

Agency Theory and the Disclosure of
IRS Form 990 by Colleges and Universities

Dr. Larry W. Sayler

Greenville College
PO Box 159, 315 East College Avenue
Greenville, Illinois 62246

larry.sayler@greenville.edu

(618) 664 – 6818

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Dissertation Chair – Dr. Terry Truitt

ABSTRACT

Not-for-profit organizations occupy a special niche in the United States. They operate most frequently in certain industries – they are especially common in education, health care and research, and religious arenas – and are often heavily dependent on donations. Importantly, the “not-for-profit” status bestows on an organization an exemption from the requirement to pay income taxes on most earnings. In return for this special status, not-for-profit organizations have a unique obligation to the public. A significant portion of this accountability is achieved through IRS Form 990, Return of Organization Exempt from Income Tax, which most not-for-profit organizations must file annually with the IRS. It allows for accountability to the public because not-for-profit organizations are generally required to provide a copy of their Form 990 to anyone who requests it.

Agency theory deals with the interactions between a principal and an agent. It is most commonly used to provide a framework for understanding the actions of stockholders (principals) and senior managers (agents) in for-profit organizations. This study attempted to determine whether the disclosure of Form 990 by U.S. colleges and universities was consistent with agency theory expectations. It also compared the disclosure of Form 990 by evangelical-Protestant colleges and universities with the disclosure of Form 990 by other schools. A model for disclosure based on agency theory expectations was developed; Form 990 disclosure was determined for samples of U.S. colleges and universities; other characteristics of these schools were accumulated; and, finally, linear regression analysis was performed to determine which characteristics were good predictors of Form 990 disclosure.

This study had three key findings. First, the methodology utilized in this study was generally not useful for documenting the relationship between Form 990 disclosure and organization characteristics. Second, evangelical-Protestant schools were found to disclose Form 990 statistically significantly more than other schools. Third, regardless of religious affiliation many schools did not respond appropriately to requests for Form 990. Despite clear legal mandates, 52% of all schools sampled did not provide their Form 990 when it was requested, while full disclosure and incomplete disclosure together comprised a minority of responses.