IS IT TIME TO CLEAN UP US TAX-EXEMPT NONPROFIT REPORTING?

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Abstract

Purpose: US tax-exempt nonprofits are chronically underdeveloped when it comes to reporting, communicating, and comparing the value they create. This paper explores an approach to address these reporting and disclosure issues, for the purpose of sustainability and impact.

Approach: First, we ask and then answer: is it time to clean up US tax-exempt nonprofit reporting? Second, we develop a theoretical argument, based on commensuration of impact, for a specific tax-exempt integrated report <IR>, to compare the value of tax-exempt nonprofits. Third, we offer an example of this tax-exempt <IR> in practice.

Findings: First, we evidence the need for a drastic shift in the expectations and reporting practices of US tax-exempt nonprofits. Second, we offer a <IR> framework that responds to recent scholarly calls to address organizational accountability boundaries and impact assessment in the nonprofit sector. Third, we contribute to sustainability policy conversation by mapping out an approach that US tax-exempt nonprofits could deploy to speed up the implementation of sustainable solutions (SDG #17).

Originality: Our paper responds to recent calls for more oversight and comparison disclosure mechanisms of US tax-exempt nonprofits, for the purpose of reducing social or environmental inequality. Our framework makes an important contribution to the field of sustainability accounting, in that it promotes a principle-based approach for measuring and regulating tax-exempt nonprofits, in a way that motivates oversight and comparison of sustainability-related practices.

Keywords: commensuration; integrated reporting and disclosure; regulation, US tax-exempt nonprofits

Is it time to clean up US tax-exempt nonprofit reporting?

1. Introduction

Estimates suggest that there are over 1.5 million tax-exempt nonprofits in the US, generating approximately a trillion dollars annually (National Council of Nonprofits and the National Center for Charitable Statistics, 2020). Such magnitude, both in number of nonprofit organizations and aggregate charitable dollars, positions US nonprofits as critical actors in the efforts to address social, environmental, and economic disparities; many of which are described in the United Nations Sustainable Development Goals (UN SDGs) (Jackson, 2021).

However, there are two critical issues with US tax-exempt nonprofits, which left unresolved, hinder their potential to contribute to the UN SDGs and reduces the value created for their stakeholders. The first issue is the existing organizational accountability boundaries. Gamble and Muñoz (2022) find that policy and regulatory overindulgence, poor governance, as well as detection and prosecution inconsistencies, are damaging the potential value created by US nonprofits. The second issue with US tax-exempt nonprofits is a lack of reliable approaches to assess and compare their organizational impact (Archambeault *et al.*, 2015; Gordon *et al.*, 2007; Kroeger and Weber, 2014; Rawhouser *et al.*, 2019; Scheetz *et al*, 2021, Willems *et al.*, 2014). Together, these two prevailing issues – organizational accountability boundaries and impact assessment – slow the implementation of sustainable solutions (SDG #17).

This paper is an attempt to address these two US tax-exempt nonprofit issues, by developing a more comprehensive reporting lattice. Existing regulatory reporting requirements for tax-exempt nonprofits in the US is comprised of the Internal Revenue Service Form 990 or Form 990 EZ. Prior scholarship has identified the accountability, reporting, and comparability deficiencies associated with these forms of reporting (Archambeault *et al.*, 2015; Gordon *et al.*, 2007; McConville and Cordery, 2018; Scheetz *et al*, 2021). Many nonprofits also develop their own unique (unregulated) annual reports to disclose performance as they see fit. Given these limited reporting standards for US tax-exempt nonprofits, several issues have emerged which directly impacts global sustainability efforts, namely, chaotic reporting, limited reliability of performance outcomes, and virtually no oversight. Therefore, in this paper we are most interested in answering the following research questions: *Is it time to clean up tax-exempt nonprofit reporting in the US? And if so, can we offer an alternative reporting method that would have positive sustainability and impact implications?*

This remainder of this paper tackles these questions by examining tax-exempt nonprofit reporting and a gradual move towards regulated integrated reporting <IR> and disclosure techniques (Serafeim, 2016), through the dual lens of commensuration (Espeland and Stevens, 1998) and impact (Costa and Pesci, 2016; Retolaza, San-Jose, and Ruiz-Roqueñi, 2015). Adams (2015, 2017) suggests that <IR> has the potential to improve leader's understanding and actions towards sustainability. And several authors have called for further research that uses <IR> in the public and nonprofit sectors (Adams, 2014; Adams and Simnett, 2011; Farneti and Siboni, 2011; Hassan, *et al.*, 2019).

In 2013 the Integrated International Integrated Reporting Council (IIRC) introduced integrated disclosures for commercially oriented firms, to address deficiencies in traditional corporate reporting (EY, 2014). Since its inception scholars have highlighted the importance of <IR> for sustainability efforts (Adams, 2015) and for promoting high value non-financial information to internal and external decision makers (Barth *et al.*, 2017). The recent announcement of the Value Reporting Foundation, comprised of the Integrated Thinking Principles, the <IR> Framework, and the Sustainability Accounting Standards Board Standards to consolidate under the IFRS Foundation indicates the growing importance of the <IR>. Through the IFRS Foundation's new International Sustainability Standards Board (ISSB), the <IR> will contribute to due process and the Conceptual Framework[1]. And in Europe, <IR> has witnessed a steady growth in support from the European Union as an approach for addressing the UN SDGs[2]. For all these reasons, we see <IR> as a sturdy foundation for improving sustainability reporting practices in the US, contributing to the changing standard-setting landscape, and therefore a useful onramp to improving US tax-exempt nonprofit reporting.

In this paper we make three main contributions to sustainability reporting. First, we present an argument, based on extant evidence, that a drastic shift in the expectations and reporting practices of US tax-exempt nonprofits is needed. Existing reporting requirements of tax-exempt US nonprofits are chronically underdeveloped (Archambeault *et al.*, 2015; Scheetz *et al.*, 2021; Yetman and Yetman, 2012). We find that US tax-exempt nonprofits are largely free from any level of scrutiny, oversight, or comparison. We support this claim with recent literature on nonprofit value detraction and pair this with a unique twist on commensuration for the purpose of sustainability impact. In doing so, this paper contributes to the growing literature of performance reporting and sustainability accounting in nonprofits (Adams, 2014; Adams and

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[1] https://www.integratedreporting.org/wp-content/uploads/2022/03/IRFandIFRSF-020722.pdf
[2] https://www.integratedreporting.org/news/a-cohesive-and-connected-future-for-reporting-in-europe/

Simnett, 2011; Farneti and Siboni, 2011; Hassan, *et al.*, 2019). Second, we propose and explain a US nonprofit reporting framework that builds on the growing support for <IR>. This framework responds to several scholars who have called for better reporting and disclosure practice in the nonprofit sector (Gamble and Muñoz, 2022). To highlight the utility of this tax-exempt nonprofit <IR> framework we offer an example, developed from multiple interviews with executives of a tax-exempt nonprofit. We do this to demonstrate the applicability of this tax-exempt nonprofit <IR> framework in practice. Third, we contribute to sustainability policy conversation by closing with a discussion of why policymakers, managers, and scholars should continue to push for maximum impact from US tax-exempt nonprofits. If addressing the UN SGDs is a desired outcome, then there is an immediate need for change in the way US nonprofits report what they do. We suggest that learning from the European Union reporting practices and regulations will facilitate a move towards improved reliability, comparability, and impact from US nonprofits.

This paper is structured as follows. First, we start by describing the environment of US tax-exempt nonprofits, the impact quagmire, and social value commensuration within the domain. We then discuss the inherent strengths of integrated reporting disclosures before offering a principle-based framework to assess and disclose US tax-exempt nonprofit value creation. We conclude with a discussion on the policy implications and shortcomings of our nonprofit <IR> framework.

2. Literature

2.1. Is it time to clean up tax-exempt nonprofit reporting in the US?

A first step towards answering this question is understanding whether or not regulatory oversight has moved in lockstep with the sector over time. In the United States, nonprofit tax exemptions started in the 1800s, when Americans were observed to unite together in voluntary activities (de Tocqueville, 2003). Early in the United States' legislative history tax exemptions were given to charitable organizations, freeing them from Federal income tax, if income did not benefit an individual related to the organization (Arnsberger *et al.*, 2009). Now many tax-exempt nonprofits have developed into 'big brand' businesses, with multiple stakeholders, substantial reach, and a large economic impact. The United Way, Salvation Army, YMCA, St. Jude Children's Research Hospital, Catholic Charities USA, Habitat for Humanity, American Cancer Society, Mayo Clinic, World Wildlife Fund, Metropolitan Museum of Art, and the Humane Society, are but a few of these big brand tax-exempt nonprofits. Despite this rapid growth in the tax-exempt nonprofit sector, a review of the legislative history would suggest that changes to the tax-exempt regulatory environment, over the course of time, have been relatively scant (Gamble and Muñoz, 2022).

A second step towards answering this question is understanding whether or not value creation is appropriately managed in nonprofit sector. There is little argument that many tax-exempt nonprofits have and continue to make significant and positive contributions to society and the environment (Lathrope, 2017). In the United States, there are more than 1.5 million tax exempt organizations, employing approximately 11% of the workforce and driving more than a trillion dollars of donations in the economy (National Council of Nonprofits and the National Center for Charitable Statistics, 2020). Prior scholarship has documented the history of positive contributions derived from tax-exempt nonprofits (Aftab Hayat, 2014; Felício, *et al.*, 2013; Grant and Crutchfield, 2007). One particular example is Yarmolinsky (2000), who points to the significant outcomes of nonprofits, in the provision of welfare, to those who cannot afford public services. However, within the tax-exempt nonprofit category there are also persistent challenges and criticisms centered on the organizational form and their processes (Drucker, 1995; Gamble and Muñoz, 2022). For example, prior scholarship has criticized loose nonprofit taxable activities (Yetman and Yetman, 2009), performance inefficiencies (Gamble and Muñoz, 2022), fraudulent practices (Archambeault *et al.*, 2015; Greenlee *et al.*, 2007), mission drift (Ebrahim *et al.*, 2014; Yetman and Yetman, 2009), and governance-leadership failures (Fremont-Smith and Kosaras, 2003). So, despite the size and importance of this sector, value detraction is occurring (Gamble and Muñoz, 2022).

A third step towards answering this question is understanding whether or not impact is accurately assessed in the nonprofit sector, for the purposes of transparency and comparison. This can be highlight through a series of examples. A billionaire wants to donate to one of three tax-exempt nonprofits but cannot find a way to compare the value that each nonprofit creates for society. Or, an Internal Revenue Service official worries that in the absence of broad, quantifiable, and comparable tax-exempt nonprofit data, it will be difficult to confirm associations between tax-exemptions and the actual outcome that nonprofits provide to its beneficiaries. Or, a tax-exempt nonprofit CEO believes that the benefits generated by their organization, for beneficiaries, far exceeds that of other tax-exempt nonprofits. In all three of these examples the common thread is the absence of an accurate and widely used reporting approach to appraise the total impact of tax-exempt nonprofits.

Despite evidence that common reporting requirements and regulations are largely helpful for accountability of impact, at present there are no consistent, reliable, and transparent approaches that enable stakeholders to determine if and to what extent US tax-exempt nonprofits yield a true impact. Since the early 2000s the IRS has required that most tax-exempt nonprofits in the US file a Form 990[3]. Prior scholarship has discussed the weakness of this reporting mechanism and their run-on impacts for rating agencies that use them (Gordon *et al.*, 2009). Two of the biggest charity rating organizations, Charity Navigator and GuideStar, both depend heavily on the IRS 990 data. Gordon *et al*. (2009, p. 470) highlight a critical flaw with Charity Navigator data, stating, "if the underlying data [IRS 990] are misleading, reliance on either Form 990 or ratings derived from that data would potentially cause the misallocation of scarce donor resources." Similarly, several other authors have described the reporting shortcoming of the IRS Form 990 as either inaccurate or misleading (Archambeault *et al*., 2015; Gordon *et al.*, 2007; Scheetz *et al.*, 2021; Yetman and Yetman, 2012).

Simply put, the existing reporting mechanisms in the US do not offer an integrated view of the value created by US tax-exempt nonprofits and therefore do not offer a comprehensive, reliable, and comparable disclosure to determine if tax-exemptions promote or impede sustainable societal and environmental change. Borek (2005) suggests that in the absence of such information it is entirely possible that the exemptions given to nonprofits, and the charitable tax deduction granted to individuals who donate to them, may exceed federal social welfare spending. Therefore, prior research and the existing reporting landscape in the US would suggest that it is time to clean up the reporting practices of US tax-exempt nonprofits. Lack of

[3] Form 990 of the US Internal Revenue Service is the Return of Organization Exempt from Income Tax.

organizational accountability and impact assessment slows the implementation of sustainable solutions (SDG #17).

2.2. An alternative tax-exempt nonprofit reporting approach

When compared to the private sector, far less research in the area of social and environmental performance reporting practices has occurred in the public and nonprofit sectors (Farneti and Siboni, 2011). In response, several scholars have called for new reporting structures that increase reporting disclosures and transparency, to address the abovementioned tax-exempt nonprofit suspicions and skepticisms (Borek, 2005; Diamond, 2002; Gamble and Muñoz, 2022; Walker and Sipult, 2011). At the center of this dearth in social and environmental performance practices of nonprofit organizations is the limited consistency, comprehensiveness, and a wide-accepted disclosure approach. And as a result, there is little agreement on how to assess what tax-exempt nonprofits do, either by identifying sustainable outcomes, or by comparing them to others. This lack of governance, accountability, and reporting practices are the root of stakeholder skepticism (Alexander *et al.*, 2008; Gamble and Christensen, 2022, Metzger, 2015; Harris *et al.*, 2017).

Cotter, Najah, and Wang (2011) have laid out a range of insights for increased reporting practices, disclosures, and standardization, that could be applied to tax-exempt nonprofits. Building on Cotter et al. (2011), McConville and Cordery (2018) suggest that a remedy to some of these nonprofit suspicions is to develop of a framework that captures value elements (both financial and nonfinancial). In this sense, financial information would follow traditional financial reporting and nonfinancial information would include “aspects of a company’s performance, including environmental, social, employee and ethical matters, and defining measurements, indicators and sustainability goals based on the company's strategy" (Deloitte, 2015).

A theoretical basis for developing both financial and nonfinancial reporting of US tax-exempt nonprofits is commensuration of impact. Espeland and Stevens (1998) define the commensuration process as one of transforming qualities into metrics. The social process of commensuration (Espeland and Stevens, 1998) has been examined as disciplining and directive. Examples of commensuration in practice are university/program rankings, financial ratios, social statistics, and economic indicators. Considering that transparency, comparability, and accountability are common principles upon which such metrics rest, this seems like a very simple description and ostensibly neutral, objective example. However, when it comes to measuring the impact of tax-exempt nonprofits there is a void. Unquestionably, there are a range of views on what constitutes impact (Kroeger and Weber, 2014; Rawhouser *et al.*, 2019; Willems *et al.*, 2014). Across these perspectives however, impact can be seen as the process of reporting accurate performance data to empower change and offer a voice for users (Nicholls, 2018). We term such impact 'value' creation.

Commensurating the impact of tax-exempt nonprofits can be observed through a process of integrated reporting <IR>. <IR> is "a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation"[4]. <IR> was established for corporate reporting of commercially oriented organizations and is governed by the International Integrated Reporting Council. This Council is comprised of regulators, investors, companies, standard

[4] https://integratedreporting.org

setters, the accounting profession, academia, and nongovernmental organizations. Yet, despite its importance to corporate reporting, <IR> also is also applicable to the reporting and comparison of impact by tax-exempt nonprofits.

Leading scholars have suggested that <IR> could be extended into both public and nonprofit sectors (Adams, 2014; Adams and Simnett, 2011; Farneti and Siboni, 2011; Hassan, *et al.*, 2019). Simnett and Huggins (2015) posit that <IR> could be used for assurance purpose to add value. De Villiers *et al*. (2014) highlight the importance of its growth and momentum for adoption purposes in the nonprofit sector. And more recently, Adams (2015) makes the explicit call for the role, take-up, and application of <IR> in nonprofits.

3. A framework to clean up tax-exempt nonprofit reporting in the US

Given the ongoing problems in the US tax-exempt nonprofit space, which are discussed in extent literature, we suggest that there is an immediate need for <IR> to clean up US tax-exempt reporting. <IR> has the support of scholars (Adams, 2014), has momentum in the marketplace (De Villiers *et al*, 2017), and the support from globally recognized institutions, such as European Union and the United Nations. Additionally, evidence suggests that in regulated situations <IR> may also foster improved performance (Barth *et al.*, 2017). Therefore, in what follows, we focus on <IR> for purposes of assurance and value creation, in response to the two previously mentioned issues - 1) as a response to the documented ongoing problems in the US nonprofit sector (Fremont-Smith and Kosaras, 2003; Gamble and Muñoz, 2020; Gordon *et al.*, 2009; Yetman and Yetman, 2009), and 2) the need to commensurate tax-exempt nonprofit impact in the US (McConville and Cordery, 2018).

<IR> takes a holistic approach to reporting the ‘capital’ an organization creates. In commercially oriented settings, ‘capital’ is attributed to a monetary form, with the ultimate goal of future efficient allocation of resources (or capital). The <IR> approach to holistic reporting recognizes organizational accountability under six capitals, including: financial, manufactured, intellectual, human, social and relationship, and natural. If <IR> is “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation”[5], then it is likely to be relevant and applicable to US tax-exempt nonprofits. What we do know about <IR> is that there is a positive association between <IR> quality and firm liquidity and future cash flows, suggesting that integrated reporting does yield benefits such as organizational efficiency (Barth *et al.*, 2017). And Lopes and Coelho (2018) identify that South Africa, the United Kingdom, Spain, and the Netherlands are the earliest and biggest adopters of <IR>. These two studies raise important insights for US tax-exempt nonprofits in that <IR> may help with organizational efficiency and there are early <IR> adoption leaders (Europe and South Africa), that such a system could be modelled after.

Overall, a considerable opportunity exists in the application of <IR>, for the purposes of commensuration and disclosure of impact and value of US tax-exempt nonprofits. <IR> has the potential to alter decision making, foster long-term thinking, and is integral in defining what value creation is (Adams, 2015). Integrated reporting offers refinement and conceptual specificity to guide practitioners and stakeholders (Feng *et al.*, 2017) and can also help to address issues of reporting heterogeneity and harmonization, by removing managerial discretion

[5] https://integratedreporting.org

(Chaidali and Jones, 2017; Dumay *et al.*, 2016). However, to increase tax-exempt nonprofit stakeholder trust, clear guidance on content and formatting, acceptance of the costs associated to prepare such documents, and strong regulatory oversight, is needed (Chaidali and Jones, 2017). Each of these perspectives are guideposts when developing an approach to disclose the value created by US tax-exempt nonprofits.

3.1 Elements of an <IR> framework for tax-exempt nonprofits in the US

<IR> has evolved over the last two decades, fostering sustainability and stakeholder protection through reporting (Ferguson *et al*., 2017; KPMG, 2017; Reverte, 2009). Up to this point we have suggested that there is an immediate need for <IR> approaches, to assess the behaviors, actions, and consequences of tax-exempt nonprofit organizations in the US (Felix *et al.*, 2017; Gamble and Muñoz, 2022). In this section we discuss the components of an <IR> for tax-exempt nonprofits in the US. We start by recognizing the reality that tax-exempt nonprofits and commercially oriented firms are inherently different organizational forms, with vastly different objectives and tensions. Simply taking the existing, commercially oriented integrated disclosure framework, and applying it to tax-exempt nonprofits, will not suffice. One of the most obvious differences is that tax-exempt nonprofits are motivated by prosocial value creation for beneficiaries, while commercially oriented firms are motivated by economic returns from operations that benefit customers and shareholders. Tax-exempt nonprofits have nuanced organization-specific challenges, that warrant specifically designed performance reporting mechanisms (Alexander *et al*., 2008; Archambeault *et al.*, 2015; Ebrahim *et al.*, 2014; Fremont-Smith and Kosaras, 2003; Greenlee *et al.*, 2007; Harris *et al.*, 2017; Metzger, 2015).

In Table 1 we summarize the transition from traditional corporate <IR> to <IR> for the purposes of commensuration of impact (termed 'value'), in tax-exempt nonprofits. To do this we first describe the key aspects of integrated reporting capitals in a commercially oriented context. Then we developed and describe value creation in a tax-exempt nonprofit context.

---Insert Table 1 here---

The *financial capital* of commercially oriented firms is described by IIRC as the funds obtained, through financing, for the production of goods or services. This generally comes in the form of debt or equity financing, or from the profits generated through daily commercial operations. Conversely, financial value for tax-exempt nonprofits is different on at least two fronts. *Financial value* in a tax-exempt nonprofit setting, can be described as: 1) the donated sources of funds (from individuals, corporations, or grants), and 2) the uses of donated funds, to create prosocial value. These are efforts to describe who is donating funds, how much, and how those funds are utilized to create value for beneficiaries. For their efforts the IRS has been trying to capture some of this financial information, but with limited success (Gordon *et al.*, 2009). This is likely attributable to the non-integrated nature of this data, the difficultly with granular consistency, and the funds available to audit such activities. In many US tax-exempt nonprofits, it is not common practice to disclose sources and use of funds. In the absence of such reporting requirements, it is difficult to communicate the extent of financial value created. It stands to reason stakeholders would benefit from knowing how much was donated in funds (broken down into donation size categories), what the funds specifically were spent on, and the extent to which people benefited from this tax-exempt organization. Financial value creation information on its own would provide a starting point to commensurate such organizations.

The *manufactured capital* of commercially oriented firms is described by IIRC as the physical objects that are at the disposal of the organization to use in the production of goods or services. Two commonly used examples are buildings and equipment. Manufactured value does share some common threads with manufactured capital, such as buildings, however, there are some unique differences. The primary objective of many prosocial organizations is not to accumulate the physical objects they have at their disposal but rather the physical objects they create for beneficiaries. *Manufactured value*, in a tax-exempt setting, can be described as the physical objects and infrastructures created for others, to reduce inequality. Take for example a tax-exempt organization that operates in a developing nation for the purpose of building and installing freshwater pump systems. These freshwater pumps are not physical objects that are at the disposal of the organization. They are manufactured value, for the benefit and ownership of community beneficiaries.

The *intellectual capital* of commercially oriented firms is described by IIRC as the knowledge-based intangibles that provide competitive advantage for a firm. Intangibles lack physical substance. Examples of intellectual capital for commercially oriented firms are patents, copyrights, and licenses. Intellectual value for tax-exempt nonprofits also lack physical substance but are slightly different. From the perspective of tax-exempt nonprofit *intellectual value* can be described as the intangible knowledge pools (both internal and external to the organization) that fosters positive change/trajectories to disadvantaged communities. For example, in a recent randomized control study of microfinance recipients Gamble (2019) found that ‘sensitizations’ (health and wellbeing training) exceeded the costs of business training. In this instance the author was able to quantify the costs and benefits of this particular type of intellectual capital gain in the communities in which the tax-exempt nonprofit was loaning monies.

The *human capital* of commercially oriented firms is described by IIRC as the skills and experience of employees and their capacity and motivations to innovate. This broadly means individuals within the organization and their ability to support governance values and align these with the commercially oriented strategy. Human value of tax-exempt nonprofits embodies some of these characteristics (i.e., fostering strong leadership and governance structures) but is equally focused on external constituents. More specifically, the tax-exempt nonprofit <IR> element of *human value* is the skills and experiences of those inside the firm to enable and foster skills, experiences, and competencies of those of beneficiaries outside the firm. In this sense, human value is more about the ability of the individuals within the tax-exempt nonprofit, to increase capacity and empower change in communities. Take Habitat for Humanity as an example. This organization is well known for developing skills and experiences of community members and home beneficiaries by empowering recipient families and community members to build their own home in partnership with Habitat for Humanity. In this way Habitat for Humanity creates external human value (in terms of home building skills), outside the nonprofit, within the communities that it serves. This value is not always quantified and reported by tax-exempt nonprofits, despite the importance of the impact.

The *social and relationship capital* of commercially oriented firms is described by IIRC as the institutions created and relationships established to enhance collective well-being. This form of commercially oriented capital could include brand and legitimacy building. *Social and relationship value* for tax-exempt nonprofits is similar to that of social and relationship capital of commercially oriented firms but extends to reporting the interrelationships between prosocial entities. For example, prosocial organizations such as The United Nations make efforts to disclose their working partnerships with other prosocial entities. This makes practical sense considering the dynamic and interconnected nature of inequalities that the United Nations is tackling (see the 17 Global Goals)[6]. Not only does the United Nations aim to measure it's 17 Global Goals, but it also reports its relationships with other nonprofit entities to highlight the value created through collective efforts towards positive change. In doing so, efforts to measure value creation and disclose the expansion of partners and donors (with other nonprofits, public-private partnership, governments, communities) is important activity.

The *natural capital* of commercially oriented firms is described by IIRC as a reporting mechanism for the renewable and non-renewable input into the production of goods or the provision of services. This is largely viewed as the air, water, land, and timberlands. *Natural value* of tax-exempt nonprofits is the quantification and reporting of usage and replacement of renewable and non-renewable materials by the organization and the beneficiaries of the tax-exempt nonprofit efforts. Take for example a tax-exempt nonprofit that builds schools. The organization would attempt to measure the renewable and non-renewable impacts of their efforts as well as the usage of renewable and non-renewable input in constructing the school.

[6] https://www.un.org/sustainabledevelopment/sustainable-development-goals/

A *systems value* is not an explicit element of commercially oriented IIRC integrated reporting practices. However, the IIRC does indirectly support systems thinking when using phrases such as “holistic”, “integrative”, and “comprehensive”. Systems value originates in the literature of system dynamics (Vennix, 1999) as an approach to representing complex systems (Sterman, 2000). System dynamics has been used for over 40 years to solve both accounting problems (Simons, 1995) and more recently to solve nonprofit performance measurement challenges (Gamble *et al.*, 2020).

One aim of a system dynamics methodology is to challenge assumptions and develop agreement on complex problems by identifying unexpected points of leverage. Each of the six values explained above are not independent silos. Describing their recursive and complex relationships would help to better explain the interrelated aspects of a nonprofit that may not be apparent to readers of the integrated report. For example, a systems value representation could aim to describe, in words or numbers, the annual net benefit value created to society from a tax-exempt nonprofit, alongside the total tax-exemption benefits given. Additionally, systems value would allow constituents to understand the extent to which the six values contribute to the organization’s mission and could act as a simple starting point for tax-exempt nonprofit integrated report audits.

4. A US tax-exempt nonprofit field study using <IR>

Tsering's Fund (TF) is a US registered 501(c)(3) tax-exempt nonprofit, operating for over 20 years, with the mission of helping the underprivileged in Nepal. Over the course of two years the researchers spent over 50 hours engaging with the CEO and board of directors of Tsering's Fund to develop a value reporting mechanism, foundationally built on <IR>. The Board of Directors of Tsering's Fund echoed prior research, asking why there is absence of a comprehensive, reliable, and comparable disclosure approach to demonstrate and communicate impact in the nonprofit sector (Kroeger and Weber, 2014; Nicholls, 2018; Rawhouser *et al.*, 2019; Willems *et al.*, 2014), the value created for its stakeholders (Battilana et al., 2015; Connolly and Hyndman, 2003; Cordery and Sinclair, 2013), or to provide a layer of much-needed accountability in the sector (Gamble and Muñoz, 2022).

Tsering's Fund (TF) is a US registered 501(c)(3) tax-exempt nonprofit, operating for over 20 years, with the mission of helping the underprivileged in Nepal. Central to TF is their goal of helping young Nepali women, who are at a high risk of being trafficked for sexual exploitation, by paying for their education. Why was TF selected for this brief example, to demonstrate the possibilities with value creation commensuration? First, TF does not take advantage of any tax exemption benefits (i.e., property, income and sales taxes). The cost of their tax-exempt status to society is essentially zero. This is a perfect baseline for future studies of tax-exempt value creation benefits. Second, all value creation data, provided by the executive team of TF, was audited by an unaffiliated third-party CPA, to remove issues of self-reporting. This helped to avoid the pitfalls of nonverified, low quality data in the Form 990 (Gordon *et al.*, 2009).

Financial value: TF is currently sponsoring 270 girls, with a sponsor base of 127 benefactors. In 2019 TF added 60 sponsored girls to this number of 270. On average one year of education, room and board is $600 USD. 95% benefactors are largely individuals within the US. When $600 is donated to sponsor a girl, 100% of these funds go to paying for the girl's education, room and board. None of these funds goes to covering TF's organizational expenses. Occasionally, TF receives one-off donations for specific projects in Nepal (i.e. to aid orphanages or for one-off medical treatments) or to cover the costs of TF employee salaries. These one-off projects account for less than 5% of annual donations. The only one-off project for 2019 was $10,000 to hire a part time bookkeeper.

Manufactured value: The President commented that there are times when TF is called on to help in a more material fashion. For example, after the earthquakes in 2015 TF donated tents, food, clothing, and household cooking supplies to several villages. During the subsequent 2 years funding was provided to rebuild 2 schools in the villages of Dhakalkot and Melamchi. Another major infrastructural project was the construction of a mini hydroelectric power station in the village of Chyangba in eastern Nepal. This $25,000 cost involved fundraising specifically for that project and was completed in 2017. TF has constructed bathroom facilities and playground equipment for several orphanages in the Kathmandu area. In 2018, $12,000 was raised to purchase a new ambulance for the people of the Helambu Region of northern Nepal. In 2019 TF created manufactured value by purchasing and donating Karate mats to a local orphanage, costing $400.

Intellectual value: TF has developed internal knowledge pools ("tricks of the trade"), to keep organizational expenses at a minimum, so that donations go directly to children's education. TF has also developed external knowledge pools. For example, TF has 250 children and young women enrolled in grades ranging from kindergarten through class 12. Additionally, 20 women are supported in their college pursuits, studying business, tourism, nursing, and dentistry. In 2019 TF helped raise awareness around the world, about the issue of child trafficking, through its documentary film, ten speaking engagements, through Facebook and four fund-raising events. This external knowledge pool extends beyond the children, enrolled in school. When each child benefits from an English-medium education, they become empowered to help not just themselves but their families and villages. On average rural families consist of 4.8 people. This translates to TF creating spillover intangible value for 1296 ((250+20) x 4.8) people in disadvantaged communities in 2019.

Human value: TF Board of Directors have a diverse knowledge pool. The President of TF has been a practicing dentist for nearly 40 years and has been involved with TF for over 20 years. He and his wife have adopted five Nepali daughters and have close ties to Nepal and its people going back nearly 40 years. The Vice President is a professional accountant, that has developed and sold healthcare insights. Another board member, Pem Dorjee Sherpa, a native Sherpa Nepali now residing in the U.S., owns two businesses in the Ann Arbor, Michigan area. Tsering Dolkar Lama resides in Kathmandu, Nepal. Her family escaped Tibet with the Dalai Lama in the late 1950s and Tsering now owns and manages a large business conglomerate in Nepal consisting of major hotels and carpet factories. No board member gets paid or reimbursed. Cinematographer Wes Overvold has produced two documentary films and is working to bring a third to the public in 2021. In Nepal Bishnu Bhandari, business manager for Tsering Lama's business conglomerate, volunteers as accountant and finance administrator and facilitates all payments and audits of school invoices.

Social and relationship value: TF Board of Directors had not thought to commensurate networks such as volunteers and other groups. Outside the board there are a core of 32 volunteers (12 in the U.S., 5 in Nepal, and 15 regular event volunteers). TF keeps records of donor networks as well as other charitable organizations that they work alongside. For example, TF works with a German nonprofit called Smile for Nepal. Not only does this organization support TF children education by paying annual school dues, they also deliver funds to the children's schools. Additionally, TF collaborates with two orphanages, Happy Home and Bal Mandir, as well as the medical clinic in Helambu. In the U.S., TF works closely with seven Rotary Clubs and a California nonprofit that advocates for underprivileged people in Nepal.

Natural value: A 2019 TFs natural value initiative was to engage in sustainability, while educating girls, through a medium sized farm project. The rationale for this project was that 110 children in the Happy Home Orphanage had suffered from chronic food shortages, most notably protein deficiencies. TF purchased 155 chickens, built coops, and leased land for $450. Not only does this project assist with food supply, it gives the children and staff a project to engage with their environment. The extra eggs continue to be sold for income and to provide funds for chicken-feed expenses. The community is positively impacted by these efforts because normally the orphanage relies on local donations to sustain itself, therefore they have reduced the burden on local resources. Also, the healthier the children are the less they rely on local medical care.

System value: The holistic and integrative nature of TF can be explained is in several ways. 100% of donations go to educating girls. TF does not take advantage of any tax exemptions such as property, income, and sales taxes exemptions. However, if they did this is where they would report such items (i.e., disbursement ratios, estimate land tax forgiven etc.). In this way they take little out of the U.S. economy, from a tax base perspective. An education for many girls in Nepal can be a life-saving event. Approximately 60% (an unofficial estimate from the Helambu Region) of young girls are subjected to early marriage or sent away by traffickers to other countries after Class 5. This equates to 11,000-20,000 trafficked girls in 2019. It is not uncommon for these girls to be never seen again. An education cost of approximately $600/year decreases this outcome significantly. Of the girls being educated in TF, 0 have met this outcome. Assuming a child starts an education in Class 1, the cost to get to Class 10 graduation would be $6000. Most of TF students then move on to Kathmandu for Class 11 and 12 which costs about the same assuming the child has a place to live with relatives. If they need boarding, that adds another $600/year. From Class 12 on, the options change. Some of the TF girls plan to enter nursing school ($5000 for entire 3 years) or college for business ($3600 for 3 years). One TF student is in dental school which is about $30,000 for a seven-year program including room/board. These educated students aim to return to their communities as leaders/examples for other women, bring about positive change to Nepal, earn good salaries because of their education, with significantly improved self-esteem. In terms of systems thinking, two TF Board members commented,

> *"Educating a girl like [Ramila] would have a huge economic impact on her, her family and her village. If she gets an excellent education then she will get a better job which means she can provide for her family and as you know educating a girl is educating a family. She*

can be a role model for her children and the village. Having the ability to quantify that impact would be a wonderful tool."

"That value is not limited to the education of a single child, it extends to how that child uses their education to impact the world around them. This impact may be seen immediately at the family level, in the local village, the larger community and eventually all of Nepal."

In sum our field study, highlighting TF, introduces the benefits of an <IR> approach for US tax-exempt nonprofits. It demonstrates impact through the social value creation of all capitals. This approach could improve understanding, information quality, accountability, and stewardship by illustrating the commensuration processes of measuring US tax-exempt nonprofit social value.

5. Discussion

US tax-exempt nonprofits play a significant role in the global economy and sustainable development (National Council of Nonprofits and the National Center for Charitable Statistics, 2020; also see the UN Sustainable Development Global Goals). Yet two persistent problems are slowing their progress on these sustainability initiatives. First, is the limited oversight, which Gamble and Muñoz (2022) term policy and regulatory overindulgence, poor governance, and detection and prosecution inconsistencies. The second problem is a lack of reliable approaches to compare organizational impact (Kroeger and Weber, 2014; Nicholls, 2018; Rawhouser *et al.*, 2019; Willems *et al.*, 2014). This paper attempts to address these two problems in order to improve the implementation of sustainable solutions (SDG #17).

Evidence over the last two decades suggests need for additional forms of disclosure and more transparency, to address the abovementioned tax-exempt nonprofit suspicions and skepticisms

(Borek, 2005; Diamond, 2002; Gamble and Muñoz, 2022; Walker and Sipult, 2011). These calls are primarily driven by the existing regulatory landscape, one in which there is no consistent, comprehensive, and wide-accepted disclosure approach. And as a result, there is little agreement on how to assess and compare the value created by tax-exempt nonprofits in the US.

In response to McConville and Cordery (2018), who suggest that a remedy to these nonprofit suspicions would be to develop a framework that captures value elements (both financial and nonfinancial), we develop the scaffolding for a US tax-exempt <IR>. Our framework builds on the prior scholarship and suggestions that <IR> could be used in the public and nonprofit sectors (Adams, 2014; Adams and Simnett, 2011; Farneti and Siboni, 2011; Hassan *et al.*, 2019).

5.1. For policymakers

This paper builds on, and extends, the work on the social process of commensuration (Espeland and Stevens, 1998) by modifying quantification of impact, in a tax-exempt nonprofit setting. Certainly, the technical requirements underpinning commensuration (as in the Tsering's Fund example above) foster comparability, as entities are evaluated on seven common categories. It also serves as a critical component in making sense of the US nonprofit world. The deleterious consequences of commensuration are the disciplining effects of such metrics, and the elimination of crucial differences of the entities being compared, resulting in exclusion and potential injustices. This is due to the pressure to become commensurable, because the threat of being "incommensurable" (Espeland and Stevens, 1998) offers a power, embodied in the technical processes, wielded by forces beyond the control of those subject to it. In this way <IR> becomes a force of rationalization and institutionalization that brings order and organization to

US tax-exempt nonprofits through making diverse entities comparable “outside of individual subjectivity” (Espeland and Stevens, 1998, p. 329).

From a policy standpoint, regulated disclosure aimed at transparency as a process of commensuration is well suited to the objective of this paper. Tax-exempt nonprofits need measurement mechanisms to make sense of their categorical value (Lamont, 2012; Navis and Glynn, 2011). Second, the visibility of a US tax-exempt nonprofit commensuration process may speak to the taken for granted nature of the current system. That is, the processes of standardized disclosure are essentially processes of commensuration, and within the framework we suggest, make organizations more transparent, and readily comparable, while retaining their differences and uniqueness with respect to the prosocial activity woven into the organization. This makes their outputs comparable, social sustainability measurable, and their individuality apparent. It also serves to reduce emotional appeals to sympathies, which may otherwise lead to irrational behavior (Espeland and Stevens, 1998).

Without commensuration in the tax-exempt nonprofit category, organizational efforts may be overlooked or inadvertently deemed irrelevant (Espeland and Stevens, 1998; Vergne and Wry, 2014). From a policy standpoint, we recognize and address the fears and concerns of stakeholders (i.e., donors, government agencies, and managers), with respect to absence of value creation commensuration. Without commensuration, organizational leaders will continue working under high levels of uncertainty, and constituents (i.e., donors and governments), will struggle to identify differences between nonprofits. And without commensuration, society may lose grip on what it talks about and values, with respect to tax-exempt organizations (Espeland and Stevens, 1998). This is the exact entryway where policymakers can make a change in course.

5.2. In practice

Asking tax-exempt nonprofits to measure, audit, and communicate their outputs in a manner that justifies their tax-exemption will spur heated conversations about costs and benefits. Some may argue that using and moving towards a regulated a principle-based <IR> approach to performance reporting is costly. It is worth noting that substantial time and money being used on a yearly basis when US tax-exempt nonprofits prepare their annual reports and 990 filings. When the CEO of Tsering's Fund was asked to compare the costs and time of mapping his organizations value to the proposed tax-exempt nonprofit <IR> framework, his comment was that "It was an important and useful introspective exercise, that took no more time than our annual report development." He followed with "This is information that stakeholders can use to understand what we are doing, but we need other nonprofits to join in on this process."

But how does reliability and comparability improve with a 7-step framework? As mentioned, scholars have previously identified the deleterious issues with the IRS Form 990 data and the non-comparable nature of standalone annual reporting practices (Archambeault *et al*., 2015; Gamble and Muñoz, 2022; Gordon *et al.*, 2007; Scheetz *et al.*, 2021; Yetman and Yetman, 2012) as well as the existing US tax-exempt nonprofit reporting governance and reporting practices (Fremont-Smith and Kosaras, 2003; Gamble and Muñoz, 2020; Gordon *et al.*, 2009; Yetman and Yetman, 2009). As it stands there is limited, or no, reliable ways to compare what value is or is not created by US tax-exempt nonprofits. They are taken on their word. What we are proposing is a principle-based approach which, in line with the FASB conceptual framework, improves both relevance and improved reliability for the purposes of consistency and comparability.

The second practical question is how regulation and auditing/attesting of this framework would be carried out in the US tax-exempt space? Developing auditing/attesting requires buy in. To date, <IR> has scholarly evidence to support its benefits (Adams, 2014; Barth *et al.*, 2017) and momentum in the marketplace (De Villiers *et al*, 2017). Additionally, <IR> has the institutional support of the IIRC. For example, the IIRC has already developed a pathway for Accelerating Integrated Reporting Assurance in the Public Interest.[7] Having developed the concept of <IR>, over multiple years, the IIRC is a verified pillar of the implementation process. <IR> is as clear a pathway as possible for auditing/attesting, prior to regulation, by standardizing, obtaining sufficient evidence, assessing management controls and business processes related to value creation. As Espeland and Stevens (1998) suggest, this is a *process* of transforming qualities into metrics to direct and discipline. And in the US tax-exempt nonprofit space, this process is much needed.

Overall, practitioners must recognize that stakeholders are not long satisfied with the hope that US tax-exempt nonprofits are driving social and environmental outcomes that improve sustainable actions (Belal *et al.*, 2013). They want comparable evidence that is assured by a third party of improved understanding, information quality, accountability, and stewardship. The IIRC has the experience and skills to guide this endeavor. The tax-exemptions given to nonprofits, act as an important organizational classification mechanism (Vergne and Wry, 2014), as well as a

[7] https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/accelerating-integrated-reporting-assurance-public-interest

valuable competitive benefit. These exemptions warrant improved accountability standards, forcing leaders of tax-exempt nonprofits to justify distinctiveness, legitimacy, and membership in the tax-exempt category (Gamble and Muñoz, 2022).

5.3. For scholars

This paper offers several avenues for further research. Much like the sustainability reporting in the capital market space, additional uniformity of reporting in the US tax-exempt nonprofit space opens the door to empirical analysis on nonprofit heterogeneity. To date, scholars lack a holistic repository of comparable and accurate data to examine what tax-exempt nonprofits actually do and accomplish (versus what they claim to do). This paper offers research avenues for those interested in a signaling of sustainability and enforcement scholarship (Connelly *et al.*, 2011). Currently, verification of what tax-exempt nonprofits claim they do is largely left unchecked. A principle-based <IR> of value creation would support efforts to better understand and account for the transmitted information about a tax-exempt nonprofit's actions, and therefore hold tax-exempt organizations more accountable (Akerlof, 1970; Herbig; 1996). Alternatively, this paper opens pathways for <IR> scholars to subcategorize or assign tax-exempt nonprofits into subsets or classes (Durand and Paolella, 2013). Recent scholarship has identified the need to subcategorize such prosocial efforts (Shepherd *et al.*, 2019). We argue that efforts to subcategorize the levels of social value creation, from US tax-exempt nonprofits, would have similar outcomes and therefore contribute to the ongoing debates of tax-exempt nonprofit legitimacy, organizational justification, who nonprofits serve, and how they fit into the bigger picture of market efficiency (Navis and Glynn, 2011; Vergne and Wry, 2014). Perhaps future scholarship could develop and test a weighted index with a range of values and a minimum acceptable score to be associated with the <IR> framework in this paper.

5.4. Limitations

Commensuration of US tax-exempt nonprofit impact does create some challenges. Some aspects of life are difficult to measure, value and compare, and are therefore deemed incommensurable (Raz, 1986:326.29). Espeland (1998) gives a perfect example of the threat to Yavapai ancestral lands, by a dam, as incommensurable. Numbers can be manipulated, misrepresented, gamed, reactive and threatening to identity and power (Espeland and Sauder, 2007). In terms of measuring impact (not outputs), there are conceptual and practical limitations in its application (Nicholls, 2009). Even so, a range of stakeholders continue to be interested in commensuration activities, because they are closely linked to evidence-informed decision making. For example, such processes have helped to address questionable motives or duplicitous behaviors through audit and governance (Espeland and Stevens, 1998); to appreciate the benefits of wellbeing training in nonprofit lending (Gamble, 2018); to realign strategies in government funded health care (Gamble *et al.*, 2019); and to change education and environmental practices (Smith, 2018).

Despite the potential benefits attached to <IR> usage in the US tax-exempt nonprofit setting, it is worth noting that Stubbs and Higgins (2018) identify the need for more guidance within the current <IR> regime and have expressed concern with the current voluntary nature of reporting. Also, Feng *et al.* (2017) call for more conceptual consensus, between stakeholders, on what <IR> should be and how it should be implemented. Some argue that the characteristics and measurement of a high-quality integrated report need further clarity to determine true integrated reporting adoption (De Villiers *et al.*, 2017). This essentially recognizes that <IR> has garnered enthusiasm for its associated benefits but continues to evolve in response to a range of factors such as prevailing laws and level of economic development (Jensen and Berg, 2012) as well as institutional structures that foster trust (Chaidali and Jones, 2017).

6. Conclusion

US nonprofits are critical actors in the efforts to address the global inequalities described in the United Nations Sustainable Development Goals (UN SDGs). However, there are two critical issues with US tax-exempt nonprofits – organizational accountability boundaries and impact assessment – which left unresolved slow the implementation of the UN SDGs. In this paper we ask and then answer the question of whether or not it is time to clean up tax-exempt nonprofit reporting in the US? We address this question by examining the extant literature and by developing a comprehensive <IR> framework for US tax-exempt nonprofits. This <IR> framework emerges from the dual lens of commensuration and impact. For a framework to commensurate the activities of tax-exempt nonprofits, several forms of value output creation should be considered: financial, manufactured, intellectual, social and relationship, natural and systems. The <IR> framework offered in this paper has implications that extend to challenges of accountability, legitimacy, and sub-categorization. In doing so this paper responds to global sustainability issues of US tax-exempt nonprofits, namely, chaotic reporting, limited reliability of performance outcomes, and virtually no oversight.

Recent changes in the standard-setting landscape see the <IR> contributing to the development of concepts and principles supporting the new International Sustainability Standards Board. We contribute to the trends in the sustainability policy conversation by demonstrating how <IR> can contribute to the nonprofit sector as well as continuing to offer benefits to for profit companies' reporting. Our paper demonstrates why policymakers, nonprofit managers, and scholars should continue to push for maximum impact from US nonprofits.

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Table 1. An integrated reporting comparison: commercially oriented organizations and tax-exempt nonprofits

COMMERCIALLY ORIENTED ORGANIZATION		TAX-EXEMPT NONPROFIT	
Integrated report component	**Definition**	**Integrated report component**	**Definition**
Financial Capital	The pool of funds, obtained thgough financing, for use in the production of goods or services.	***Financial Value***	The donated sources of funds (from individuals, corporations, or grants) and the uses of donated funds, to create prosocial value.
Manufactured Capital	Physical objects that are available to an organization for use in the production of goods or the provision of services.	***Manufacturing Value***	The physical objects and infrastructures created for others to reduce inequality.
Intellectual Capital	Knowledge based intangibles that provide competitive advantage.	***Intellectual Value***	The knowledge pools (both internal and external to the organization) that fosters positive change/trajectories for disadvantaged communities.
Human Capital	People's skills and experience, and their capacity and motivations to innovate.	***Human Value***	The skills and experiences of those inside the firm to enable and foster skills, experiences and competencies of those of beneficiaries outside the firm.
Social & Relationship Capital	The institutions and relationships established within and between each community, group of stakeholders and other networks to enhanse individual and collective well-being.	***Social & Relationship Value***	Similar to that of social and relationship capital, however one difference is the extent to which organization reports interrelationships between prosocial entities.
Natural Capital	Natural capital is an input to the production of goods or the provision of services.	***Natural Value***	The quantification and reporting of usage and replacement of renewable and non-renewable materials by the organization and the recipients of the tax-exempt nonprofit efforts.
		System Value	The recursive interrelationships of all six values. Describing their recursive and complex relationships to explain complicated and interrelated aspects of a nonprofit that may not be apparent to readers of the integrated report.