Recent Research on Nonprofit Governance and the Role of Board in Financial Management

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Abstract: We examine relations between board size, managerial incentives and enterprise performance in nonprofit organizations. We posit that a nonprofit’s demand for directors increases in the number of programs it pursues, resulting in a positive association between program diversity and board size. Consequently, we predict that board size is inversely related to managerial pay-performance incentives and positively with overall organization performance. We find empirical evidence consistent with our hypotheses. The number of programs is positively related to board size. Board size is associated negatively with managerial incentives, positively with program spending and fundraising performance, and negatively with commercial revenue, in levels and changes.


Abstract: Eighty-five arts and culture nonprofits were surveyed to determine the extent to which their financial and managerial practices conform to Sarbanes-Oxley and the New Form 990. Approximately half of the sample had audit committees that included unpaid financial experts. Almost all of the nonprofits engaged external accountants or CPA firms to conduct annual audits, but only 40% required their ED or CFO to sign the financial statements. Approximately half of the nonprofits had conflict of interest forms, written ethics policies, and whistle-blower policies. According to the results, the most important reason for voluntarily complying with Sarbanes-Oxley (SOX) was because it promotes sound financial management and “contributes to an internal culture of transparency.” Compliance was less motivated by donor retention, board directives, or fear of governmental regulation. This survey found that the size of a nonprofit’s annual operating budget and its age are directly related to its level of compliance with SOX.
Abstract: Purpose
This paper examines the role that effective governance plays in driving the strategies of grant-giving foundations as it relates to supporting various types of charitable and philanthropy activities of public interest. Today, foundations are more than ever active as pivotal element of the so called ‘private welfare state’ all around Europe and the United States. While other forms of organizations involved in philanthropy and public welfare face competition (i.e. corporations), budget constrain (i.e. governments) or fundraising imperatives (i.e. NGOs), private foundations do not feel such a pressure and can, therefore, tackle social issues that other organizations may not. Despite this privileged position, the role of governance in such non-profit organizations is far from certain. Prior literature review shows the lack of empirical analysis related to the role of governance in foundations as they attempt to shape various projects of strong public interest.

Design
Given foundations’ unique societal role and obligations and the fiscal advantages enjoyed by them, the objective of this study is to explore the factors that drive their decision-making and resource allocation process and to examine the efficacy of their financial and non-financial resource allocation decisions. Using the data collected from 112 large Italian foundations, this paper studies the relationship between the governance mechanism and philanthropic strategies of private foundations.

Findings
The significance of the study is based on the fact that in the non-profit sector, more than in the for-profit one, board members are called to play a strong advisory role at the top of their traditional monitoring role. In other words, active boards are expected to screen relevant public needs and to properly invest foundations’ resources in meritorious projects; while inert boards risks to pursue private goals, camouflaged as public interest, and to dissipate resources by unconditionally financing unrelated grant requests.

Originality
This paper aims to empirically examine if and how different governance attributes associate with different philanthropic strategies. The choice of Italian foundations represents an ideal research environment considering the strong reduction of governmental social spending due to the financial crisis and the simultaneous increase in the social relevance of private foundations to support social causes of significance.

Abstract: We study the relation between stability of the nonprofit organization’s environment and its board structure and the impact of this relation on organizational performance from the perspectives of both Agency Theory and Resource Dependence (Boundary Spanning) Theory. The impact of board characteristics on organizational performance is contextual. Specifically, we predict and show for a sample of U.S. nonprofits that board mechanisms related to monitoring are more likely to be effective for stable organizations, whereas board mechanisms related to boundary spanning are more effective for less stable organizations. We find that the two theories are complementary and address different aspects of nonprofit performance, but the results are statistically stronger and more often consistent with resource dependence than with agency theory. Overall, this study supports Miller-Millesen’s (Nonprofit and Voluntary Sector Quarterly, 32: 521–547 2003) contention that, because the nonprofit environment is often more complex and heterogeneous than the for-profit world, no one theory describes all tasks of nonprofit boards.


Abstract: Illustrates basic financial concepts that all individual board members should understand. Jargon-free explanations are ideal for the board member new to financial responsibilities or to nonprofit accounting. Descriptions and sample statements offer clear guidelines for board members, individuals serving as treasure or on a financial committee, and staff working with the board.


Abstract: California’s passage of the Nonprofit Integrity Act in 2004, followed by the enactment of similar legislation in other American states, has resulted in a series of new financial reporting requirements for many larger nonprofit organizations. Chief among the provisions of several of these legislative pieces is the requirement for nonprofit entities to form separate audit committees. Following the lead established in the for-profit sector, advocates have strongly urged nonprofit organizations to include at least one financial expert among audit committee members to augment actual and perceived financial reporting integrity. However, advocates’ acknowledgement of the challenge of recruiting these individuals leads one to question their ultimate worth to nonprofit organizations. Recognizing the significance of this issue, this study investigates individual donors’ impressions regarding the inclusion of financial experts among nonprofit audit committee members. Using an experimental case as the basis for exploration, the study finds that donors generally do not perceive financial experts as enhancing the credibility
of nonprofit organizations’ financial statements. In light of the significance of individual donor contributions to entities’ continued financial sustainability, these findings represent potentially important considerations for nonprofit organizations as they weigh the costs and benefits of enlisting busy financial professionals for audit committee service.


Abstract: This dissertation assesses the relationship between board composition and financial performance for the top 71 major nonprofit hospitals in the United States during the period 2004-2009. The underlying data were collected from copies of IRS Form 990 available at http://www.guidestar.org. The dissertation investigates five factors: board size, board independence (percentage of outsiders), number of MDs, CEO succession and CEO compensation. And it evaluates the results within a multi-theoretic framework drawing on agency theory, resource dependence theory, institutional theory and social network theory. Corporate governance literature suggests that board composition has an important impact on firm financial performance. This dissertation examines whether the same may be true for nonprofit hospitals. The results should help hospital executives make better governance decisions during trying economic times.


Abstract: We examine whether donors reward nonprofit organizations that report better governance. From a sample of 10,846 organizations from 2008 to 2010, we first identify seven nonprofit governance dimensions using factor analysis. We then test whether the quality of governance influences donor decisions by including the seven governance factors in the standard donor’s demand model. We find consistent evidence that donations and government grants are positively associated with six of the seven factors that capture good governance, including formal written policies (e.g., conflict of interest), independent audits and audit committees, review and approval of executive compensation, board oversight (e.g., board independence), management characteristics (e.g., no related parties), and accessible financial information. Our results have implications for nonprofit managers and regulators. Moreover, mandatory disclosure of governance policies for nonprofit organizations provides an interesting contrast to mandatory adoption of governance policies for publicly traded companies.


Abstract: Nonprofit organizations rely heavily on their governing board of directors to provide leadership, strategic guidance, and financial oversight. As such, the extent
to which effectiveness of the board shapes the financial health of an organization is of great interest to both practitioners and the academic community. Drawing on 112 nonprofit organizations in Central Florida, the current study examined relationships among three areas of interest in the voluntary sector: board effectiveness, private philanthropy, and financial vulnerability. Results of the study suggest that board effectiveness is a significant predictor of an organization's financial health. Consistent with our expectations, the observed relationship between board effectiveness and financial vulnerability was strongest in nonprofit organizations that derived a majority of their funding from private philanthropy. Implications for practice and future research are discussed.


Abstract: Sequel to the fact that the financial information of non-profit proprietary hospitals in Taiwan has been called into question, the Department of Health, Executive Yuan, (2006/2) has established guidelines regarding the financial reports of medical juridical person, stipulating that these reports must be audited by a certified public accountant (CPA) to show that reported earnings are representative. However, non-profit proprietary hospitals still employ numerous measures to transfer hospital profits to individuals or corporate groups, indicating that earnings figures do not necessarily reflect operational performance. Previous studies have focused on researching earnings management behavior in non-profit hospitals in the UK and the U.S.; however, the operational system and environment of hospitals in Taiwan are significantly different from the cases studied and cannot therefore be considered equivalent. This study used non-profit proprietary hospitals in Taiwan and ordinary least square method to test our hypothesis about earnings management behavior. The empirical results show that CEO duality (CEO serving as chairman) negatively relates to earnings management. However, information transparency and social responsibility insignificantly relate to earnings management. On the other hand, discretionary accruals play an active role in earnings management.


Abstract: Not-for-profit organizations in South Carolina currently face a number of issues concerning corporate governance, accounting, and auditing practices. In a Research Service Learning project, the graduate Advanced Auditing class at Coastal Carolina University conducted a survey in conjunction with the Waccamaw Community Foundation, the Chapin Foundation, and the South Carolina Association of Non-Profit Organizations. The purpose of the survey was to gauge the overall knowledge of corporate governance, accounting, and auditing policies and to determine what, if any, practices and programs these organizations currently have in place. Students gathered and evaluated the information provided anonymously by the participating
Non-Profit Organizations (NPOs). Results were then compared to existing research of NPOs from across the United States when available. The goal in compiling this data was to determine areas for improvement that will possibly lead to better and more efficient accounting and stewardship practices in the future. By addressing the topics in the survey, the information can be used as a resource to help NPOs in South Carolina.


Abstract: Nonprofit organizations have historically depended on the board of directors for governing expertise in fulfilling its mission and for decision-making strategies in reaching long-term goals. Fundamental, however, to the organization’s success in reaching long-term goals is its ability to maintain adequate and predictable levels of funding. The goal of this quantitative correlational study was to test a social learning view of the public and a resource dependency view of the organization on a sample of nonprofit board members; in order to examine the impact of the nonprofit board’s financial behavior on the organization’s financial performance. Using a survey design, this quantitative study found a significant correlation between board member contributions and organizational financial sustainability; and between board member contributions and public financial support. A random sample of 246 participants was obtained from the target population of 589 nonprofit organizations that constitute the current organizational membership of a regional support center in North Texas. This research provided evidence which challenges the current mindset of nonprofit boards, supporting a radically different approach to nonprofit organizational financial soundness; placing the burden and obligation on the board of directors through personal financial contributions and the acquiring of board-generated major public financial support in the community. Examining and clarifying the relationship between the variables helps to support strategic board-generated funding strategies. Results suggest that healthy levels of total board financial participation help to strengthen and secure the nonprofit organization’s long-term financial sustainability; which in turn may help to revolutionize and strengthen the nonprofit sector as a whole.


Abstract: This study examines the impact of audit committees on the internal control quality of nonprofit organizations. Based on resource dependency theory that stresses an entity’s economic needs for internal control over administering federal funding, we select a sample of nonprofit hospitals subject to the Single Audit Act in the United States, from 2001 to 2008. Our results show that hospitals that had audit committees and also employed Big 4 auditors were associated with better internal control quality. In addition, we find that Big 4 auditors were negatively associated with
reported deficiencies of internal control over administering major federal programs in the early years (2001–2004), but positively associated with reported deficiencies of the same kind in the later years (2005–2008), suggesting a possible effect of the Sarbanes-Oxley Act.


Abstract: This longitudinal study of four not-for-profit organizations in the cultural sector examines the evolving relationship between boards and staff. Financial problems occurred as a result of enlarged physical facilities or increased programming. The study provides insights on how the behavior of boards and their relationships with executive leadership change during the phases of a crisis. The authors relate their findings to those of other governance studies on crises and alternative theories of governance. New insights on variations of trust and distrust may serve to explain the dynamics of change. This study contributes to the discussion of governance in the context of organizational crises in the not-for-profit sector.


Intro: We examine the extent to which governance mechanisms affect the decision usefulness of nonprofit financial information as reported on the Internal Revenue Service Form 990 (hereafter IRS 990). The primary purpose of our paper is to advance this literature by examining the extent to which existing nonprofit governance mechanisms mitigate the tendency for nonprofits to overstate their charitable ratios. Although a substantial body of accounting literature examines the relationship between governance and reporting quality in the for-profit setting, there is little evidence on the effects of governance on nonprofit reporting despite nonprofits’ significant role in the economy. To our knowledge, only two published studies address the question, and both have important limitations that restrict the generalizability of their results. The primary contribution of our study is that it is the first to consider the simultaneous effects of a comprehensive set of governance mechanisms across a broad sample of all types of nonprofit organizations. In addition, our study is also the first to examine data from the newly redesigned 2008 IRS 990. As discussed in more detail later, this major redesign of the IRS 990 was focused primarily on enhancing nonprofit disclosure, including governance policies, making this new data particularly well suited to our analysis (Bailey 2009).