistically prevail under his standard of transparency. He was aware that part of the donations he made could be used to ends he did not personally approve, but said that he would continue to support those organizations. The donors were also unanimous that they did not base their trust in NPOs solely upon the critical reports in the press. Upon encountering negative reports in the press, these donors said they would demand

explanations from the organizations they supported and would stop doubting their sincerity if they are satisfied with those explanations.

It can be problematic to apply a monolithic standard of transparency to all NPOs without considering the diversity of their sizes and missions. It is an important job of the state to establish a system for monitoring and ensuring the transparency of these organizations. The donors assessed that they had hard time obtaining, let alone trusting, information on NPOs except a very well-known few.

The donors were most curious about how the donations they made were being spent, but were also generally pessimistic about the prospect of ever gaining complete and clear information on it. It was not uncommon to hear the donors complain that they wished to know whether the poor children in developing countries, whose medical expenses and education they supported, did indeed break out of the poverty cycle 10 years or 20 years later. Some said they wished to see photographs of NPO staffers smiling, implying a wish to ascertain the sincerity of NPOs and their workers because the donors had no way of knowing or predicting the actual outcomes of their donations.

Another four donors that participated in our FGI had made donations to charity organizations irregularly. These donors tended to be more selective and cautious in choosing which organizations to support than regular donors. That they chose organizations endorsed by celebrities (because such endorsement seemed to vouch for credibility) or upon recommendation from the priests in their churches corresponds to the general expectation that Korean donors tend to value the public statures of NPOs and close acquaintances' advice most in choosing which organizations to support. Another donor mentioned that he made donations to persons that appeared on his favorite Podcast program because "he trusted the program and liked the fact that the program staff provided quick updates on fundraising projects." It is interesting that there are donors who take satisfaction in updates on

fundraising results and not the detailed reports on how the funds raised have been used. Donors also showed a preference for programs like Save the Children's hat-knitting, which gave them the satisfaction of visually confirming philanthropic work.

Like regular donors, irregular donors, too, did not carefully read charity organizations' detailed newsletters or go out of their ways to investigate whether these organizations were appropriating donations fairly. The irregular donors, too, skimmed the financial and business reports from the NPOs only upon the first instance.

The irregular donors concurred that transparency itself was not the foremost criterion in making their decisions on whether to support given organizations. As for the reports in the press that Koreans were reluctant to be charitable because of the lack of transparency in NPOs, these donors commented that faulting the lack of transparency was a mere excuse for not making donations, rejecting requests for donations, or even not wanting to solve pressing social problems.

The donors also thought that the mistrust of NPOs pervaded the Korean society because Koreans in general were skeptical of the transparency of their society as a whole. The donors also tended to think that the likelihood of NPOs' corruption grew with their size, that there were a number of incompetent NPOs, and that the obsession with fundraising prevented them from doing the really important work. The irregular donors make donations purely on the basis of their choice, and were therefore quite critical of being forced by their employers or NPO activists in the streets to donate to some causes. These donors remarked that forcing donations eclipsed the true worth of the causes.

4) Non-Donors

The five non-donors participating in our FGI expressed views that were much more critical of the transparency of the nonprofit sector than other interviewees. Their common reaction was as follows:

“At first, I thought about sponsoring poor children abroad. But when I tried to sponsor certain kids designated by the Catholic (or other) organization I was interested in (...) The Korean society is flooded with charity organizations today, and that itself is a problem. We as potential donors may have more diverse choice, but could all these organizations be really sincere? The world abounds with poor children, and I am overburdened by the fact that I would not make substantial difference to their lives when I am not a wealthy philanthropist myself. (...) I would regularly donate if I were convinced that my donations were used fairly and transparently, according to decisions that are made democratically in a transparent manner. But the news of corrupt leaders of NPOs makes me doubt the sincerity of NPOs in general. I would make donations for poor children, but I don't want my donations to end up in vain.”

The non-donors also cited specific examples of accounting frauds and embezzlement as well as NPOs that cheated on donors by appropriating their donations to personal ends. One criticized the press as well, saying there were reports on some poor old lady donating a fortune to a university, but the press failed to follow up with how that lady's donation was actually used.

When asked what NPOs could do to improve their transparency, the non-donors said NPOs should pay their staffers better, as financial deprivation could render these staffers vulnerable to the temptations of fraud. Another non-donor commented that transparent NPOs made their financial statements available in the forms of Excel spreadsheets and the like, but

as donors are too lazy to look up and download such information on their own, NPOs should make efforts to make the information they disclose simpler to view and easier to access.

Non-donors, too, said they wanted to find proper organizations they could donate to. They preferred NPOs supportive of in-person meetings, volunteering, and forms of participation other than cash donations.

5) Working-Level Officials of NPOs

We interviewed the five working-level staffs who are charging fundraising for their organizations. They stressed that transparency was ultimately about finance and consisted most importantly in transparent accounting and auditing. The organizations they were working for complied with accounting standards, voluntarily submitted themselves to external auditing and disclosed the results publicly, and had no qualms in complying with these practices. One of the interviewee commented on how poor the organization was—with staffers taking out personal loans to fund its endeavors—and concluded that his organization was not yet in a stage “to discuss transparency” because the organization had been established only recently.

Although the interviewees thought that transparency, at least as exposed to the public, chiefly concerned accounting and financial issues, they personally thought transparency involved something much larger. These officials were worried that disparity between what they did internally and what they spoke outwardly could invite suspicions on their transparency. They were also worried that, although they wanted to spend donations on the causes donors approved of, and disclose as much information as possible about the details thereof, they were still not convinced that they spent donors’ money truly well. They mentioned that worries over transparency were tied to worries over professionalism.

The interviewees thought that the transparency of NPOs was a controversial issue in Korea because state-led charity initiatives, such as the Young People's Hope Fund and the K-Sports Foundation, were exposed to be corrupt schemes through which the powerful enriched themselves. The sensationalist coverage of these incidents in the press further biased the public against NPOs. The interviewees pointed out the need to provide small NPOs with policy and technical support toward enhancing their compliance with transparency laws and practices and also for NPOs themselves to make efforts to make their financial reports more comprehensible to individual donors.

2. Definition: What do we find through the empathetic process?

Our process of empathizing, through interviews, with diverse stakeholders' views on transparency in the nonprofit sector led us to conclude the following regarding the definition of transparency.

First, transparency was not equivalent to full financial/accounting disclosure, at least from the perspective of donors and the general public. Few donors ever reviewed the financial reports of their charity organizations in depth with the goal of ascertaining these organizations' transparency. As their emphasis on credibility suggests, donors tended to equate size and/or celebrity endorsement with the transparency of NPOs. Donors wanted to know how their donations were spent, not necessarily in a technical and detailed manner, but in a more impressionist manner by seeing smiles on the faces of the children they sponsored or the staffers of the organizations they supported. Donors also generally expected that the organizations they supported were transparent, financially and accounting-wise, at least to a certain extent. Although some imagined that their donations might have gone to uses they would not personally approve, these donors were willing to continue their support insofar as those NPOs served the broader social missions the donors wanted to support. In other words,

donors' trust in NPOs was rarely threatened, unless the NPOs they supported were involved in serious crimes such as a clear embezzlement crime. These donors took satisfaction in the fact that the NPOs they supported complied with financial and accounting standards, published annual reports, and disclosed basic information required of them.

Second, contrary to the popular misperception, transparency itself makes little difference to donors' behavior. While non-donors were more critical than donors of the possible lack of transparency in the nonprofit sector, non-donors, too, said they would be willing to contribute to NPOs if they found the fundraising missions appropriate or channels of participation other than cash donations. Donors did care whether the organizations were trustworthy before deciding to support them, but did not go out of their ways to obtain financial/accounting information to answer this question. Donors and experts alike thought that the refusal to donate on the ground of untrustworthiness was simply an excuse not to donate. In order for non-donors to become donors, NPOs need to motivate them in ways other than appealing to their strict standard of transparency.

Third, donors are generally distrustful of NPOs. Donors thought only the NPOs of the size and stature subject to the legal requirement of disclosure were transparent or credible. What explains this pervasive mistrust? First, the overall level of trust in the Korean society is not high. Second, NPOs in Korea encompass quite a broad array of organizations, including small and obscure organizations, service facilities, and religious organizations that are either not licensed or lack the resources to fulfill their stated social missions. If the interviewees had been asked to assess the transparency of the few organizations whose transparency is in controversy, they would have given much higher scores of transparency than expected. Third, whereas news reports on the corruption and wrongdoings of NPOs abound, few ever report on the good work NPOs are doing. This may be a source of the popular bias against trusting NPOs.

Fourth, working-level officials and experts do not think transparency consists solely of the lack of defects in financial/accounting information. They agree that transparent disclosure of such information is the first and foremost step, but emphasize that NPOs should also make extra efforts to ensure that they spend donations *well*. Spending money well, in the nonprofit context, implies the following. First, money goes to ensuring the efficiency and transparency of organizational management and governance. This would be evident in how well NPOs' decisions conform to their stated missions and are implemented. NPOs should disclose not only financial information, but also information on why they chose to perform certain projects, according to what standards and under whose authority. Second, money goes to enhancing the effectiveness and professionalism of NPOs' work. This is about whether the money NPOs spent have led to the desired outcome. This requires the development of effective strategies, collaboration with experts and/or the enhancement of competency in NPO staffers, and the assessment of performance. Third, money goes to ensuring effective communication with donors and the public. NPOs should persuade the public of why it is better to build hospitals instead of subsidizing medical expenses, for example and why operating and administrative expenses are necessary.

Fifth, the concept of transparency that would truly advance philanthropy differs from the usual concept of transparency in the popular mind. Both donors and non-donors expressed a strong wish to *see*, with their own eyes, whether and how donations were making actual differences in the world. This much is evident in the high preference for one-on-one sponsorship programs. Online charity campaigns, such as Storyfunding¹, encourage the public to make donations to persons directly involved in those stories. Participants in these campaigns thus take satisfaction in knowing that the fundraising targets have been met even

¹ Story Funding is a crowd funding platform in South Korea. It allows creators of content other than news such as books, music, movies and new technologies to receive funding.(<https://www.kakaocorp.com/service/StoryFunding?lang=en>)

without receiving detailed reports on how such funds have been used. Donors also liked programs like Save the Children's hat-knitting because such programs allowed them to create a difference with their own eyes and hands. A donor's wish to see NPO staffers at work suggests that providing visual and tactile experiences is as much important in harnessing donors' satisfaction and loyalty as disclosing financial information. Some even commented that even the process of participating in FGIs struck them as positive experiences with philanthropy. NPOs may therefore motivate non-donors to become donors better by giving them no-strings-attached experiences with charity work and providing them with visual and tactile feedback.

V. Conclusion

Public-interest organizations in Korea possessing KRW 500 million or more in assets each or raising KRW 300 million or more in donations annually are required to disclose their financial information to the National Tax Service (NTS) in Korea. This legal requirement is intended to encourage the public's participation in charity by ensuring the transparency of NPOs' financial information. In practice, however, the requirement causes NPOs to obsess over the rigor of accounting (Choi, 2015). NPOs often provide social services with private donations that the state should have provided from taxpayers' money, and are therefore eligible for a wide range of tax breaks. Korean government needs to ascertain whether NPOs are truly deserving of tax breaks by requiring and monitoring financial information.

Does the legally required form of financial disclosure, however, truly serve the intended purpose? Financial information must be useful to users above all else. The NTS needs NPOs' financial information to determine the appropriateness and validity of tax breaks provided for them. Other stakeholders, such as working-level officials and executives of NPOs, donors and volunteers, supervisory authorities, customers and beneficiaries, and

potential donors, however, need information that serves other purposes. Financial information provided for these stakeholders ought to differ from that provided for the NTS and to provide detailed descriptions on whether NPOs fulfilled their stated missions and whether their projects indeed served public interests. The form of information required by the NTS, however, fails to increase other stakeholders' knowledge in this regard, while most NPOs produce information in the manner required by the NTS rather than other stakeholders. The excessive focus on the transparency of accounting, in other words, has failed to serve stakeholders except for the Korean government.

Much of the debate on the transparency of NPOs in Korea has so far focused solely upon the regulatory control of the nonprofit sector by the government. It is significant to pay attention to the much more varied meaning that transparency holds to different stakeholders in nonprofit sector and begin our discussion on how best to satisfy these diverse stakeholders' expectations of transparency. The results from this study indicates conceptual aspects of transparency and practical aspects of transparency for nonprofit organizations in South Korea from key stakeholders in nonprofit sector as the following.

1. Conceptual aspects of transparency: Transparency and accountability are inseparable. Discussions of transparency should therefore lead to discussions of accountability, and not just financial statements and accounting reports.
2. Practical aspects of transparency: Donors, fundraisers, the press, and other stakeholders may indeed understand transparency differently at work. Our interviews with donors, for example, revealed that donors mostly understood transparency as consisting of the visibility of the effects their donations were producing in real life. That is why donors preferred to support organizations recommended by people credible to them and to receive regular reports on these organizations' activities even if they were not to read them carefully. Donors' demand for regular reports

corresponds to the third element of transparency identified by Hyeon (2010), namely, that appropriate information be provided on demand in order to satisfy the principle of transparency.

While specific measures to improve the overall transparency of Korean NPOs will be discussed in future research, we can still find clues to some solutions in these interviews. First, more diversified approaches should be adopted to define and emphasize the transparency of NPOs. As the FGIs suggest, we should not apply a single same standard to all NPOs of diverse missions and sizes. Second, we need to find and pioneer a venue in the nongovernmental sector, akin to the Glass Pockets of Foundation Center, for discussing the transparency of NPOs in Korea.

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