FINANCIAL ACCOUNTABILITY IN NONPROFIT ORGANIZATIONS: THE IMPACT OF THE EVANGELICAL COUNCIL FOR FINANCIAL ACCOUNTABILITY (ECFA)

By

James A. Canning

A Dissertation submitted to the Faculty of Claremont Graduate University
in partial fulfillment of the requirements for the degree of Doctor of Philosophy
in the Graduate Faculty of Executive Management

Claremont, California
2002

Approved by:

Dr. Scott Cormode

UMI Number: 3046794

UMI®

UMI Microform 3046794

ProQuest Information and Learning Company
300 North Zeeb Road
P.O. Box 1346
Ann Arbor, MI 48106-1346

We, the undersigned, certify that we have read this dissertation and approve it as adequate in scope and quality for the degree of Doctor of Philosophy.

Dissertation Committee:

Scott Cormode

Dr. Scott Cormode, Chair

Dr. Don Griesinger, member

Joseph A. Maciariello

Dr. Joe Maciariello, member

ABSTRACT OF THE DISSERTATION

FINANCIAL ACCOUNTABILITY IN NONPROFIT ORGANIZATIONS: THE IMPACT OF THE EVANGELICAL COUNCIL FOR FINANCIAL ACCOUNTABILITY (ECFA)

by

James A. Canning

The Claremont Graduate School: 2002

Nonprofit organizations have long played a unique role in American society. Recent high-profile scandals, however, have raised questions regarding the accountability of these organizations to the public. The Evàngelical Council for Financial Accountability (ECFA) represents one attempt to improve the accountability of religious nonprofit organizations through self-regulation.

This study examines the issue of accountability in general and addresses the question of whether self-regulation, as practiced by the ECFA, has resulted in a higher level of accountability among its members than that displayed by other, similar organizations. It also looks at the nature of financial information currently being provided by nonprofit organizations to the public and whether religious organization are more or less accountable than similar secular entities.

The dissertation uses the standards of the ECFA and two secular watchdog organizations, the Better Business Bureau and the National Charities Information Bureau, to measure accountability. It surveyed 400 separate organizations inside and outside the ECFA. Comparisons show that ECFA-style self-regulation was effective, even when religion is factored out of the data. The study includes two important case studies involving

recent nonprofit scandals: Jim Bakker and the PTL Club, and New Era Philanthropy. The ECFA's role in helping resolve the New Era situation is also discussed.

The study demonstrates that ECFA members are, in general, more accountable to the public than similar not-for-profit organizations and that self-regulation, as modeled by the ECFA, can be an effective means for improving the level of accountability of this largely unregulated sector.

DEDICATION

Dedicated to the memory of my mother

Alice B. Canning

who sacrificed so much for her children.

ACKNOWLEDGMENTS

No project of this nature can be successfully completed without the help of many people. I would like to express my deepest appreciation to Professor Scott Cormode, my committee chair, for his unwavering support, guidance and encouragement throughout the course of this study. Also, to Professors Don Griesinger and Joe Maciariello, the other members of my committee, for their interest in this project, challenging insights and scholarly input. Throughout this process these men have not only been excellent teachers and mentors, but have become valued friends as well.

Sincere appreciation is also extended to Professors Dale Berger and David Drew for their guidance and counsel with the statistical portion of this study, and to Tiffany Berry and Jill Tronvig for their patience and help in providing much needed technical assistance in performing the various statistical analysis. Also, to David Parker for his careful reading of this paper and helpful editorial suggestions.

I would also like to express my sincere thanks to all those individuals who graciously gave of their time and effort in completing the survey forms and providing the financial information that made this study possible. And, to my friends and colleagues who provided much needed encouragement along the way.

And last, but not least, I extend my heartfelt appreciation to my beloved wife, Gay, for her understanding, patience and love, and for allowing me the time and space necessary to complete this project.

TABLE OF CONTENTS

Page

FIGURES

TABLES

Table		Page

CHAPTER 1

INTRODUCTION

Overview

In recent years, headline-catching scandals regarding fiscal and other improprieties in a number of different industries, and sometimes involving well known leaders, have served to highlight the need for greater accountability in both the private and public arenas. Perhaps nowhere has this received more publicity than in the largely unregulated not-for-profit sector; generally known for its altruism and the selfless dedication of its members.[1] In this study I have attempted to evaluate the current level of accountability demonstrated by certain segments of the nonprofit sector, as well as the effectiveness of one group's attempt at self-regulation of an important segment of this industry.

With well over one million separate entities and total income of almost $500 billion a year, the nonprofit sector has become one of the largest and most influential segments of American society. Its importance and benefits to the American way of life are well known. As with many industries in the 1970s and 1980s, however, it experienced its share of corporate scandals, fiscal irregularities and other assorted problems which only served to add to a growing public skepticism over the ethical practices found in business life today.

---

[1] Throughout this paper the terms nonprofit, not-for-profit, philanthropic and charitable are used interchangeably to refer to the wide range of organizations that make up this sector. These terms refer to non government organizations that are not profit seeking businesses and are exempt from state and federal taxation as a result of their charitable purposes.

In response to concerns over such incidents, in the late 1970s government legislators threatened regulation to deal with the situation. During this period, bills were introduced into Congress that would have greatly increased the amount of government control over nonprofit organizations. In an attempt to forestall such action, representatives of several major religious groups joined together to form the Evangelical Council for Financial Accountability (ECFA) as a voluntary self-regulatory body. Its purpose was to develop and monitor appropriate standards of fiscal accountability for religious nonprofit organizations, primarily those of the growing parachurch movement (*Eternity Magazine* 1978, 10).

Attempts at self regulation in an effort to avoid government intervention did not begin with the ECFA and have been tried (with varying degrees of success) by other groups. Faced with criticism over failure to detect a number of financial debacles involving a number of businesses in the mid-1970s, legislation was also introduced that would have increased government involvement in the audit process of public companies. In response to this pressure, the American Institute of Certified Public Accountants (AICPA) likewise forestalled government action by implementing its own peer-review and self-regulatory process (Sternberg 1992). Other professional bodies such as the American Bar Association, the American Medical Association and the various accrediting associations for higher education all provide similar forms of self-regulation for their industries.

Even with the ECFA's presence and influence, however, religious organizations have continued to suffer from financial scandals and mismanagement which have resulted in continuing calls for greater control over this industry. At the same time, the continued growth of the nonprofit sector has served to heighten the significance of this issue. As a result, it is important to ask if the ECFA has made a significant impact and whether or not self-regulation can really make a difference.

But ethical issues alone are not the only challenge facing the nonprofit sector. Like most industries in recent years, nonprofit organizations are facing the challenge of rising costs, increased competition for resources and a changing customer (donor) base. Historian Peter Dobkin Hall (1987) cites at least three major crises currently facing this sector which, at least to some degree, have impacted the current state of affairs in this industry. These include (1) greater expectations for nonprofit services by both federal and local governments (despite cutbacks in government funding), (2) insufficient professionalism and managerialism within the nonprofit sector, and (3) a crisis in nonprofit scholarship. The loss of public credibility as a result of scandal only makes it more difficult to deal with these issues. As a result, becoming more accountable is seen as increasingly important to this sector.

In the past, accountability was viewed mainly as the making available of financial information. But the literature on this subject goes far beyond just the providing of financial information. It also means the legitimate supervision of management by the board of directors, adherence to the organization's mission statement, the proper expenditure and accounting of funds, and regular communication with the organization's stakeholders.

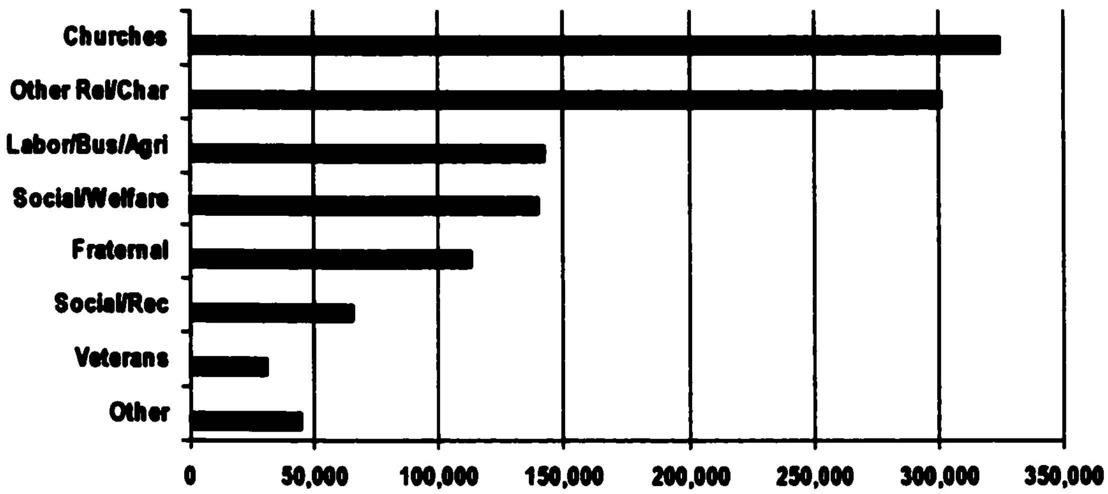
The primary goal of this dissertation is to evaluate the effectiveness of the ECFA in improving the accountability of its members and to examine the impact of self-regulation in an industry as diverse as the nonprofit sector. Has the ECFA really made any difference? This has been accomplished by comparing ECFA members with other nonprofit entities to determine the nature and extent of their adherence to the accountability standards set forth by the ECFA and two major nonprofit watchdog agencies; the Better Business Bureau and the National Charities Information Bureau. A further purpose is to ascertain how well the financial reporting practices of both ECFA members and other nonprofit organizations meet current public expectations. And last, this dissertation will use the literature on nonprofits and accountability to identify steps nonprofit organizations can take to become more accountable to their stakeholders. Comparisons between ECFA members and other religious oriented nonprofits, as well as secular nonprofit organizations with no religious affiliation, have also been made to determine if religious persuasion is an important factor in accountability.

The Nonprofit Sector in America

In spite of the attention that has been placed on the moral and financial failures of a few high profile leaders in recent years, the nonprofit industry in America today continues to be one of the country's most vital sectors in terms of public benefit with expenditures of approximately $500 billion a year and employing almost 10 million people (*Chronicle of Philanthropy*, 3 October 1996, 54). In addition, an estimated 93 million Americans are involved in volunteering time and effort each year in connection with the over 1.1 million not-for-profit entities currently registered with the Internal Revenue Service (*Chronicle of Philanthropy*, 17 April 1997, 37). In commenting on the importance of this sector, Peter Drucker (1990) calls America's nonprofit organizations "central to American society and its most distinguishing feature" (xiii). A similar view was expressed over 150 years ago by the French historian and political philosopher, Alexis De Tocqueville (1945), who called America's nonprofit sector one of its greatest strengths. Figure 1.1 shows the various categories of nonprofit organizations, by type.

Figure 1.1

Number of Nonprofit Organizations in America - By Type



Source: ***The Chronicle of Philanthropy*, October 3, 1996**

While there is a long history of charitable activity in this country, the concept of nonprofit organizations as a unified and coherent sector is a recent phenomena dating back little more than 30 years. Approximately 90 percent of the nonprofit organizations currently in existence have been established since the Second World War and it is only since about 1970 that such organizations have come to be viewed as an industry of significant financial impact (Hall 1992a, 3). The highly publicized problems of a few organizations in recent years, however, have cast a cloud over this sector and raised important issues that have served to form the basis of this research. Primary among these is the question of what does accountability by a nonprofit organization actually mean and how can it be effectively demonstrated to the public?

This research project focuses only on nonprofit organizations in the United States; however, it should be noted that the nonprofit sector is rapidly growing in other countries as well. Worldwide, nonprofit activities represent at least a $1.1 trillion industry employing over 19 million people. When measured by percentage of the workforce employed, Western Europe now leads the world in NGO (non-government organization) activity, excluding businesses.[2] As of 1994, the Netherlands had 12.4 percent of its workforce engaged in non-profit activities, followed by 11.5 percent in Ireland and 10.5 percent in Belgium. In the United States, the percentage is 7.8 percent (*Nonprofit World* 1999, 8). Because of state churches and the lack of a strong evangelical sector in many areas, particularly in Europe, religious oriented nonprofits comprise a far smaller percentage of charitable organizations in other countries than in the United States.

Nonprofit activity in America emerged from this country's Judeo-Christian heritage and has served as one of the major factors in improving the nations's social and community life. In a world in which a large percentage of its citizens are poor, market forces alone, given their nature and purpose, are unable to provide the necessary care and benefits needed

---

[2] The term NGO is frequently used in some countries to refer to charitable, religious, social and similar organizations carrying out such programs on a not-for-profit basis.

by many who are unable to afford them. The nonprofit sector helps fill this gap. While much of this need is already being met by government agencies, neither the efficiencies of the marketplace or the taxing structures of government can currently be relied upon to meet these needs (Brown 1994, xxx-xxxiii; Bogart 1995).

The importance of charitable activity in American life was no doubt envisaged by Thomas Jefferson who wrote, "I deem it the duty of every man to devote a certain portion of his income for charitable purposes" (Rosenburg 1994, 190). The concepts of philanthropy (charity) are not solely an America idea, however, but are as old as human society itself.[3] Historically, philanthropy grew out of the obligation in almost all primitive societies for the family, clan or tribe to take care of its members and to see that each was adequately fed, clothed and sheltered. During the early Christian era, up through the middle ages, much of this activity came to be performed by the church. As society became more complex and government assumed a greater role, many of these activities, which today are considered welfare, were assumed by the state (Bakal 1979, 19). As tax and other laws were developed to control charitable endeavors, institutions such as hospitals, schools, rescue missions and other non-governmental social benefit programs were lumped together into what is today commonly referred to as the "nonprofit", "independent", or "third sector" (Hall 1992a).

Also contributing to the growing complexity of this industry are both the increasing level and variety of social needs and the diversity of programs required to meet them. For the most part, programs such as those for AIDS victims, the homeless, street children and

---

[3] The word "philanthropy" comes from two Greek roots which mean "love of mankind", and is the basis from which modern charity has evolved.

drug rehabilitation are relatively new, at least in terms of the size and scope of the problem today. In addition, the skills necessary to treat many of these needs can be highly professional in nature and expensive; often requiring costly equipment and long term care. A third factor is globalization and the importance of individuals, and nations, in helping those less fortunate in a global society. Globalization has brought these needs much closer to home and charity is no longer limited to a nation's own borders. A large number of nonprofits in both the United States and other developed countries today are actively involved in helping people in less developed countries and many first world governments, including America, provide support for such programs as a form of foreign aid and political goodwill.

In America, religious teaching has played an important role in the growth and development of the nonprofit sector. This is evidenced by the fact that a majority of its social institutions including schools, hospitals, orphanages, homeless shelters and many similar social service programs were all founded by religious organizations. It also helps explain why over fifty percent of all nonprofit organizations today have some sort of religious affiliation or heritage (Hodgkinson 1989).

While recognizing the benefits of a voluntary system as a provider of collective societal goods, Salamon (1995) warns of "philanthropic insufficiency" as a limiting factor. This means that because not everyone is willing to contribute to meet such needs voluntarily, there will never be enough resources to do all the work needing to be done and ultimately the government is forced to step in. Because the transaction costs of government doing this are so high, however, a strong voluntary sector to work in cooperation with the government is necessary in order to achieve the greatest common good at the lowest cost. To encourage this cooperation, tax laws have been structured so as to provide incentives for charitable giving. As a result, America has developed the world's largest and most sophisticated nonprofit sector. It has served as a model for other nations and continues to lead the way in innovation and development of this important national resource.

Importance of Research on This Sector

The growing importance of research on this sector has been noted by many writers including Hall (1987 & 1992b), Hodgkinson (1988) Kearns (1992), Billitteri (1997), and Griesinger (1996), just to name a few. In response to this challenge, during the past few years there has been a significant increase in interest in the field of nonprofit research. This is evidenced by the growing body of literature on this subject as well as the creation of at least six new research centers recently established in the United States for this purpose. It is currently estimated that during the past decade or so there has been more research into the nonprofit sector than in the previous fifty years (Kramer 1992). To date, most research has been focused primarily on the economic and political factors of nonprofits; however, researchers are now beginning to look at some of the more broader, managerial issues of nonprofits. (Hall 1992b, Hannsman 1980, Rose-Ackerman 1986, Salamon 1995, 1987; Weisbrod 1988).

While much is being done, the current level of research activity still has a long way to go before its scope and quality match the social significance of the nonprofit world itself. According to Robert Payton, Scholar-in-Residence in Philanthropic Studies at the University of Virginia, one of the problems in developing research on this sector is the amorphous nature of philanthropy as a subject. It overlaps a number of fields including sociology, organizational behavior, management, ethics, sociology and religion. A further constraint is that there is currently no agreed upon taxonomy or body of theory to be tested (Payton 1988, 260-273).

In addition to merely satisfying academic interests, research on this area is important for more practical reasons as well. Speaking on this more pragmatic level, Hall (1992b) states that "research [on this sector] has become increasingly important in the efforts of tax-exempt organizations to formulate guidelines for self-regulation.....and to protect themselves from outbursts of regulatory enthusiasm" (243). It is exactly this type of regulation that the ECFA was organized to help prevent. At the same time, there is also a call for more research that will help nonprofit leaders address some of the operating challenges they are currently facing.

In applauding this increase in nonprofit research, Billitteri (1997) notes that much of the research in the past has been "so esoteric or narrowly focused that people running non-profit organizations say they rarely can use it" (31). On a more positive note, he also observes that membership in the 26 year old Association for Research on Nonprofit Organizations and Voluntarily Action (ARNOVA) has jumped 78 percent in just the past three years (31). A goal of this dissertation has been to do research that is both academically sound, but will have some practical value for the nonprofit industry as well.

While there are many good reasons for studying this sector, Griesinger (1996) states that both the sheer size of this industry and the place it holds in our society are reasons enough. Another reason, I believe, is its rapid rate of growth. As late as 1940, America had only 12,500 nonprofits whereas by 1993 the number had reached almost 1.3 million; a 10,000% increase in just over fifty years (Sealander 1997). Expenditures by nonprofit organizations have also been growing at a rapid rate; from a mere $18 billion in 1960 to almost $500 billion by 1992 (See Figure 1.2).[4] This sector continues to grow by approximately 30,000 new entities each year as societal needs increase and state and federal governments are happy to let the nonprofit sector help meet these challenges. Since 2000, this trend has been exemplified by President Bush's "Faith Based Initiatives" efforts which would allow greater flexibility in channeling Federal funds to religious based organizations to fund certain charitable activities.

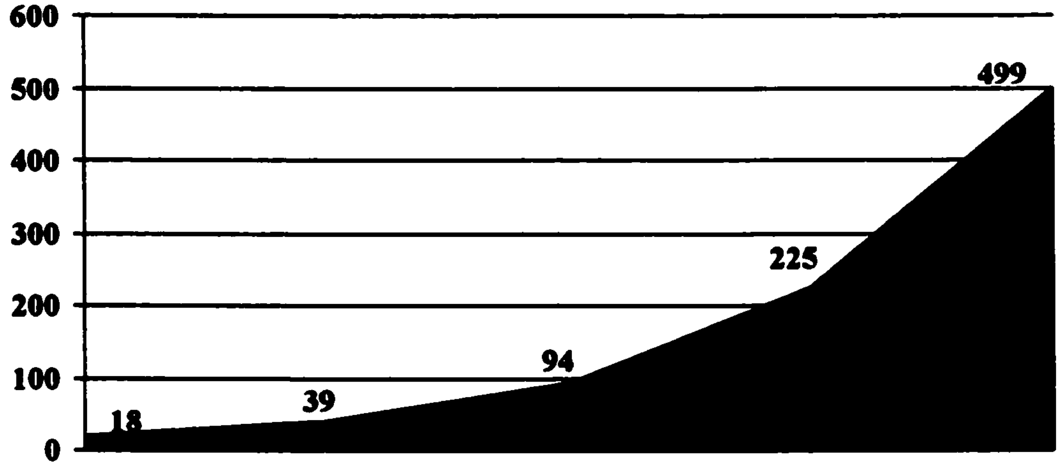
In discussing the issue of accountability by nonprofit organizations in general, Jeavons (1994b) observes that, while unethical practices are *not* considered unusual in some businesses, Americans, as a whole, expect their philanthropic organizations to show higher ethical standards for openness, integrity and accountability than business or governmental entities (26). At the same time, religious organizations offer special challenges not found in other industries due to theological views which may be considered by some as being contrary to public accountability. Often, leaders in religious organizations will use the argument that giving is an act of worship and therefore they, and/or the organization, are only accountable to God, not man, as a reason for not disclosing financial information.

---

[4] This represents only the amount of actual funds spent on programs. It does not include the value of contributed services by volunteers which, according to the Independent Sector, totaled approximately 180 million hours in 1995.

Figure 1.2

Growth in Total Operating Expenditures
Of Nonprofit Sector (in billions of US dollars) 1960 - 1992



Source: *The Chronicle of Philanthropy*, October 3, 1996

But while much attention has been focused on the unethical actions of a few, the vast majority of nonprofit organizations operate in a highly responsible manner. Good accountability is not so much about trying to catch offenders but helping organizations to maximize their effectiveness. This means not only ensuring that proper management control systems are in place, but that the organizations are following their mission statements and addressing the concerns of their stakeholders as well. The proper handling of finances is only one (albeit an important one) aspect of this job.

Much has been written about the need for greater accountability by charitable organizations; however little research has been done on what this actually means or what constitutes an appropriate level of accountability. Is it even measurable? Unless these issues are addressed, concerns over this industry will continue and the overall effectiveness of these important institutions will suffer. According to Kenneth Albrecht, president of the National Charities Information Bureau, "a rise in public skepticism could be the most serious problem philanthropy will face in the next few years" (Schene 1991, 216).

Focus of Research

The main focus of this research project deals with the issue of accountability in nonprofit organizations with particular emphasis on the impact of the twenty year old self-regulatory group, the Evangelical Council for Financial Accountability (ECFA). Is the nature and level of accountability practiced by its members significantly different than that of other nonprofits? And, if so, does the evangelical religious nature of its members play an important part?

Since the development of the modern corporation, financial results have been the primary means of measuring corporate performance and determining management effectiveness through what is commonly referred to as the "bottom line." Profit or loss has become the scorecard by which performance is measured, and little else matters. Because nonprofits lack such a standardized basis of measurement, for years this has been used by some organizations as an excuse for not providing public reporting of their finances at all. In addition, little attention has been given to finding other measurements by which to evaluate these organizations.

But the absence of a bottom line does not remove the importance of fiscal responsibility or measurement.[5] Unless an organization can operate within its means over time, it will not survive. It must generate sufficient income not only to pay ongoing operating expenses, but, in many cases, to cover the cost of expensive equipment, facilities and other capital needs as well. With the growth in size and financial resources now represented by this sector, there is an increasing demand for better financial management, as well as accountability, throughout the entire industry.

The ECFA has sought to meet this challenge through a set of membership criteria which include standards for board oversight, annual audits, fund raising practices and financial reporting. At the same time, other "watch dog" agencies such as the National Charities Information Bureau and the Charities Review Council (the nonprofit arm of the Better Business Bureau) have called for similar standards for all nonprofits as well. The degree to which certain segments of this sector are meeting these standards has formed the major focus of this research.

The Evangelical Council for Financial Accountability (ECFA)

In response to calls for greater financial transparency by the nonprofit sector, the ECFA was founded in 1979 to encourage voluntary financial disclosure by nonprofit religious organizations (Eternity Magazine 1978, 10). In addition to public disclosure of

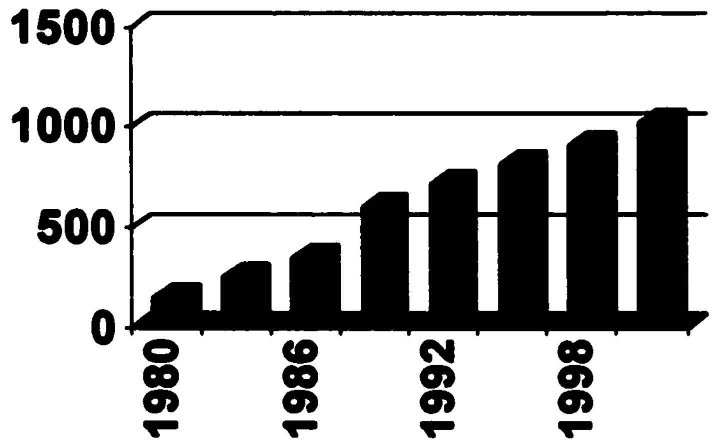
---

[5] From a technical accounting standpoint nonprofit organizations do have a "bottom line", the excess of income over expenditures for a given period; however, it does not have the same impact as the bottom line in the traditional business sense which is intended to measure profit.

finances, six other standards were developed to form the seven basic standards required for membership in the organization. Compliance with these standards, along with payment of an annual membership fee, allows an organization to be listed in the ECFA membership directory and the use of the ECFA membership seal for advertising and fund raising purposes.

Figure 1.3

Growth in Number of ECFA Members
1980 - 2001



Source: ECFA

The ECFA is governed by a board of directors representing both its members and the public at large. There is also a Standards Committee composed of members and outsiders which monitors member adherence to the standards and oversees an ongoing program of compliance review. Since its founding, the ECFA has grown to over 1,000 member organizations with a total combined annual income of over five billion dollars (See Figure 1.3).

Unlike some nonprofits, such as schools and hospitals, which receive much of their revenue from user fees, grants or government subsidies, the vast majority of ECFA member income is received through small contributions from individual donors giving voluntarily. While representing only a small segment of total religious nonprofit entities, the ECFA has been successful in attracting many of the leading organizations in the parachurch movement to its membership.[6] As a result, its overall impact is far greater than simply total membership numbers might imply.

Given the apparent success of ECFA, and the fact that the ECFA is one of the first major efforts of its kind to help address the issue of accountability among nonprofit organizations, this leads to the following hypothesis:

> H-1 *ECFA member organizations exhibit higher standards of accountability, as measured by currently established standards, than non ECFA member organizations.*

If the ECFA has been successful, then member organizations should reflect higher levels of accountability than other similar groups as measured by current standards of accountability. If they do not, then the real impact of the ECFA is subject to question as is the ability of self-regulatory efforts to make a significant difference, at least among this sub-section of the nonprofit industry as a whole.

---

[6] Parachurch organizations represent primarily religious oriented nonprofits formed to provide specialized religious or social programs such as missionary work, Christian schools, youth programs, rescue missions and religious broadcasting. They are generally operated and supported by individuals associated with evangelical religious churches or beliefs.

Because the ECFA came out of the religious sector, and it's members represent primarily religious oriented causes, this leads to the following related hypothesis relating to the impact of religion on accountability.

H-2 *Overall, religious organizations exhibit higher standards of accountability than non-religious ones.*

Due to their very nature, it would seem that religious oriented organizations would exhibit greater standards of accountability than secular ones. This is based on the assumption that the very moral foundations and teachings of these organizations will be reflected in the way in which they are operated. Religious organizations have long enjoyed an implicit degree of trust by most individuals, although this has been tarnished somewhat in recent years. Whether or not religious organizations differ significantly from other groups in terms of accountability is important in terms of establishing general standards for larger segments of this industry.

In recent years the Evangelical Community (as it is frequently called), the primary focus of the ECFA, has become an increasingly important subgroup of both the religious and nonprofit sectors. Individuals holding evangelical religious beliefs have now become the largest and most active component of American religious life, and are the main supporters of the modern parachurch movement. They currently represent almost one-third of the nation's population and have been primarily responsible for the explosive growth in parachurch organizations during the past 50 years. By some estimates, parachurch organizations now represent almost 10 percent of all nonprofit organizations in this country

(Willmer, Schmidt and Smith, 1998, 103-105).[7]

In a major recent study of the ECFA, Goldsmith (1996) noted that, while some improvements were needed, overall the organization has been effective in carrying out its mission. Because of this, it is now being viewed as a model for emulation by other industry groups. As a pioneer in the area of nonprofit self-regulation, perhaps its greatest contribution has been in establishing a meaningful set of standards that such a large number of organizations are voluntarily willing to follow. Without a significant amount of voluntary compliance by the entire group, effective self-regulation is not possible. Goldsmith also concluded that further research was needed regarding both the content of financial statements prepared by nonprofit organizations and the nature of public reporting as well. One objective of this dissertation has been to build on the work of Goldsmith by doing further research into these two areas.

Goldsmith's work focused primarily on determining how successful the ECFA has been in terms of public recognition of its seal, growth in its membership and compliance by ECFA members with the organization's standards regarding financial disclosure. Growth in membership was evaluated by looking at membership statistics of the organization over its history (approximately 17 years at the time of study). Public recognition of the ECFA seal was tested by sending hypothetical charitable solicitations to a sample of 477 individuals, some with the ECFA seal and some without, asking recipients to judge which organization they would be most likely to support. Determining compliance with ECFA standards

---

[7] Using the frequently cited number of 1.1 million nonprofit entities currently in existence, this number could be as many as 110,000 organizations.

regarding financial disclosure was limited to requesting financial statements from a sample of members to see if the organizations would provide them. Goldsmith did not do testing of any non-ECFA member organizations and therefore made no comparisons with other groups.

In summarizing his work, Goldsmith indicates that an analysis of the differences in financial disclosures between various types of organizations was needed to see if different types of organizations do a better job of financial reporting than others. He further recommended more research on the contents of nonprofit financial statements. To address these issues, my work included a survey of 400 different nonprofit organizations and a detailed review of 117 financial statements provided by the organizations surveyed. These included financial statements from ECFA members as well as nonmembers; both religious and nonreligous in nature.[8]

As set forth in the Methodology section following, I also looked at other aspects of the ECFA's influence to see if ECFA members demonstrate higher levels of accountability than other, similar nonprofits and whether the financial reporting of ECFA members is significantly different than nonmember organizations. Through this research I have sought to answer the following questions: (1) do ECFA members show greater levels of accountability than other nonprofits as measured by the standards of the ECFA and other major watch dog agencies? (2) do ECFA members, on average, have lower overhead cost ratios than other nonprofits? and (3) is the financial reporting of ECFA members

[8] As my professional background is as a CPA with specialization in the field of nonprofit accounting, I felt qualified to undertake this type of analysis.

significantly different than that of nonmembers?

Statement of the Problem

The main research problems addressed in this dissertation deal with whether self-regulation, as practiced by the ECFA, has resulted in greater levels of accountability among its members than that displayed by other nonprofit organizations, and whether evangelical religious persuasion is an important factor in accountability by religious nonprofit organizations? If the answer to the first question is "yes", then the ECFA can be viewed as successful and a potential model for improving accountability by other sectors of the nonprofit industry, especially among organizations where government regulation or oversight is limited by law or other reasons. If the answer is "no," then self-regulation as practiced by the ECFA has not been successful and other approaches may be needed if greater government regulation is to be avoided. Further, if evangelical religious beliefs are determined to play an important part in the accountability displayed by these organizations, then the broader influence of the ECFA as a model may be limited to only those organizations holding the same, or similar, religious beliefs.

Research Questions

In order to address the above issues, this dissertation will seek to answer the following research questions.

1. Does self-regulation as practiced by the ECFA result in greater levels of accountability among its members than other nonprofit organizations?
2. Can the effect of the ECFA on the accountability of its members be explained by self- selection according to subculture?

A. Are ECFA member organizations more accountable than other evangelical organizations?

B. Are ECFA member organizations more accountable than other religious organizations?

C. Are religious organizations more accountable than non-religious ones?

3. Are larger nonprofit organizations (both within the ECFA and without) more accountable than smaller ones?

4. Are the overhead ratios of ECFA members lower on average than those of other similar organizations?

5. Do the financial statements currently made available by nonprofit organizations meet public expectations?

6. Are the financial statements of ECFA members significantly different than those of nonmember organizations?

Contributions of Study to Theory and Practice

While much has been written on the subject of accountability, I found little practical guidance on this topic. This study provides a background on the theoretical foundations of this subject from the literature and its development during the past few years. It also discusses current industry standards and provides empirical data on how those standards are being applied in actual practice. Further, it documents through statistical data the impact of the ECFA on influencing the accountability of its members. Chapter 5 provides a model showing the key elements of accountability discussed in this paper which organizations can use in evaluating their own accountability structure.

CHAPTER 2

REVIEW OF LITERATURE

The Challenge of Accountability

The need for greater accountability by not only not-for-profit entities, but by business and government as well can be easily seen by even a cursory reading of most major newspapers today. Excessive salaries, fraud, illegal political contributions, insider trading, lying, report falsification and similar activities have become an all too common reflection of modern corporate life. In recent years, the names of Ivan Boesky, Michael Milken, Martin Siegel, Dennis Levine and even former president Richard Nixon have become synonymous with unethical behavior at the highest levels. Unfortunately, such behavior has not been limited to just a few isolated individuals. Major American companies, as well as smaller ones, have been involved in similar behavior as well.

During the past few years, Beech-Nut Company sold sugar water advertised as apple juice for infants, E. F. Hutton & Co. pled guilty to 2,000 felony counts for price fixing, Lockheed Corporation paid bribes in an attempt to influence foreign buyers, and Metlife Insurance agreed to refund premiums to approximately 60,000 policyholders for improper solicitation, just to name a few. Such incidents have become so widespread that a recent survey by the Gallup polling organization revealed that 86 percent of the American public believes that corruption in business today is either a serious or extremely serious problem in

American society (Wuthnow 1994, 81). At the same time, recent scandals in organizations including the United Way, Episcopal Church of America, New Era Philanthropy, National Baptist Convention and Praise the Lord (PTL) ministry all point to a similar problem in the nonprofit sector as well.

No doubt partly due to this situation, in a recent study of business leaders, Bole (1990) concluded that "self-indulgent permissiveness has become so pervasive and corrosive that executives have lost confidence that their employees and colleagues will act in ethically responsible ways." Nor is this problem limited to American organizations. Randall (1989) reports similar concerns in the United Kingdom and corrupt business practices (at least by American standards) are commonplace in many countries.[1] In response to this "crisis in morality," as some have called it, various approaches have emerged. These include greater emphasis on moral issues and values in business school curriculum, corporate ethics statements and enforcement officers, calls for increased regulation and the creation of self-policing bodies such as the ECFA. In addition, the United States Internal Revenue Service has recently implemented stiff penalties for the payment of excessive salaries or benefits to nonprofit employees to help curb such abuse.

The challenge of controlling human and corporate behavior is not new, however. It has been the historical driving force for many initiatives, including the Federal Trade Commission, the Securities and Exchange Commission, the Public Utilities Commission, and a host of other governmental regulatory bodies. Similarly, this problem is not new to the

---

[1] For further information regarding charities in the United Kingdom, see *Monitoring and Control of Charities in England and Wales*, published by the Commons Committee of Public Accounts, London: 1988.

nonprofit sector either. Concern over money practices and corruption within the Catholic church was one of the major causes of the Protestant reformation over 400 years ago.[2] In more recent history, questions over the handling of funds by Clara Barton, the highly regarded founder of the American Red Cross, were so strong in the early 1900s that they prompted a Congressional investigation which ultimately led to her resignation from the organization (Lake 1977, 80).

Accountability does not operate in a vacuum, however, and is closely intertwined with issues of agency, corporate culture, trust, reward systems, management control and stakeholder expectations. Paine (1994) notes that unethical business practices are rarely the sole result of personal character flaws, but are a reflection of an organization's entire operating culture. Murphy (1989), writing in the *Sloan Management Review*, supports this view indicating that ethical business practices stem from an ethical corporate culture (81). Ethics are as much an organizational issue as a personal one. At the same time, society is increasingly seen to be following a philosophy of cultural relativism in which there are few, if any, ethical absolutes (Rae and Wong 1994; Kanungo and Conger 1990, 228-256). Without some agreed-upon standards, accountability is at best a hit-or-miss proposition.

For many years the profit ethic has been the traditional standard of business conduct in capitalistic systems. According to this standard, decisions are made solely (or at least primarily) on the basis of which alternative will contribute the most to profits. Over the years, a whole body of literature has developed in support of this concept which gave the

---

[2] These included the selling of indulgences for the forgiveness of sins and financial considerations used to influence papal selection and eccleastical appointments.

businessman an ethical basis for pursing his economic self-interest (Petit 1967). Because nonprofits, by their very nature, are not intended to have profits, in the philanthropic sector this economic self-interest can reveal itself in other ways. This can range from outright theft to more subtle ethical lapses such as excessive salaries or other benefits, which we saw in the United Way, New Era and Jim Bakker scandals.

But not all accountability problems are strictly the result of unethical behavior. Many researchers have noted that the far larger share of weaknesses in nonprofit organizations are simply the result of inadequate oversight, poor controls, and lack of measurement focus (Murray and Tassie 1994; Taylor, Chait and Holland 1996; Herzlinger 1994; Green and Griesinger 1996).

When considering the issue of corporate responsibility, many are quick to point out the limitations of the corporate structure. In his classic opinion on this subject, Chief Justice John Marshall stated that "a corporation is an artificial being existing only in contemplation of the law. As such, it possesses only those properties which the character of creation confers upon it" (Bowie 1979, 58). Following this theory, the organizational view maintains that corporations cannot be held morally responsible for their actions, nor can employees of a corporation when they act as corporate agents because the organization is not a moral entity Strong actions by the government and courts in response to corporate wrongdoing in recent years, however, have clearly indicated that organizations can no longer hide behind such legal technicalities when it comes to corporate behavior. At some point, management must be held accountable for what happens in the organization. Accountability is what allows delegated authority to operate. Without accountability, there is nothing to prevent abuse.

Professional societies such as the American Institute of Certified Public Accountants (AICPA), American Medical Association (AMA) and the American Bar Association (ABA) have long served to promote ethical standards of behavior and a degree of control over their members. Membership in such organizations is intended to provide a means of assurance to the public as to the professional competency and conduct of its constituents. Providing such a function for an industry as large and diverse as the nonprofit sector, however, poses a much greater challenge. Its sheer size, diversity and lack of market incentives all serve to make this task more difficult. And, according to Bowie (1979), if standards of business conduct are to be effective at all, they must be adopted industry wide or it is not to the competitive advantage of an organization to follow them (505). In an industry with over one million entities, creating such consensus is all but impossible. Also contributing to this problem is the fact that, until recently, uniform standards of corporate accountability for this industry had not been defined or codified by any recognized professional body (Braiotta and Biegler 1981, 19).

Because corporations are inanimate objects, whatever happens in an organization is almost always the result of the behavior of individuals. As a result, management literature has long been clear on the need for controlling employee behavior if the best interests of an organization are to be served (Barnard 1938, Newman 1978; Albenese 1978). Particularly in the nonprofit world, both individuals and the organizations they represent must been seen as being accountable (and therefore trustworthy) if they are to attract the resources necessary to function.[3]

All organizations are comprised of individuals, each with their own purpose, ambitions and needs that they are looking to the organization to help fulfill. While organizations create formal structures to channel individual participants energy and efforts in the pursuit of organizational goals, it is inevitable that individuals will bring their own needs, purposes, and agenda to an organization. In so doing, they will seek to find ways of satisfying those needs and purposes outside of the formal structures if they cannot do so within them (Selznick 1948; Drucker 1974).

Because of both its size and nature, the nonprofit sector allows many opportunities for people to find fulfillment and purpose working in it. It also affords the opportunity for forms of inefficiency and self serving behavior which might be more difficult in other industries. Almost all scandals in organizations involve behavior intended to help satisfy some personal goal or need of the individuals involved at the expense of the organization. Adding to this problem is the fact that in many cases the individual(s) involved may not even be aware of what is behind such destructive behavior. In his candid book, "*I Was Wrong*," Jim Bakker (1996) discusses how personal ambition and needs led him to behave in a way he knew was wrong, but was somehow able to justify in his own mind, even though it ultimately destroyed the organization he had personally worked so hard to build.

Barnard (1938) indicates that one of the functions of the executive is to facilitate within the organization, "the synthesis of contradictory forces and to reconcile conflicting

---

[3] This raises the question of whether or not an organization can be trustworthy without being accountable but that issue was beyond the scope of this research project.

instincts, interests, positions and ideals." In recent scandals involving the United Way, New Era Philanthropy, National Baptist Convention and Jim Bakker's PTL Club, however, the top executive (CEO) was the individual involved. In these cases, more adequate control mechanisms were needed including effective board oversight which, in all four of these cases, was found to be lacking.

The challenge of aligning employee behavior with the goals of the organization has been recognized in several areas of management literature. It is fundamental to social exchange theory (Emerson 1976), transaction cost analysis (Williamson 1975), inducements (Barnard 1938) and work motivation theories (Locke and Henne 1986). It is also a fundamental issue in all management control systems. When it comes to the nonprofit sector, Fry (1995) cautions that attempts to enforce accountability with rules, threats and regulations in an effort to catch irresponsible acts will only serve to alienate the very people who bring the important voluntary spirit and drive to the nonprofit arena (192). The challenge, therefore, is to balance these factors in such a way as to increase the accountability of nonprofit employees and volunteers without destroying their philanthropic fervor in the process.

Conflicts of Interest

The potential problems resulting from conflicts of interest in an agency relationship have also been noted by many writers including Shaw and Barry (1989), Margolis (1979) and Covington (1994). A possible conflict of interest arises whenever a person (or persons) may personally benefit in some way as the result of a decision in which they have a part.

The conflict itself may not be the result of anything improper and can arise naturally as a part of an individual's normal responsibilities. An example would be a board member who is expected to vote on a contract that would result in work for his/her own company or one in which he/she (or a close friend or family member) has a financial interest. In such a situation, the individual should excuse him/herself from the discussion and not be expected to participate in the decision. In commenting on this issue, Petrick and Quinn (1997) warn that for those managers involved in serving the public (which would involve managers in most nonprofits), "a conflict of interest exists when any financial, social or political relationship or transaction could compromise or give the appearance of compromising an individuals objectivity, independence, or honesty with respect to his or her duties" (18).

Because nonprofit organizations have no owners and exist primarily for the benefit of society, the management of these organizations almost always involves an agency relationship where those in charge are doing so on behalf of others. Koontz (1967) points out that many forms of conduct permissible in the business world are forbidden to those bound by fiduciary ties. A trustee (which in this case would apply to the management and board of most nonprofit organizations) is held to a higher standard than the morals of the marketplace (93). For this reason, many nonprofit organizations have developed conflict of interest policies and both the ECFA and the two major nonprofit monitoring agencies have standards regarding this issue. The benefit of such policies is that they not only provide guidelines for employee behavior but, more importantly, help create a culture and philosophy that infuses the organization with a sense of responsibility (Paine 1994, 109).

Definition of Accountability

Currently, most formal definitions of accountability are found in the literature on public administration, political science and law. As a result, they generally appear more applicable to government bureaucracies and the public sector than to private nonprofit organizations. Further, notions of accountability can be interpreted very narrowly or very broadly. Kearns (1996) states that:

> the accountability environment is a constellation of forces–legal, political, sociocultural and economic-- that place pressure on organizations and the people who work in them to engage in certain activities and refrain from engaging in others (29).

A similar view is held by Dwivedi and Jabbra (1988). In their work on public sector responsibility and accountability they note five separate elements of accountability: administrative/organizational, legal, political, professional and moral (5-8).

Although there are many definitions of accountability, most writers on the subject agree that it involves an individual, or organization, being answerable to the public or a higher authority for actions taken *and* for the handling of resources received (Kearns 1994; Steckel and Lehman 1997; Jeavons 1994a). Lawry (1995) believes that accountability is not synonymous with external regulation, but relates to ethical self discipline and imperatives to disclose and justify all actions to organizational constituents as they relate to the organization's mission and purpose (p. 174). This is supported by Kearns (1996) who states that "accountability generally refers to a wide spectrum of public expectations dealing with organizational performance, responsiveness, and even morality of government and nonprofit organizations" (9).

Steckel and Lehman (1997) also support this view, indicating that accountability is more than just the sharing of audited financial statements. It includes the legitimate supervision of management by the board of directors and other oversight structures, effective representation of employee concerns, and regular communication with constituents; clients, donors, volunteers, employees, and funding sources (7).

The Nature of Accountability

Accountability in the nonprofit sector is much broader than it is in business and tends to be more nebulous. Hammack & Young (1993) cite a 1988 study of accountability in voluntary organizations in the United Kingdom which concluded that a major problem in achieving effective accountability in these organizations is the number of different meanings of the term and the multiple groups to which voluntary organizations may be perceived as being accountable. A similar conclusion was reached by Leat (1990) who points out that one of the difficulties in discussing voluntary sector accountability is that the concept itself is unclear. In a study of the distinctive qualities of third sector organizations, Ruckel (1993) found that whereas accountability in for-profit organizations is highly focused on market mechanisms, accountability in the nonprofit sector lacks a single focus and varies between sub-sectors, thus making comparisons among organizations difficult.

Adding to this challenge is the fact that voluntary organizations are accountable to a number of different, sometimes overlapping, and sometimes conflicting groups. Resource providers and beneficiaries are usually concerned with how much of their funds is actually spent on program, while governmental entities may be more concerned with how the charity impacts the community. Do the services the organization provides fill valid social needs, thereby justifying the tax and other benefits it receives? Accountability to the public generally focuses on whether funds have been properly handled whereas accountability to the government is more focused on benefits provided. In each case, the organization must be able to satisfy the concerns of the stakeholders involved.

Based on his study of this topic, Goldsmith (1996) concluded that recent scandals involving charitable organizations will make contributors want to evaluate the financial credibility of an organization before giving to it in the future (3). While this implies the need for some type of public financial reporting, there is no established standard of what credibility means and few individuals have the necessary background for making such an evaluation. The nature of financial disclosures, specialized accounting rules for nonprofits and the absence of common measurement standards all contribute to a general lack of understanding of nonprofit financial matters, even among board members responsible for the oversight of these organizations. Nor is this problem limited to nonprofits. In a recent study of 150 public companies with audit committees (as required by the Securities and Exchange Commission), only 22 percent, less than one-fourth, had even one member with a finance or accounting background as a member of their audit committee (Barr 1999, 49).

In discussing this issue, Chisolm (1995) warns that the increasing availability of information provided by nonprofits in their desire to be more transparent also carries with it the potential for misunderstanding or misuse of such information. He cites a study of financial reporting by major public companies which revealed that even a significant number of individuals who had invested money in the companies involved either did not understand or did not use the corporate financial reports provided to them (154). Anthony and Young (1994a), well known writers on nonprofit financial matters, also caution that industry norms and other ratios must be used with care as there is no assurance that such ratios have been calculated in the same manner (421-429). Therefore, the mere availability of information does not guarantee its proper use or understanding.

But financial information alone is only one element of accountability. Being accountable includes the whole realm of values, polices and practices, and board oversight that ensure that the organization is carrying out its mission in an efficient and effective manner.

The Increasing Demand for Corporate Accountability

While the issue of accountability has always been with us, the word itself is being used more and more and is seen with increasing frequency in management literature. A brief review of a number of management textbooks prior to 1975 as part of this study revealed only isolated references to the term. A review of more recent textbooks, however, found more frequent references to the topic. John Gardner (1990), a leading writer on leadership and the nonprofit sector, states that "the concept of accountability [today] is as important as the concept of leadership" (xiv). In the past this topic has been viewed primarily in terms of personal behavior, while today there is an increasing emphasis on corporate accountability as well. This can be seen in the growing number of lawsuits against major corporations for everything from bribery and outright fraud to polluting the environment (Shaw and Barry 1989, 180-184). But accountability is not just about avoiding wrongdoing.

Increasingly it is viewed as part of an organization's basic responsibility in exchange for the privilege of operating in a free society. In writing on this issue, Herman (1994) notes that:

> confirmation of the growing public expectations in this regard can be found in the growth in recent years of "watch-dog" groups like the National Charities Information Bureau, the Better Business Bureau,... and the *Evangelical Council for Financial Accountability*" [italics added], (198).

Clearly, the nonprofit industry has entered into an era in which public oversight and monitoring will become an increasingly important factor in the world in which they operate. As one of the key agencies in this role, a study of the ECFA and its impact should reveal important findings about the role that self-regulation can have in this regard.

Every nonprofit organization operates in society on the basis of an implied contract to provide some socially desirable benefit and is therefore accountable back to society to give an accounting of its performance (Ramanathan 1982, 370). This is the primary basis upon which tax exemption is granted to these organizations. While most people today tend to view financial reporting as the primary element of accountability, merely reporting back to the public on what has happened in the past may not be adequate. Schene (1991), among others, believes that accountability goes far beyond mere financial reporting and includes taking steps to ensure adherence to the organization's mission, purpose and values as well. This is consistent with the views of Drucker (1989b) who believes that adherence to the entity's mission statement is the primary starting point in accountability for public and private organizations (89).

In recent years, efforts taken to increase accountability by both profit and nonprofit organizations have included the appointment of audit committees (Ernst & Whinney 1988)[4], corporate ethical codes (Rae and Wong 1996), performance contracts (Eisenhardt 1989), values statements (Fritzsche 1995), and increased financial disclosures. Believing that still more is needed, Ralph Estes of American University has gone so far as to recommend reconstituting the current Securities and Exchange Commission (SEC) as the "Corporate Accountability Commission" (Makower 1994, 75-80). Herzlinger (1996) expresses a similar opinion by recommending the establishment of a corollary to the SEC specifically charged with monitoring nonprofit organizations, and, recently, the Internal Revenue Service has expanded both the nature and amount of information requested in its annual nonprofit reporting requirements (Form 990).

While greater government regulation is an option, it does not necessary follow that such action will be automatic if the industry fails to regulate itself. Noting both the cost and negative impact of greater government involvement, Weidenbaum (1979) warns that government regulation needs to be viewed as a very powerful tool, but only to be used reluctantly and with great care and discretion. Further, in a democracy there are limits to how far the government can go in controlling voluntary agencies.

In response to scandals in the nonprofit sector, writers such as author and social critic Carl Bakal (1979) have called for greater control and regulation of nonprofit organizations

---

[4] For a more detailed discussion of audit committees see *The Audit Committee: Functioning in a Changing Environment* published by the international accounting firm of Ernst & Whinney, Cleveland, Ohio, 1988, or similar publications on the topic available from most major accounting firms.

as well as a reduction in their number. On the other hand, no less a social philosopher and management authority than Peter Drucker (1991), a long time supporter of the nonprofit sector, has recommended that the government encourage a doubling of the amount Americans currently give to charitable causes, pointing out that virtually every success in solving social problems has been achieved by nonprofit organizations, not the government. Supporting this view, Russell Chandler (1992), former religion editor of the Los Angeles Times, predicts that accountability of nonprofits will become increasingly important in the 21st century as government is forced into greater partnership with these organizations (including the church) if it is to meet the growing social needs of the country (140-141). Evidence confirming this view can be found in the recent intention of the new Bush administration to contract with faith based [i.e. religious] initiatives to address social problems.

The Nature of Nonprofit Organizations

Nonprofit organizations differ from for-profit organizations in a number of ways; the most fundamental of which is the lack of direct ownership. They exist for the benefit of others, not for management or for stockholders. Under the law, charitable organizations are viewed as public trusts, existing for the benefit of society and accountable back to society for the resources they receive and benefits they provide. Due to the lack of ownership and the absence of a profit motive, they are much more dependent upon the external environment for both the resources to operate as well as the very privilege to exist. Because of this dependence, nonprofit organizations are generally viewed as open systems, characterized as having highly permeable boundaries and operating within rapidly changing social, political and economic environments (Scott 1992; Herman and Heimovics 1991, 24-25).

In the absence of direct ownership, both management and the board are expected to operate as agents of the public's interest in ensuring the proper functioning of the organization. Because nonprofits generally lack the guidance and discipline that the market place in most businesses provides, the board must assume the roles that owners and the market play in business (Herzlinger 1994, 52-53). This means that the board and management must determine, among other things, the nature and level of accountability expected by the environment and to which the organization will adhere.

Legitimacy is the status an organization must attain in order to exist and function in a larger social system and is always a status conferred upon it by others (Maurer 1971, 361). Conference of this status is normally based on the contribution the organization provides for its constituents or the larger public good. In the not-for-profit sector, legitimacy is conferred first by the state and Federal bodies that grant their tax exempt status, and in the broader public arena by those who support the organization. When the actions of those inside an organization raise questions as to the real good it is providing, or who is really benefiting from its activities, its legitimacy is called into question. Accountability is becoming one of the requirements for achieving legitimacy in today's marketplace.

Competition in the Nonprofit Marketplace

With over a million charitable entities in existence, competition for resources in this sector is high. This helps account for the large number of charitable solicitations received by the average person in any given year. It also creates additional challenges for those operating in this industry.

For years, students of management have been taught that competition was the primary regulator of business activity functioning to weed out inefficient, unproductive or unethical competitors. This generally works well in most business transactions where the customer is the direct (or indirect) user of the goods or services provided and is therefore in a position to evaluate the cost, quality and appropriateness of the items or services received. Except for churches and small local organizations, however, when it comes to charitable giving the donor (customer) frequently has little, if any, opportunity to see firsthand how the funds are used or to evaluate the quality of services rendered in comparison to other alternatives. Often, contributed funds are used in places where personal observation by the donor is not practical. Or, even if observable, in most cases donors would not be in a position to understand the underlying cost structures of the organizations or activities involved. In addition, due to the perceived uniqueness of most organizations (at least in their own minds), it is very difficult to compare the cost effectiveness of one charitable organization with another.

Another factor is the way in which charitable funds are raised. Direct mail and phone solicitation provide little opportunity for close investigation by potential donors and there is always the possibility that the organization doesn't exist at all. It takes very little money to set up a charity and therefore the cost of entry into the marketplace is small. Because it is difficult to measure performance, unscrupulous organizations can go undetected for long periods. Or, even if the organization is a legitimate charitable activity, inefficiency or poor performance will rarely be detected by the average contributor. A two year study of 75 charities in Britain revealed that competition among charities did not generally result in a reduction in organizations, but rather led to changes in organizational strategies as they attempted to develop new programs to be funded (Saxon-Harrold 1990). As a result, in an environment relatively free of regulatory oversight, nonprofits will face increased competition from organizations for whom entry and staying costs are low (Kearns, 1996). In the world of charitable giving, competition is a poor regulator of the marketplace.

Measuring Performance

While much emphasis has been placed on the financial reporting of nonprofits, because organizations vary so much in size, nature and program, any attempt at comparison must be done with care (Anthony and Young 1994a; Randall 1989). Paul (1992) states that "accountability means holding individuals and organizations responsible for performance measured *as objectively as possible*" [italics added] (1047). The absence of a bottom line or other agreed upon measurement standards, however, makes financial and other comparisons all the more subjective. In addition, effectiveness in organizations is often viewed differently by different constituencies or stakeholders. Organizations often face competing values and conflicting goals, especially as the organization grows larger. As a result, effectiveness in one area may not necessarily indicate effectiveness in another (Quinn and Rohrbaugh 1983; Hall 1991).

Because of the above, nonprofit organizations often follow the goal model of effectiveness for measuring performance. Under this model, effectiveness is defined as the degree to which an organization realizes its goals (Etzioni 1964, 8). Hannan and Freeman (1977), however, cite problems with the goal model including conflicting goals, multiplicity of goals, and their frequent short term focus. At the same time, they warn that it would be wrong to abandon the goal concept totally since goals are a defining characteristic of organizations. Without goals (often referred to interchangeably with objectives), organizations tend to drift and lose focus. In spite of their limitations, however, goals can provide an effective means of establishing priorities and setting objectives which can then be used in evaluating organizational performance. This is particularly true in the nonprofit sector where the absence of other, more traditional measures and market forces make measuring effectiveness difficult.

Given the large amount of funds flowing through the nonprofit sector today, nonprofit watchdog agencies, government officials, and the public all believe that some means of evaluation is necessary if these organizations are to be accountable for the resources entrusted to them. To help address this issue, some groups have established financial ratios as measures for evaluating performance. These include the amount [percent] of funds received spent on programs and the percentage of funds used for fund raising and administration, commonly referred to as "overhead." Organizations using such benchmarks include the Better Business Bureau, the National Charities Information Bureau and the Evangelical Council for Financial Accountability.

One of the most commonly employed measures currently used to evaluate and compare nonprofit organizations is the amount of funds they spend on overhead (i.e. in fund raising activities). Another important ratio is the amount of funds spent on the organization's program. While there is no universally agreed upon method for calculating these amounts, in recent years the accounting profession has done much to provide greater standards of uniformity in doing so. Given the importance of these numbers to public perceptions regarding a charities effectiveness, it could be argued that ECFA members are more efficient in this regard. This leads to the following hypothesis:

H-3 *Membership in the ECFA is positively correlated to lower overhead rates for its members, on average, than other similar organizations.*

If there are significant differences between ECFA members and other groups, then further research may be helpful to determine how or why this group of nonprofit organizations is more efficient than others. This could benefit the industry as a whole, or at least parts of it.

With the wide degree of diversity among organizations, however, whether such ratios are the most appropriate measure for determining accountability is another matter. Financial ratios, regardless of how good they are, may be irrelevant if the organization is not carrying out its mission or performing a meaningful service. At the same time, organizations entering a new field or in a start up phase will generally require higher levels of overhead than older, more established ones. Another important factor is how the organization allocates costs in practice. At present, there is no standard methodology for how cost allocations are to be calculated and there can be significant differences among organizations in how it is done.

In spite of such obstacles, financial measurements can be an important tool in measuring organizational performance. Bankers, investment analysts, and other businesses have long used financial ratios to indicate how well companies are performing. Even allowing for the "faith factor" often found in religious organizations, current assets versus current liabilities, debt to equity, and similar liquidity ratios can provide important information about the financial viability and cash flow of an entity. Footnote disclosures required by generally accepted accounting principals (GAAP) can also reveal meaningful information.

In a comprehensive study of reporting on service efforts by nonprofit organizations commissioned by the Financial Accounting Standards Board (FASB), the standard setting body of the accounting profession, Bruce, Elkin, Robinson and Steinberg (1980) note that charitable organization financial statements need to provide information that enables resource providers to assess the organization's ability to continue to provide services as well as to see how its managers have discharged their stewardship responsibilities (1).

The format and content of financial statements is dictated by the Financial Accounting Standards Board. Because of its close affiliation with the accounting profession, it is frequently criticized as being operated by accountants for accountants. Regardless of the reasons, however, the fact remains that most financial reports are not readily understandable by the general public. Because of this, one of the issues addressed in this research is whether the current disclosure levels (while consistent with professional accounting standards) meet the information needs of other stakeholders as well.

Financial information is useful; however, many nonprofit financial statements reveal little, if anything, about an organization's success in accomplishing its mission. Pointing out the limitations of traditional, finance orientated management systems, Kaplan and Norton (1996) recommend a "balanced scorecard" approach which translates an organization's visions and strategy into a coherent set of performance measures. Whatever methods are used, the important thing is that management, and boards, have some means by which to regularly monitor and evaluate the organizations performance.

Stakeholder Expectations

In most commercial enterprises, the primary stakeholders of the corporation are the owners or shareholders. In the nonprofit sector, stakeholders generally comprise a larger and more diverse group. These include donors or other resource providers, the government, employees, beneficiaries of the organization's services, other nonprofit organizations and the public at large. While all stakeholders are concerned that the resources provided are properly used for the purposes intended, each has other special concerns as well. Resource providers expect that their contributions will be used for the purposes given in an efficient and cost effective manner. In exchange for the ability to exist and enjoy the privileges of tax exemption, governments and the public expect that the organization will provide some form of social benefit that enhances the public good. Employees expect that they will be treated fairly and that they can be proud of the work the organization performs while beneficiaries are concerned that they will receive the help intended by the donors. Leaders of nonprofit organizations hope that other nonprofit entities will not do anything to bring discredit or embarrassment upon the industry as a whole.

In meeting these expectations, organizations must have some means of demonstrating that these goals have been achieved. Periodic reporting of both financial performance and services rendered is one of the ways that this can be done. Using a simple annual report, information regarding the organization and its accomplishments can be communicated on a wide scale with minimal time and cost. Issuance of such reports is recommended by both the Better Business Bureau and the National Charities Information Bureau (see chapter 4).

Accountability in Religious Organizations

Accountability in religious organizations offers challenges not found in other sectors due, in part, to the unique nature of religion itself. In most religious bodies, varying degrees of standards are already in place. These can range from well established rules and procedures in large religious bodies such as the Catholic Church or other mainline denominations to very loose controls in some of the more independent church groups. In recent years, however, there has been a significant decrease in denominational church membership and a large growth in the number of independent or loosely affiliated churches; many of which may have few, established standards. In commenting on this situation, Dimaggio (1998) notes that the very absence of regulation in nonprofit organizations may, in some cases, actually encourage certain people to go into church organizations because the lack of control makes it easier to engage in self serving behavior in a less stringent environment (13).

While the concept of accountability is clearly illustrated in the Bible,[5] some religious leaders still have trouble with the concept. Many consider themselves as accountable only to God while in other cases faith is seen as the main issue. Jim Bakker, in responding to the Federal Communications Commission over his failure to complete projects for which he raised funds, stated "in those days my faith was a little bit reckless....we now have budget

[5] Luke chapter 16, verse 2; referred to by St. Paul in the New Testament books of Romans and I Corinthians.

controls" (Martz 1988, 55). Whatever controls he had, however, did not prevent the ultimate collapse of his organization nor his own public downfall. Budget controls alone were not sufficient. Another example of questionable faith was the 777 bed hospital begun by Oral Roberts in the 1970s, allegedly following instructions from God, called the "City of Faith." Mainly due to financial problems, the hospital was never completed and eventually went bankrupt. This led to a significant reduction in supporters to the organization, as well as to questions regarding the wisdom and integrity of the whole project.[6]

In studying this issue, Barnhart (1988) notes that in some religious circles crises, financial or otherwise, are often necessary to demonstrate great faith by the leadership. Overcoming such crises is seen as a "miracle" and evidence of God's blessing on both the organization and its leader(s). Religious organizations are often founded by charismatic individuals who feel some sort of divine purpose or mission which, they believe, is more important than following man made rules or regulations. This problem was previously noted by Blau and Scott (1962) who, in writing on this issue, state that "urgency of the mission makes the charismatic leader and his followers contemptuous of anything associated with routines or business as usual" (31). In a situation similar to both Bakker and Roberts, complaints filed with the National Religious Broadcasters Association over practices of the popular Trinity Broadcasting Network allege that people and principles are secondary to the leader's vision for an expanded ministry (Frame 19900). This appears to be a frequent problem in religious or "faith based" organizations.

---

[6] For a detailed account of the City of Faith project see Jerry Sholes, *Give Me That Prime-Time Religion* (New York: Hawthorne Books 1979), 191-206.

At some point, however, faith can become confused with misguided presumption which has resulted in disaster for Oral Roberts, Jim Bakker and many others over the years. The call for greater accountability by religious bodies and related trade organizations such as the National Religious Broadcasters, ECFA and Christian Management Association over the past few years has done much to change things. As a result of this trend even Jerry Falwell, a former ECFA member and frequent opponent of financial disclosure, has admitted that the flow of money into his organization is a public trust (Barnhart 1988, 112).

Another challenge to better accountability by religious organizations is that much of the work of such organizations, particularly churches, deals with issues of the soul that are not easily measured. Their mission statements emphasize worthy goals such as spreading the gospel, saving souls and ministering to the poor, however it is almost impossible to fully measure the results of these activities. Speaking in his whimsical style on this issue, Peter Drucker (1989a) wryly notes that " a difficult problem for churches is that the books are kept on the other side where not even congress has been able to force an audit"(16). To a large degree, one of the major products of religious organizations and their activities is religion itself (Chaves 1998). This can range from Billy Graham preaching to literally millions of people over television in a single evening to a Mother Teresa walking the streets of Calcutta, helping and encouraging those she meets along the way.

But how do you measure religion? Without clear, agreed upon standards it is very difficult to measure the true results of religious activities. Contributing to this problem is the fact that in such an environment, holding people accountable is often viewed as lacking trust in one's fellow man or, worse yet, downright insulting. As a result, incidents of questionable behavior, fiscal mismanagement, and outright theft in religious organizations are not uncommon. The biggest loss is not the money involved, however, but that such events destroy people's confidence in the organizations themselves and the messages they proclaim. In religious organizations today, accountability is beginning to be understood as not only a management issue but a theological one as well.

The problem of measurement is not limited to the religious sector alone, however. In their classic work on management control in nonprofit organizations, Anthony and Young (1994) indicate that:

> No single overall measure of the performance of a nonprofit organization is analogous to the profit measure in a for-profit company. The goals of nonprofit organizations are usually complex and often intangible. The outputs of such organizations are difficult or impossible to measure (630).

At the same time, with proper definition, inputs can be measured against outcomes to give some indication of accomplishments. It is the responsibility of management and the board to establish appropriate means for monitoring the organization's activities in order to determine how well it is performing.

Local churches,[7] which constitute approximately one-half of all religious nonprofit organizations, usually function with a built-in monitoring structure that includes the church board (or similar governing body), congregation, and often a denominational headquarters all overseeing their affairs.[8] How money is spent and whether or not promised programs have

---

[7] To facilitate readability, the term "church" as used in this paper is intended to include temples, synagogues, chapels and other common houses of worship.

[8] Other names frequently used for governing bodies of churches include elders, deacons, stewards, council, overseers, trustees and session.

been fulfilled are generally observable for all to see. In the growing parachurch movement, however, the issue is more problematic. First, there is much less opportunity for donors to observe first hand how funds are spent. Second, there is less clarity about where accountability lies and what it means (Oden 1988). In many cases religious nonprofits, often referred to as "parachurch ministries," are founded by individuals who have done so to get away from the control of church structures or hierarchy. And third, in some organizations, generally smaller ones, dominating personalities, family controlled boards, and inadequate oversight all contribute to a lack of proper accountability. In discussing this shortcoming of parachurch organizations, Board (1979) states that "the major criticism [of these organizations] is that they lack accountability to anyone but themselves. Parachurch groups are religion gone free enterprise" (17).

Despite these problems, or perhaps because of them, donors today are expressing greater interest in the accountability of charitable organizations as a means of determining those organizations they will, or will not, support. This can have a positive effect. Pinchot and Pinchot (1993), for example, state that "accountability is best ensured through the judgement of customers and enforced by the financial realities of the marketplace" (99). According to a recent study by Campbell Research on what motivates people to give to religious organizations, 78 percent indicated that financial accountability was a primary factor (Campbell 1998, 41).

The Parachurch Movement

In recent years, one of the most important subgroups of the religious nonprofit sector, and one of the reasons for the industry's significant growth, is what has come to be known as the "parachurch" movement. These are organizations that operate alongside of traditional church bodies, are motivated by similar goals and religious convictions, but which function largely outside of formalized church structures or authority. It is currently estimated that the amount of money being given to parachurch organizations, approximately $100 billion per year, exceeds the total amount given annually to traditional church bodies; approximately $94 billion per year (Willmer, Schmidt and Smith 1998, 10).

One of the first to recognize the importance of this trend was Jerry White (1983) who observed a growing tension between established churches and the increasing influence of these new entities. In the early 1980s he predicted that the proliferation of para-local church movements and organizations would be one of the distinguishing hallmarks of the last half of the twentieth century (24-25). He also observed that many of these organizations are the result of individuals wanting to "do their own thing" with little or no accountability. Because of their independent nature, for many of these organizations there is little or no control over them except for their board (assuming a legitimate board exists) and the impact of belonging to some form of association or body with membership standards such as the ECFA. He also notes, however, the fact that many of these organizations were formed by individuals wanting to get away from church hierarchies or other controlling structures also keeps most of them from voluntarily joining a self-regulatory body such as the ECFA. According to current estimates, less than two percent of all parachurch organizations are members of the ECFA.

The primary purpose of most parachurch organizations is to fulfill some sort of ministry purpose such as youth work, service to the poor, evangelism or other specialized activities. They rely heavily upon donations for their income and frequently utilize volunteers in carrying out their programs. They are usually founded by charismatic-type leaders who feel specially called to perform a particular activity. In the early stages of their life cycle they tend to be entrepreneurial in nature and often have few established procedures or controls. As they grow and mature, however, they tend to (or should) become more structured and better managed.

Other Studies of the ECFA

To date, two other studies have been performed on the ECFA. In the mid 1980s, Betty and Phil Harper (1988) performed a broad review of the history and purpose of the organization and reviewed a sample of 188 ECFA member financial statements. Their study dealt primarily with analyzing the size and nature of the various members, as well as which firms were used as auditors. They also looked at certain footnote disclosures in the financial statements but did not do any comparison with other non-ECFA member organizations. While their work helped to give an informative view of the ECFA at the time, the lack of any comparison with other nonprofit organizations is a limiting factor. In addition, as ECFA membership has more than tripled since that time, their findings do not necessarily reflect the current state of membership or financial reporting practices.

In 1994, researcher Geoffrey Goldsmith of BelHaven College performed a more comprehensive study to determine the effectiveness of the ECFA based upon four measures.

These were (1) growth in membership, (2) use of the ECFA's seal, (3) the tendency for potential donors to contribute to ECFA member organizations rather than nonmember ones and (4) the provision of a financial statement to those requesting it.

The first measure of effectiveness involved the basic growth in membership of the organization and was determined from simply reviewing membership statistics which showed a steadily increasing trend from 148 members in 1980 to 768 in 1994 (See Table 1.3). The second measure was based on whether or not the ECFA membership seal was being used on an increasing basis. This was determined by reviewing space ads in religious publications over a 14 year period to see if use of the ECFA seal by organizations was growing. Overall, the results showed a doubling in space for ads using the ECFA seal during this period.

The third measure of effectiveness was tested using a random sample of 500 contributors to religious causes selected from a mail-order marketing firm. Through the use of actual and "dummy" mail solicitations, individuals were asked to indicate to which solicitation they were most likely to respond. While there was a small tendency for people to select ECFA member ads over those of other organizations, overall it was not statistically significant except in a few limited situations. The fourth measure was based on whether or not the organizations provided a copy of their financial statements when requested to do so. In this case, 66 percent of the members responded positively (Goldsmith 1996).

While Goldsmith accomplished his research objectives, a limitation to broader applicability of his findings is that they, like those of Harper and Harper's study, were based solely on ECFA member organizations with no comparison with other groups. Because the

ECFA focuses on only one segment of the nonprofit world, it is difficult to draw conclusions regarding the ECFA's impact unless results are compared to other sectors as well, something I have attempted to do in this study.

My research overlaps Goldsmith's in only one area, the request for financial statements. I did this in order to provide a basis for comparing the response I received from ECFA members with the results obtained by Goldsmith and with responses from other groups. Also, samples of financial statements were needed in order to review the contents of the statements as discussed previously. The lack of an analysis of disclosures presented in the financial statements he received was one of the limitations cited by Goldsmith of his own work and one of his recommendations for further research. I was also able to compare the results of my request for financial statements with his to determine if there had been any significant change in response rate since his study.

The Role of the Nonprofit Board in Accountability

The role and importance of an organization's board has been discussed by many writers on the nonprofit sector including, among others, Drucker (1990), Gardner (1990), Herzlinger (1994), Green and Griesinger (1996), Taylor, Chait and Holland (1996), Lake (1997) and Kearns (1996). As it relates to the matter of accountability, John Gardner (1990), a leading expert on nonprofit boards, states that "boards are at the extreme end of the accountability chain. The buck stops with the board" (18). While the board in commercial enterprises represents primarily the interests of stockholders, in the nonprofit world it serves to protect the interests of the larger public good. In a study of 60 social service agencies by Schene (1991), 27 percent ranked their board of directors as the primary force for accountability in the organization (184).

According to Andrews (1984), "outside of market forces, the best assurance of legitimization of corporate power lies in the composition, competence and independence of an effective board" (28). It is the lack of marketplace discipline that makes the role of governing boards so important in this sector. In the absence of market forces, the board must perform this function (Carver 1990, 7-8). In doing so, one of the primary roles of the board is to make assessments regarding things that can and can't be measured according to normal business measurements.[9] To carry out this task, organizations must have a board of sufficient size, knowledge and independence to provide for a proper oversight function. In a study of 214 not-for-profit organizations, Brown (2000) noted a strong positive correlation between board performance and organizational effectiveness as measured by organizational legitimacy, funding sources and focus, leadership and outcome results.

Frequently, nonprofit boards consist mainly of high profile individuals whose primary function is to help support the organization and to lend their names and prestige to its cause. In their article on board empowerment, Taylor, Chait and Thompson (1996) note that nonprofit boards are often little more than a collection of high-powered people engaged in low-level activities (4). A similar concern was noted in a study undertaken jointly by the Association of Governing Boards of Universities and Colleges and the Independent Sector

[9] For a summary of the actual legal requirements of board members, see Lisa A. Runquist, *Responsibilities and Duties of a Director of a Nonprofit Organization* (Englewood Cliffs, NJ: Prentice-Hall, 1985.

(Nason 1984) which concluded that the governing boards of most nonprofits govern badly, if at all. As a result of these and similar findings, effective board governance is currently being addressed by a number of organizations, consulting firms and industry groups as well as management researchers and theorists.

In today's environment, boards are expected to be far more involved in overseeing the organization's affairs than in the past. One noted problem, however, is that board members sometimes lack a sufficient understanding of the organization they are supposed to be governing and therefore avoid dealing with issues requiring specialized knowledge. If they are to properly perform their role, board members must become more knowledgeable about both the organization's affairs and the environment in which it operates (Taylor 1996; Thompson and Thompson 1991). Generally, this will involve some form of orientation or training for the board. In his oft quoted book, *Boards That Make A Difference*, John Carver (1990) indicates that orientation to a board is so important that it should be made a mandatory requirement of all boards. He further notes that in order to properly prepare boards for their governance role, they need more than just orientation, they need "job training" in their strategic function; the organization they will be leading and the values and perspectives of the organization (204-205). While many organizations are already doing this, there is presently no requirement that board members, in either the public or private sector, have any form of training to perform their role. Therefore, if this is to be done, the organization itself must see that it takes place.

The Role of Trust in Charitable Giving

The importance of trust in corporate success is well documented (Sitkin and Stickel 1996; Kramer and Tyler 1996; Fukuyama 1995). In the nonprofit arena, where vital resources must be obtained mainly on the basis of trust in the organization or its leader rather than being given in exchange for something tangible such as a good or service in return, it is even more important (Etzioni 1988, 63; Watson and Brown 2000l, 92). In certain types of nonprofit activity such as healthcare services and education, trustworthiness is even more critical because donors or customers generally do not have sufficient understanding regarding the products or services involved to be in a position to properly evaluate them and the consequences can be significant (James 1990, 22; Hansmann 1980, 847). Based upon an extensive study of donor giving patterns, Barna (1997) concludes, "credibility and trustworthiness stand as the most imperative conditions a nonprofit organization must satisfy if it is to receive a hearing . . . and eventually a donation" (57). Accountability is an important part of this process.

The topic of charitable giving has been analyzed by many researchers including Rose-Ackerman (1996), Glazer and Konrad (1996), Barna (1997), Campbell (1998) and the Russ Reid Company (1995).[10] The importance of trust in charitable giving is also well documented. In a comprehensive study of giving in the United States performed by the Gallup and Independent Sector organizations, the main underlying factor for giving to nonprofits was an inherent trust in the organizations themselves (Independent Sector 1996,

---

[10] Studies of charitable giving in the United States are also performed on a regular basis by the Independent Sector organization and American Association of Fundraising Councils.

3-71). Unless donors are comfortable with the trustworthiness of an otherwise viable organization, they will withhold giving of their money no matter how worthy the cause (Barna 1997). Kramer and Tyler (1996) see trust in a much bigger role as the essential factor that permits all forms of risk taking in any social system.[11] In a civil society, in order for it to function properly, individuals must be able to believe that at least most of the people and institutions are trustworthy and will perform in a responsible manner.

Exchange theory is generally based on a two-way transfer of exchange between parties while philanthropic behavior is most often viewed as a one-way transfer of goods or services from donor to donee. Others hold that all transactions involve some form of exchange, even if only in the form of intangible personal satisfaction one receives when helping others (Reece 1979; Glazer and Konrad 1996). Even the Internal Revenue Service acknowledges this fact by sometimes referring to "intangible religious benefits" when determining whether or not a true charitable gift has been made. Because of the difficulty in measuring the value of benefits provided back to donors, if any, trust often plays a more important (albeit different) part in the giving of charitable funds than in other types of exchanges.

For the most part, donating to nonprofit causes represents a special type of economic transaction that relies on an implied trust by the donor in the receiving organization's trustworthiness since other elements of typical exchange transactions are not present.

---

[11] Charitable giving may be viewed as a form of risk taking in situations where the donor has no way of knowing whether their contribution will actually be used for the purpose intended.

According to Rose-Ackerman (1996), "altruism and nonprofit entrepreneurship cannot be understood within the standard economic framework" (701). Charitable giving always involves some element of trust. This includes trust that the organization is performing an activity that is worthy of the donor's gift, that the funds given will be used for the purposes intended, and that they will be used in an efficient manner.

But trust can also be exploited. In the recent New Era scandal, a philanthropic Ponzi scheme, over-zealous trust was clearly the major element that deterred people from asking hard questions and that allowed the situation to go undetected for so long a period. At the same time, it was trust in the ECFA and its leadership that was the key to bringing about a positive solution which, most observers agree, would not have been achievable by the courts alone. In both situations, trust was the key factor. (For a more detailed discussion of the New Era case, see Chapter 5.)

Trust is generally divided into two main subconstructs; cognitive and affective. (Butler 1991; McAllister 1995). Affective trust relates to the emotional bonds between individuals while cognitive trust is an intellectual decision based upon the perceived trustworthiness of the person or object trusted (McAllister, 25). Zucker (1986) notes that in pre-industrial economies, trust was based primarily upon character traits of the individuals involved and first hand knowledge of the parties (affective trust). With the development of modern organizational society and the decreasing ability for first hand knowledge, however, alternative mechanisms for trust creation have had to be found. Shapiro (1987) points out that even though individuals may be capable of gathering their own data, they are increasingly relying on the representations of third parties to establish trustworthiness for them (626-627). Common examples of modern day third party trust projecting mechanisms include the Underwriter's Laboratories (U/L), Better Business Bureau and Good Housekeeping seals of approval.

Trust can also be viewed as knowledge-based or identification-based as through association with a group. One of the main goals of the ECFA and similar organizations is to create identification-based trust for its members through association with a name (i.e. Better Business Bureau) or through the use of an easily identifiable membership seal (i.e Underwriters Laboratories (U/L) which associates those using it with the endorsing organization. Similarly, professional associations such as the American Medical Association, the American Bar Association, the American Institute of Certified Public Accountants, and similar groups which provide professional certification are all examples of organizations created to help provide a basis for public trust in their members where it is either too costly or not practical for individuals to determine trustworthiness for themselves.[12] Such organizations do not actually create trust, but come to be closely associated with it. In the nonprofit sector, the further donors are removed from first hand knowledge of the organization or its activities, the more important trust becomes in determining peoples' willingness to support the organization. Actual or perceived scandal involving an organization or its leaders will quickly reduce the level of trust in both that

[12] While time may also be a factor, most people prefer to have someone else make this determination for them, thus relieving them of the responsibility.

organization and the industry to which it belongs.[13] Similarly, the avoidance of scandal can help build and sustain trust in an organization and industry. While trust in nonprofit organizations can be measured by focus groups, surveys and similar instruments, ultimately its most tangible expression will be through the continued support an organization receives (or does not receive) from its primary stakeholders: its employees, donors and the public.

The Role of Financial Reporting in Accountability

Even with the inherent difficulties involved in measuring nonprofit activities, financial reporting is still one of the main areas where accountability is both expected and can be readily demonstrated. Following one of the most comprehensive studies ever performed on this topic, in 1974 the Commission on Private Philanthropy and Public Needs, more commonly referred to as the "Filer Commission," issued its report on this subject.[14] One of its major conclusions was that open, understandable financial reporting to the public was essential in maintaining public confidence and avoiding greater regulation (Robinson 1976, 56). This fundamental nature of the accounting function, upon which financial

---

[13] As of the time of this writing, a vivid example of this statement is the recent collapse of the ENRON corporation, until recently one of the largest corporations in America. Prior to this event, the public accounting profession was highly regarded by the public, for its integrity and professionalism. As a result of the failure of ENRON's auditors to properly perform their duties as external auditors for the company, the entire accounting profession has been tarnished and is currently under review by the Federal government. In addition, a recent poll reveals that the accounting profession now ranks last among institutions in terms public confidence (The Wall Street Journal, 25 January, 2002). This is a clear example of how quickly trust in an organization or an industry can be lost.

[14] The Filer Commission was headed by John D. Rockefeller III and composed of leading citizens. It was endorsed by key government officials and established for the purpose of examining the role of philanthropy in American society.

reporting rests, has long been recognized by the accounting profession as well as others. In discussing the role of accounting in society, Mueller and Smith (1970) state:

> Accounting [which includes financial reporting] functions as part of the information-communication-feedback networks that bind a society and that members of society use to control and reshape the environment. Accounting provides an important part of the information base for the constant revaluation of social, political, and economic objectives and the relative costs and benefits of the alternative means of achieving these objectives (1).

Therefore, financial information is important in helping donors, the government and others in determining the extent to which various organizations will receive the necessary funds and public support needed to function.

One of the ECFA's major goals and purposes is to improve the nature and level of financial reporting by its members. This fact, and the above, lead to the following hypothesis:

> H-4 *In general, ECFA members demonstrate more comprehensive reporting of information to the public than non-ECFA members.*

Because of the emphasis the ECFA places on promoting better accountability through the open sharing of financial information, it would seem that the nature and level of reporting by it's members (normally carried out through some form of annual financial report) should be better than that of organizations who are not ECFA members. If this is not the case, then it could indicate a weakness in the ECFA's effectiveness or, at least, an area for improvement.

Financial reporting has long been the primary accountability tool of business and, regardless of their mission or purpose, most nonprofit activities (except for those services performed mainly by volunteers) must eventually be translated into the receipt and expenditure of funds.[15] Based upon their findings in connection with a study to identify America's best nonprofits, Stekel and Lehman (1997) concluded that in today's environment people want the same kind of information from the nonprofit sector that they have come to expect from business corporations. At the same time, there are clear limitations in relying too heavily upon financial information when evaluating a nonprofit entity. In noting that increasing shareholder value is the principal goal of any business, McFarlan (1999) of Harvard University cautions that financial results alone are a poor means of measuring performance in a nonprofit. Increasing assets or equity in a charity may simply mean that the organization is not performing its mission effectively. At the same time, it could mean that the organization is wisely investing for greater service in the future. With the growing availability of financial information, care must be taken to avoid erroneous conclusions that might be drawn by readers who are not sufficiently familiar with the organization involved or the nuances of nonprofit accounting to interpret such data correctly.

While not addressing all forms of potential opportunistic behavior, the financial reporting process provides one of the best means of monitoring how funds are actually used and identifying possible financial problems if generally accepted accounting principles and disclosure practices are followed.[16] In many of the recent scandals involving nonprofit

---

[15] In some circumstances, generally in very small organizations, all activities may be carried out by volunteer effort and in these situations this would not be the case.

[16] In a limited number of situations, not following Generally Accepted Accounting Principles may be appropriate, but a board should fully understand why an organization is not doing so.

organizations, indications of possible problems were clearly evident from a careful review of financial statements which, in most situations, were or should have been available to the board at the time.

A good example of this is the case of New Era Philanthropy. The organization supposedly held millions of dollars on deposit in bank accounts for the benefit of participants, yet only a minimal amount of interest income was ever reported (Carnes 1997). In the PTL situation, a review of their 1985 financial statements indicated that the statements appeared to have been prepared on a cash basis (a major departure from generally accepted accounting principles for an organization the size of PTL), which should have raised serious questions at the time. In addition, the statements included no provision for funds that should have been set aside for future obligations that were well known to exist (Tidwell 1993, 59-60). Both of these factors should have been a warning of possible problems to almost anyone with a basic understanding of finance or accounting; skills that should have been readily available either on, or to, the boards of these organizations.[17]

Accounting for the receipt and expenditure of funds is the main objective of financial reporting and, as noted by the Filer Commission, is an important factor in maintaining public confidence. A similar report in Great Britain supports this view, indicating that good quality financial information by charities is an essential element in their accountability to the

---

[17] Given the size and complexity of both of these organizations, knowledgeable financial counsel should have been either represented on the boards, or readily available to the boards. If this was not the case, it reflects a weakness by the board in carrying out their fiduciary responsibilities.

public (Randall 1989, 71). In spite of such findings, a lack of meaningful financial information is frequently cited as one of the major shortcomings of the nonprofit sector. Herzlinger (1996) stated the problem very forcefully in the *Harvard Business Review* where she wrote:

> unlike publicly traded corporations, the performance of nonprofits and governments is shrouded behind a veil of secrecy that is lifted only when blatant disasters occur . . . Unless we [the public] are provided with credible, systemic information, fresh scandals will fill our daily newspapers and public trust in these critically important institutions will erode (98).

While findings such as these would seem to indicate a great interest in nonprofit financial reporting by the public at large, a recent survey of 10,000 American donors by the Barna Research Group found that fewer than ten percent of contributors to religious ministries *ever* request a financial statement from even one of the organizations they support (Barna 1997, 30-31). If this is the case, the question must be asked, "why is there so much emphasis on making financial statements available"? Is there some other dynamic involved? As discussed previously in the section on trust, it appears that most people want the assurance that this information is available, but would prefer to rely on others to do the actual monitoring and evaluating for them. This is where organizations such as the ECFA play an important role.

Contributing to this situation is the absence of a clear understanding of what information the public really wants from its nonprofits as well as a lack of understanding of traditional financial statements . In a seminal study of the objectives of financial reporting, a task force of the prestigious American Institute of Certified Public Accountants (AICPA) was forced to conclude that user's needs for information are not known with any degree of certainty (AICPA 1973, 13). If this is true for the business sector, it is even more applicable to the nonprofit sector where there is a larger number and diversity of stakeholders, along with a shorter history of financial information being widely available. The question, therefore, is what type of information do contributors to nonprofit organizations really need (or want) in order to make informed judgements regarding a particular organization? Or, as the trust literature seems to indicate, are donors more likely to place their trust in nonprofit entities for other reasons such as third party association where that is possible?

In his study of charities in the United Kingdom (UK), Hyndman (1988) attempted to learn more about donor information needs. His study focused primarily upon grant making institutional donors, not individuals. Because of the state church structure in the UK, giving to religious nonprofits there represents only a small portion of total charitable giving (under 10 percent); much less than in America where the amount is close to 50%. While it could be assumed that institutions which give away large amounts of money would have developed appropriate standards for their information needs, this was not found to be the case. Hyndman ended up concluding that nonprofit reporting is a neglected area of research and recommended further study in both the areas of information needs and user requirements (310).

Regulation of the Nonprofit Sector

The basic concepts for ensuring accountability of nonprofit organizations were established as early as the sixteenth century when the English common law (from which America developed much of its legal system) for dealing with charitable trusts was first established. As enacted, the law required that all charitable trusts be under the oversight of "trustees" who were not in a position to gain personal benefit from this function. The law further articulated a set of basic duties governing trustee behavior.[18] Charitable trusts, from which the term "charities" later emerged, generally resulted from donations or bequeathments by wealthy individuals to help those less fortunate. They were viewed as being for the good of society with no private benefit accruing to those involved in overseeing the funds (Fremont-Smith 1989). This concept of "no private benefit" continues to the present and is still one of the basic rules governing the handling of charitable funds.

The history of American philanthropy closely parallels the country's economic growth and development. External control over corporations in America began for the most part in the late 19th century, but was limited to minimal requirements as states competed for the granting of corporate charters. Fearing the loss of revenue, all thought of setting standards of corporate social and ethical behavior was disregarded as likely to cause corporations to go elsewhere for their charter (Greanias and Windsor 1984, 102). Because charities produced little or no revenue for the government, little attention was paid to these entities. Many individuals, however, believed that government had a responsibility to the public for the regulation of corporations and, over the years, government control steadily increased, as evidenced by the creation of such bodies as the Federal Trade Commission, the Securities and Exchange Commission, the National Labor Relations Board, the Environmental Protection Agency and the Occupational Health and Safety Administration.

Nonprofit organizations were generally regarded as providing useful services and helping promote the public good and were therefore left alone for the most part. In addition,

---

[18] Charitable trusts are still an important means for promoting charitable giving today and are encouraged in the United States through favorable state and Federal tax benefits.

they were mostly small endeavors, limited geographically in scope, and overseen by tight knit communities of people who shared strong religious beliefs or other socially beneficial values (Hammack 1995). Because they paid no taxes, only minimal regulation (except for certain types of activities such as medical and educational services) was deemed necessary. This consisted mainly of ensuring proper legal incorporation and, later, the filing of annual reports with the Internal Revenue Service and local state authorities. Religious organizations were largely left alone in the regulatory process.

As government regulation over business has increased, some people have argued that the nonprofit sector should be similarly controlled as well. Repeated studies have shown, however, that almost without exception governmental regulation only results in excessive paperwork, reduced efficiency, politics and a higher cost to the public (Bennett and Dilorenzo 1994). In addition, separation of church and state issues have continually created an effective barrier to attempts at regulation of religious organizations by government in the past. Today, self-regulation is being viewed as one means of addressing this problem.

But self-regulation is not without its risks. In a study of higher education, Ewell (1994) found that its traditional mechanisms of self-regulation were in such disarray that it had undermined the public's confidence in the ability of higher education to regulate its own affairs. Critics of self-regulation are quick to use such findings as support for greater government control, but there are other factors to be considered. In response to a plan for an SEC type body to regulate the nonprofit sector, Peter Drucker points out that similar oversight mechanisms such as the U.S. General Accounting Office have failed to correct the performance problems of government (Drucker 1996, 166).

While much has been written about the lack of regulation of the not-for-profit sector, it is important to note that a large amount of nonprofit activity is already well regulated. Nonprofit hospitals and other health care providers are closely regulated by governmental bodies, as are many other social welfare programs. Nonprofit schools providing basic K through 12 training are carefully monitored by both state and local authorities while higher level education is controlled through regional and national accrediting bodies. In addition, indirect regulation can come in the form of conditions controlling government funding, a major supporter of nonprofit programs, by dictating such factors as types of programs offered and quality of services provided. Further, many government funded grant programs involve rigorous audit requirements. Religious organizations (except for those providing the types of services discussed above) are most likely to be unregulated except for control that might be exercised by church hierarchies or associational groups to which the organization may belong.

Even in the absence of more formal control mechanisms, there is still present the social control of organizational choice exercised by the environment in which nonprofits operate. To survive, nonprofit organizations must maintain a coalition of both parties who contribute the necessary resources for the organization to function and the support of government which grants the legal authority to exist. In their classic work on the external control of organizations, Pfeffer and Salancik (1978) write:

> It is the fact of the organization's dependence on the environment that makes the external constraint and control of organizational behavior both possible and almost inevitable. Organizations could not survive if they were not responsive to the demands from their environments (43).

They further note, however, that demands are often conflicting and that responding to the demands of one group of stakeholders may put the organization in conflict with the demands of another group. Self-regulation can help address this problem by establishing standards that various groups of constituents can agree upon and that can be applied uniformly to a number of different organizations.

Other Elements of Accountability

While financial reporting is one of the most frequently cited elements of good public accountability by nonprofits, it should be viewed as only one aspect of a much larger process. In a research project to develop an accountability framework for public social service agencies, Schene (1991) noted that the role of the governing board, standard setting bodies and government regulations are all important. Financial reporting only addresses what has already happened from an accounting point of view; it does not provide an adequate framework for guiding behavior on a day-to-day basis. In addition, it does not guarantee that the organization is carrying out its stated purpose or mission. As with other forms of management control systems, additional elements are needed to provide an ongoing cybernetic process of monitoring and controlling activities on a regular basis in order to ensure that proper standards of performance are being met.

Adherence to the organization's mission statement is the primary measure of performance and the starting point for accountability, particularly for a nonprofit entity. Is the organization doing what it is intended to do and for which it receives support? (Drucker 1990; Nash 1983). In some ways, overemphasis on the moral failure of a few prominent individuals in recent years has shifted attention away from the more fundamental issue of what the organization is accomplishing and how effective it is in doing so. Currently, financial reporting standards do not require discussion of an organization's mission or program accomplishments in audited financial statements. Recognizing this weakness, some nonprofit monitoring agencies now include such disclosures among their own standards.

Other elements of accountability include proper board oversight, an appropriate amount of funds spent on the programs for which they were raised, avoidance of funds used for the personal benefit of those involved in running the organization (except for normal salaries and benefits for employees) and reporting back to the public on how funds entrusted to the organization were actually used. Accountability must be viewed within this larger context if it is to be truly effective.

Addressing these various issues is not always easy and, as has already been discussed, is currently the focus of much attention from both inside and outside of the nonprofit industry. It can be especially challenging for small organizations who generally have fewer resources to deal with these matters. This leads to the fifth hypothesis as follows:

H-5 *Larger nonprofit organizations will generally exhibit higher levels of accountability than smaller ones.*

It is logical to assume that larger organizations will be more accountable than smaller ones. They have more resources, greater levels of staff, and are generally assumed to be better run than small organizations. At the same time, many of the major scandals in recent years in both the profit and nonprofit world have occurred in some of the largest organizations. Are larger organizations necessarily more accountable than smaller ones? If so, then those areas where they are more accountable should be identified so that small organizations might learn from them. At the same time, ways should be found so that smaller organizations can be equally as accountable. The ability to demonstrate good accountability should not be so limited by size or cost that it makes small organizations less competitive in this regard.

Summary

During the past 50 years, the nonprofit sector in America has grown from a small number of isolated charitable endeavors to become one of the leading social and economic forces in the country. Along with the growth of this industry, academic interest in, and public expectations of, this sector have increased as well. During the past few years there has been a growing number of major research projects on this sector, including those conducted by Goldsmith (1996), Hyndman (1988), Schene (1991) and Lake (1997).

Because much of this industry is still largely unregulated, particularly religious nonprofits, and as a result of concern over how charitable funds are being handled, the past few years have seen a number of efforts to enhance public accountability, particularly by religious organizations. Fueling these efforts has been a number of well publicized scandals in both the profit and nonprofit sectors, as well as a perceived decline in the overall moral behavior of society as a whole.

The importance of holding individuals and organizations accountable for the proper handling of resources entrusted to them, whether they be charitable donations or stockholder investments, is well documented in management literature. In the familiar for-profit sector, this is generally accomplished through the use of well established financial performance indicators such as net income, growth in sales and return on investment. In the nonprofit world, meaningful measurements are much more difficult and far less prevalent. In some cases the activities involved do not lend themselves to easy measurement. In others, organizations have failed to develop appropriate means by which the organizations effectiveness can be evaluated. More frequently, however, management has simply not taken the steps necessary to provide a framework for ensuring proper accountability or communicating it to the public.

To help in this regard, during the past few years several organizations, including the Better Business Bureau, National Charities Information Bureau and the ECFA, have developed specific standards for evaluating nonprofits As this study will demonstrate, however, the current level of compliance with these standards leaves much to be desired.

Some individuals see greater government involvement as the key to improving this situation while others are quick to point out the dangers inherent with any increase in government intervention. In addition, issues regarding the separation of church and state have long prevented greater government intrusion into the religious portion of this sector which currently represents almost 50 percent of the organizations making up this industry. Some form of self-regulation, therefore, is important in any attempt to increase the accountability of religious organizations. The ECFA is one such endeavor.

The literature on organizational behavior, management control and trust all help to form the theoretical basis for this study. Current and recent literature on the topic of accountability in general, and nonprofits in particular, have served to guide the more practical aspects of this study. According to the literature, holding management accountable is generally best accomplished through an effective board of directors. Without standards or a framework for doing so, however, nonprofit boards have generally been weak in this regard.

Trust is a basic factor in all market transactions, including the act of charitable giving. To help create the trust necessary to sustain a strong religious nonprofit sector in the face of several embarrassing scandals, the ECFA was formed. Its model of self-regulation is designed to help build trust for its members with the general public through its membership seal. This seal, given to all members, signifies to the public that the member organization meets certain standards ofbehavior and accountability. Goldsmith's 1996 study of the ECFA (which was limited to ECFA members only) indicated that the ECFA has been successful in this regard. This study goes beyond Goldsmith's work by comparing ECFA members with other similar organizations on a number of issues.

The subject of accountability is woven throughout many areas of management literature and, for the most part, does not involve major theoretical differences or divergent schools of thought. The issue is not so much one of theory but of application. What standards nonprofit organizations should follow in being accountable and what the current degree of adherence to such standards by ECFA members and other, similar organizations is are among the key questions answered in this study.

CHAPTER 3

METHODOLOGY

Overview

The major purpose of this study is to determine the effectiveness of the ECFA as a self-regulatory group and to see if members of the ECFA demonstrate higher levels of accountability than other similar groups? In addition, this study compares the degree of compliance by ECFA members and other groups with the major standards of the ECFA and those of two leading nonprofit monitoring agencies. It also looks at the level of accountability demonstrated by large organizations with that of small organizations, as well as comparing the accountability of religious organizations with that of non religious ones.

To accomplish these objectives, an examination of accountability issues was first undertaken to determine the theoretical foundations for this subject, along with existing standards of accountability as reflected in both the literature and industry practices. These issues were then used to frame both the research questions and hypothesis as discussed previously. To obtain the information necessary to answer the research questions, a survey instrument was prepared and sent to a sample of 400 different organizations representing the ECFA and three other subgroups of the not-for-profit sector. In addition, copies of financial statements were requested from all organizations surveyed. Financial statements and/or other information received were then analyzed to determine the presence or absence of key information and to provide statistical data on both the individual subgroups tested as well as the sample population as a whole.

Subjects of Research

The subjects of this research were selected to represent four different subgroups of nonprofit charitable organizations in the United States today as described below. Most receive the majority of their income through contributions from the general public, or at least a special segment of the public (e.g. conservative religious individuals), rather than from payment for goods or services as in the case of many healthcare or educational type activities. While representing different subgroups, the samples were designed to select organizations performing similar types of activities and encompassing a wide range of revenue levels so that income could be evaluated as one of the independent variables affecting the results. The primary subjects of this research were organizations who are members of the ECFA with the other three groups serving as a basis for comparison and, in the case of the secular subgroup (defined below), as representative of the broader nonprofit industry as a whole.

Sampling Design

Because of the size and diversity of the nonprofit sector (over one million entities ranging from small local charities to large hospitals and universities), it was not possible to identify a typical representative nonprofit entity. Rather, in order to perform any meaningful comparisons of this sector, one must look at smaller segments of the total industry that represent organizations performing similar activities. This study was designed to compare members of the ECFA with other, similar organizations from three different industry subgroups. A total of 400 organizations were surveyed, 100 from each of the following four subgroups:

1. Members of the Evangelical Council for Financial Accountability.

2. Organizations that were members of the National Association of Evangelicals (NAE), but not also members of the ECFA.[1]

3. Religious groups in general, but not members of either the ECAF or the NAE (Note: Organizations selected for this group were checked against the ECFA and NAE membership lists and any found to be members of either these organizations were replaced.)

4. Secular nonprofits with no apparent religious affiliation or persuasion.

A major objective in selecting this particular data set was to make ECFA membership the primary distinguishing characteristic separating ECFA member organizations from the other sample groups. In addition, care was taken to ensure that a diversity of organizational sizes, as measured by total annual revenue, was represented in each group.

A little less than ten percent of current ECFA members are churches or religious schools. Because schools and churches represent special forms of not-for-profit organizations which are accountable to their own boards, members, constituents and other bodies, they were excluded for purposes of this study. Likewise, secular entities such as service clubs, fraternal groups and similar organizations that serve primarily their own

---

[1] The NAE was founded in 1942 to promote the interests of Evangelical churches and parachurch organizations. Its current membership includes approximately 250 parachurch organizations and over 40,000 churches. For purposes of this survey, only parachurch organizations were used. Most organizations in this group share similar beliefs and purposes of ECFA members and the ECFA is partly an outgrowth of this group.

members were also excluded. Therefore, another objective of the sample design was to select organizations which are not under the control of other groups and which receive the majority of their funding from the general public to whom they could be considered primarily accountable.

When it comes to size (generally based upon total annual income) there is presently no uniform scale by which nonprofit organizations are classified and it is generally a matter of the situation or group involved. Certain types of organizations such as universities and hospitals are, by their very nature, generally large while local community based charities tend to be quite small. Frequently, nonprofit organizations are merely referred to as "small" or "large" without any real definition of what those terms mean. Because "small" organizations represent a major portion of all nonprofits, the sample selection method used was designed to try and ensure appropriate representation from both groups.

In a project to map religious nonprofit organizations in the state of Illinois, researchers Gronbjerg and Nelson (1998) also faced this problem and ultimately decided to use a simple two tier approach defining "small organizations" as those with total annual income of $500,000 or less and "large organizations" as those with revenue in excess of $500,000 per year. According to a 1993 national survey of nonprofit charitable organizations prepared by Independent Sector, a major nonprofit industry group, 65 percent of all nonprofit organizations had total revenue of less than $500,000 in that year (Independent Sector 1993, 31). In view of the lack of industry norms regarding size, and to provide some measure of consistency for comparison with other research on this industry, the same criteria used by Gronbjerg and Nelson were used for purposes of this research project as well.

As part of this study, a pre-test survey of 25 recent financial reports from a sample of nonprofit organizations was obtained and reviewed. These revealed a wide variety of differences in both the nature and content of the reports and led to the conclusion that a more in-depth study would provide useful information regarding this topic. Such a study was also recommended by Goldsmith (1996), as discussed earlier.

A sample of 100 organizations was drawn for each of the four subgroups indicated above. Based on normal research response rates, it was estimated that approximately 50 percent of those surveyed would respond, thus providing a sample of approximately 50 usable surveys per group and 200 in total. This was considered large enough to draw meaningful statistical conclusions and the actual response rate received (54 percent) was consistent with this estimate. Responses were then summarized both by group and overall. Responses by group were also analyzed to see if size, based upon total annual revenue, was a significant factor in accounting for differences among subgroups

The ECFA sample was selected randomly from its 1998 membership directory. Since the members are listed numerically in the directory (i.e. 1,2,3, etc.), a random number generator program was used to select the sample for this group. For the sample of Evangelical, but non-ECFA members, another random sample was selected using, in this case, the latest membership directory of the National Association of Evangelicals (NAE). The NAE is a group of organizations very similar to the ECFA in religious persuasion and beliefs. It is an industry group for nonprofit organizations of evangelical persuasion, not directed primarily towards accountability, and is considered representative of this subculture. NAE members representing churches or educational institutions were excluded from the sample for the reasons discussed previously.

The third sample group, religious but non-ECFA and non-evangelical organizations, was selected with the assistance of the Guidestar organization. Guidestar is a nonprofit research organization which gathers and distributes information on over 600,000 nonprofits included in the United States Internal Revenue Service data base. Using standard taxonomy codes for the non-profit sector which catagorize organizations by major type of activity (i.e. church, heath care, education, social service agency, etc.), Guidestar randomly selected a list of nonprofit religious organizations similar to those of ECFA members. This sample was then compared to both the ECFA and NAE membership directories and any organization also included in one of these lists was eliminated and a replacement selected. The fourth sample representing general, non-religious charities was also selected by Guidestar from their data base as well to obtain a sample of organizations similar to the preceding groups in terms of program activities, but without a religious framework or affiliation.

Survey Questionnaire

The survey portion of this study utilized a four page questionnaire with 47 different questions on a variety of matters including board governance, finances, auditing, financial reporting and demographic information (See Appendix B). The survey form was used to gather general information about the organization as well as the degree to which the organization follows various practices deemed to represent good accountability as set forth by the ECFA, the Better Business Bureau and the National Charities Information Bureau in their respective standards.[2] This information was used to help answer research Questions 1, 2 and 3. To answer Questions 4, 5 and 6, copies of a recent annual report or financial statements were also requested from each organization: first, to see whether such statements would actually be provided and second, to analyze the information contained therein. This included a review to determine the presence or absence of a number of key information disclosures considered important to good financial reporting by nonprofit organizations and to calculate certain key financial ratios (see Appendix C).

Procedures

The survey questionnaires were mailed to the chief financial officer of each organization along with a cover letter explaining the nature and purpose of the survey and asking for their cooperation in completing and returning it (see Appendix A). The letter also requested a copy of the organization's annual report or a copy of its audited financial statements if their annual report did not contain such information.[3] Enclosed with each letter was a prepaid, self addressed envelope for returning the survey form and a self addressed

---

[2] Copies of these standards are included in Appendices D, E and F.

[3] The survey letter sent to the ECFA group contained the phrase "in cooperation with the Evangelical Council for Financial Accountability" to indicate that the ECFA was cooperating could have introduced some bias into the sampling process, however if so, it would only be in regard to a tendency for ECFA members to be more willing to participate in the study. It could also bias results toward reporting compliance with ECFA standards regarding providing financial statements to those who request them. In terms of response rate, however, this does not appear to be the case given that the response rate to my request for financial statements was almost identical to that received by Goldsmith (1996) in his study of the ECFA several years earlier. The response rate to his request, which made no reference to the ECFA, was 66 percent while the response rate to my same request was almost identical at 65 percent.

mailing label for the financial statements, along with a $1 bill to cover postage. Also included was a self addressed postcard that individuals could return separately if they desired to receive a summary of the survey results which I offered to share with anyone who requested it.

Approximately four weeks after the initial mailing, if no reply had been received a follow up letter was sent, along with another copy of the questionnaire and return envelope. If a letter was returned by the Post Office as undeliverable, a replacement organization was selected and a new letter and questionnaire sent to the alternative organization. Neither the name of the organization or the individual involved was indicated or requested; however, a small alpha/numeric code was included on each questionnaire to determine which organizations had responded and which had not. Results were tabulated and summarized both in total and by subgroup as show in Chapter 4 following.

Methods of Analysis

The frequencies of response were determined for each question. Comparisons were then made between groups to measure similarities or variations between the various groups. In many cases, simple means were used to determine how the respective groups compared one to another and to the composite average for all respondents. To determine the significance of differences in results for questions involving interval variables, analysis of variance (ANOVAs) were used. For questions involving nominal variables, overall chi-squares were calculated. Where appropriate, these were followed up by 2x2 chi-squares to determine the significance between individual groups. To further pinpoint an effect, in addition to comparison among individual groups, a series of 2x2 chi-square analysis were performed comparing small and large organizations between groups. Using the responses obtained through the survey questionnaires and a review of the financial statements received as discussed above, the stated hypotheses were tested as follows:

H-1 *ECFA member organizations exhibit higher standards of accountability, as measured by current public expectations, than nonmember organizations.*

This hypothesis was tested using the survey forms received to determine the degree to which the organization follows various practices currently considered as reflecting good accountability based upon standards of the ECFA and two major industry watchdog agencies. These included issues related to board governance, fiscal management, audit practices and annual financial reporting. The percentage of ECFA members responding positively was compared to that of the other groups. Chi square tests of independence were calculated to determine if the degree of difference noted was statistically significant.

H-2 *Overall, Religious Organizations Exhibit Higher Standards of Accountability Than Non-Religious Ones.*

The ECFA was established primarily to aid religious organizations in improving their credibility with both donors and the general public. Because such a large portion of the nonprofit industry is represented by religious organizations (approximately 50 percent), this hypothesis was intended to determine if religion itself is a significant factor in the level of accountability shown by religious organizations versus nonreligious ones. Using the same criteria as measured for H-1, comparisons were made to determine the degree of difference, if any, reported by the ECFA, evangelical and religious subgroups with the level reported by secular charities. As in the testing of Hypothesis 1, frequencies of response were compared among groups using chi square tests to determine the significance of differences noted.

H-3 *In General, ECFA Members Demonstrate More Comprehensive Reporting of Information to the Public Than Non-ECFA Members*

Over the years, the three primary nonprofit monitoring agencies, the National Charities Information Bureau (NCIB), the Better Business Bureau and the ECFA, have all established criteria they consider important as information that should regularly be disclosed by nonprofit organizations (see Appendixes D, E and F). These include the organization's mission statement, names of board members, description of programs and program accomplishments during the year. To test this hypothesis, a review of each report or financial statement received, along with any other material provided by the organization, was performed to determine whether or not the above information was present. For this test, frequency of positive response was the primary measurement used since a low rate of response for some items limited the use of other statistical techniques.

H-4 *Membership in the ECFA is positively correlated to a lower overhead rate for its members, on average, than other, similar organizations.*

Of all the criteria used to evaluate nonprofit organizations, one of the most common is the amount of money spent on overhead as a percentage of total funds received or, inversely, the amount of funds used for program purposes. Hypothesis number four is based on the premise that organizations concerned with better accountability will strive to keep this element of their cost structure as low as possible without jeopardizing the overall ability of the organization to function effectively and grow. Using the financial statements received as part of the survey process, both the percentage of funds spent on program and the overhead rate for all organizations providing financial information were calculated. A factorial analysis was used to determine whether differences between the groups, as well as among large and small organizations, was significant.

H-5 *Larger nonprofit organizations will generally exhibit higher levels of accountability than smaller ones.*

Because of their greater resources, larger organizations are generally better managed that smaller ones. In addition, larger organizations are generally more visible to the public than smaller ones. As a result, it would also seem that larger nonprofit organizations will exhibit greater levels of accountability than smaller ones as well. While this may be true, if the requirements for good accountability are so rigorous, time consuming or expensive that only larger organizations can comply, it places an unfortunate burden on small organizations which, in most cases, are already finding it difficult to survive. To be truly effective, standards of good accountability must be within the reach of all organizations, not just a few.

The purpose of this hypothesis was to see if larger organizations are, in fact, more accountable than smaller ones and if so, in what areas, and to determine if there are areas where smaller organizations are as accountable as larger ones. To do so, each sample was chosen in such a way as to ensure that both small and large organizations were properly represented in the sample population. In evaluating the results, comparisons were made not only between the four various subgroups, but between large and small organizations for key questions as well. Again, both frequencies of response, chi-squares and ANOVAs were used depending on the nature of the question involved.

Strengths and Weaknesses of Design

Along with the growth of the nonprofit industry in recent years has been an increase in research on this sector as well. As discussed previously, this study is intended to build on the work of others such as Goldsmith (1996), Lake (1997), and Schene (1991) regarding the nature and role of accountability in nonprofit organizations. While it is difficult to evaluate one's own efforts in this regard, it is important to the research process that one do so in order to help guide further research efforts.

I feel that one of the strengths of this study was the focus on one specific organization (the ECFA) and the method of comparison of its members with several different, but similar groups on a variety of factors. The results obtained provide quantifiable data on the degree to which the various groups comply with the standards of key nonprofit Industry bodies. Through the use of specific case studies, these standards are then reviewed to determine what effect they might have had on the situations involved had the organizations been following these standards. In addition, readers of this study can easily see how their own organization compares in terms of compliance with the same standards.

The main areas of weaknesses, I feel, were twofold, and only became apparent as the study was already well underway. In a certain sense they, in themselves, also represent part of the learning from this project. The first is that the use of a simple two tier approach of dividing the entire population of nonprofits into only two groups (large and small) was too simplistic. After reviewing the survey results, it became clear that there is a wide difference between how small local nonprofits operate and how large national charities do. In between, there is a large number of "medium size" organizations which represent the backbone of this industry and whose operating realities and challenges are different, to some degree, than that of either very small, or very large, organizations. Therefore, rather than just making a distinction between large and small organizations, recommend, as a minimum, a third category of organizations; those with revenue of between $500,000 and $5 million per year be used for research purposes. And, for even closer evaluation, a separate category for very large organizations, i.e. income of over $100 million per year.

The second main weakness is that while this study attempted to have an equal balance between small and large organizations, I did not have the necessary revenue information for all groups that would have ensured that an equal number of organizations from each group was selected. As a result, a slightly higher percentage of large organizations was surveyed than small ones. At the same time, responses from large organizations were generally greater than small ones for all groups which was not the result of a design flaw, but merely reflective of the higher level of response from this group. This meant that in some cases the frequencies of positive response to questions were so few among small organizations that the use of statistical measurements was not possible.

In view of the above, in addition to evaluating results in total, response rates are presented separately for both large and small organizations in the various tables in Chapter four so that each could be evaluated separately on its own. For further research of this nature, I recommend that a larger sample be used to ensure that response rates will be sufficient for proper statistical evaluation.

CHAPTER 4

RESULTS

The primary purpose of this study was to determine whether members of the ECFA are more accountable than other similar not-for-profit organizations. In order to do so, compliance with certain key standards of the three main nonprofit industry monitoring agencies was measured for each of the four groups discussed previously. This chapter presents a summary of the results of this work. Where analysis of variance and chi-square tests were used, all results are considered significant at $p<.05$ unless otherwise indicated.

Survey Response

Overall, out of a sample of 400 surveys mailed, 219 were returned (55 percent) along with 117 financial statements (29 percent). The response rate for ECFA members replying to the survey questionnaire was 73 percent, almost 50 percent higher than that of the other three groups which had a rate of 45 percent, 50 percent and 51 percent, respectively, and over three times the rate for providing financial statements; 65 percent versus an average of only 17 percent for the other three groups combined. The greater response rate by ECFA members suggests a higher level of organizational accountability for this group as a whole. Response rates by group are shown in Table 4.1.

Of those returning the survey instrument, 143 (65 percent) represented organizations with total revenues of over $500,000 per year (large organizations) and 76 (35 percent) organizations with incomes of less than that amount (small organizations). While this would appear to be skewed towards the larger organizations, it is representative of the groups from which the samples were drawn on a random basis and reflects a finding consistent throughout this study that larger organizations are generally more accountable than small ones.

Table 4.1

Response Rate by Group and Size of Organization

	Survey Questionnaire Returned			Financial Statements Provided		
	Large Org.	Small Org.	Total	Large Org.	Small Org.	Total
ECFA Members	52	21	73	47	18	65
Evangelical	30	15	45	17	4	21
Religious	36	14	50	10	4	14
Secular	25	26	51	12	5	17
Total	143	76	219	86	31	117

Note: A request for survey response and financial statements was sent to 100 organizations in each of the four groups. The percentage of large and small organizations responding could not be calculated since the size of organization was not always known in advance.

The 1998 membership directory from which the ECFA samples were drawn showed that 74 percent of the members had revenues in excess of $500,000. No income amounts were available for the evangelical sample, but it is estimated that their membership had a slightly higher percentage of small organizations than large ones. The religious and secular samples were drawn on the basis of approximately 50 percent from large organizations and 50 percent from small ones. Table 4.2 shows the size of organizations responding based upon total annual income. Organizational size varied widely reflecting a broad cross section of the groups surveyed.

Table 4.2

Size of Organization Responding Based Upon Total Annual Income

	ECFA	Evangelical	Religious	Secular	Total	Percent
Under $250,000	10	10	9	19	48	21.9%
$250,000 to $499,999	11	5	4	7	27	12.3
$500,000 to $999,999	10	7	8	5	30	13.7
$1 million to $4,999,999	27	12	17	12	68	31.1
$5 million to $10 million	5	3	3	4	15	6.9
$10 million to $50 million	8	8	7	4	27	12.3
Over $50 million	2	-	2	-	4	1.8
Total	73	45	50	51	219	100.0%

Respondent's Beliefs Regarding Accountability

To determine the general feeling of nonprofit executives regarding the current level of accountability reflected by this industry, as well as by their own organization, respondents (generally the chief financial officer of the organization) were asked to indicate their response to the following two questions using a scale of 1-10 as shown below. Responses to these questions are shown in Tables 4.3 and 4.4.

1. Overall, please rate how well you feel the nonprofit sector in general is currently doing in demonstrating good accountability to donors and the public.

2. Overall, how well do you feel your organization demonstrates good accountability to its donors and the public?

Poor		Weak		Fair		Good		Very Good	Excellent
1	2	3	4	5	6	7	8	9	10

To evaluate these responses, two 4x2 factorial ANOVAs were performed to determine main effects and interactions between type of group (ECFA, other evangelical, religious and secular) and group size (large or small). In addition, a priori contrast tests were performed comparing the ECFA group with the average of the other three groups and the secular group with the average of the other three groups for each question, for both large and small organizations. To prevent any undue influence from extreme values, before performing these analyses all outliers greater than three standard deviations away from the mean were eliminated.

Regarding feelings about accountability in general, there were no main effects or interactions between group or size of group. In addition, the contrasts revealed that the ECFA group did not differ significantly from the average of the other three groups for either large or small organizations. A similar pattern of results was found when comparing the secular group to the average of the other three groups. There were no statistical differences noted in any of these tests (p <.05) indicating that, overall, there was no significant difference in the way individuals representing these groups felt regarding accountability of the nonprofit sector as a whole.

Table 4.3

Respondent's Beliefs Regarding Accountability of the Nonprofit Sector as a Whole

	Large Organizations		Small Organizations	
	Group Mean	*SD*	Group Mean	*SD*
ECFA members	6.75	1.23	6.84	1.71
Evangelical	6.85	1.12	6.36	1.60
Religious	7.15	1.60	6.83	1.27
Secular	6.63	1.47	6.08	1.28
Grand Mean/*SD*	**6.85**	**1.36**	**6.53**	**1.47**

In response to the related question, "Overall, please rate how well you feel your own organization is doing in demonstrating good accountability to its donors and the public" (Table 4.4) the overall average responses were approximately 25 percent higher than in Table 4.3 with a grand mean of 8.45 and 8.16 for large and small organizations, respectively. Here again, a 4x2 factorial ANOVA revealed no statistically significant differences between group or size of group. The a priori contrasts also revealed no significant differences.

Table 4. 4

Opinion Regarding Accountability of Respondent's Own Organization

	Large Organizations		Small Organizations	
	Group Mean	*SD*	Group Mean	*SD*
ECFA members	8.65	1.14	8.53	1.35
Evangelical	8.08	1.47	7.93	1.94
Religious	8.58	1.28	8.17	1.59
Secular	8.50	1.02	8.00	1.62
Grand Mean/*SD*	**8.45**	**1.23**	**8.16**	**1.63**

Although there were no significant differences between groups or size of group in relation to each question, there were significant differences between questions. That is, the means for each group were significantly higher for question two than for question one. This indicates that, overall, financial managers in the organizations surveyed share very similar beliefs regarding the level of accountability currently being shown and feel that the industry is doing a "good" job of being accountable to the public (mean of 6.7 on the 10 point scale). For the most part, they also believe that their own organization is doing a "very good" job in this regard (mean of 8.31) than the sector as a whole.

Because the above numbers reflect only the opinion of individuals responding to the survey, that may partially account for the higher scores reflected in Table 4.4 than in Table 4.3. The mere fact that the respondents were willing to fill out the survey may have contributed to the belief that they (and therefore their organizations) were more accountable than other organizations which may not have completed the survey, and created some bias in responding towards organizations which are more accountable. Given the overall level of response, however, there appears to be room for improvement, and, if there was some bias introduced, the actual level of accountability in this industry may be even less than indicated in this study. If, as the results seem to indicate, leaders in this sector believe that their organizations are already doing a good job of being accountable, it is unlikely that they will see a need for any major changes from how they are currently performing in this regard.

Key Findings

The following analyses used the chi square test of independence to examine whether type of group (ECFA, other evangelical, religious or secular) differed significantly in their responses (yes, no) to a variety of questions. These questions focused mainly on key areas of accountability including governance issues, financial controls, audit practices, performance monitoring and financial reporting. In reviewing these results, the reader is advised to exercise caution in interpreting any one test with $\underline{p}$ near .05 due to the large number of tests performed and the resulting possibility of alpha inflation. Alpha inflation is the increased risk of a statistically significant finding resulting strictly from chance due to the use of a large number of significance tests.

Mission Statements

The importance of organizational mission statements is well established in management literature. Of those responding to this study, 214 (98 percent) indicated that their organizations have a formal mission statement (Table 4.5) and there were no meaningful differences between groups. Neither the ECFA, Better Business Bureau or the National Charities Information Bureau have standards regarding mission statements, however in view of the high percentage of organizations reporting having one, a formal standard regarding this does not appear necessary.

Table 4.5

Organizations Having a Written Mission Statement

	ECFA	Evangelical	Religious	Secular	Total	Percent
Yes	73	43	48	50	214	98 %
No	0	2	2	1	5	2 %
Total	73	45	50	51	219	100 %

Performance Goals

The benefit of performance goals is also well documented in management literature although, again, there is no specific requirement regarding goals in the standards of any of the monitoring agencies. Sixty percent (131) of those responding answered "yes" to the question, "Does the [your] organization regularly establish quantifiable, measurable goals by which to monitor its performance?"

Table 4.6

Organizations That Regularly Establish Quantifiable, Measurable Goals

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	37	71%	21	10	48%	73	47	64%
Evangelical	30	14	47	15	6	40	45	20	44
Religious	36	20	56	14	8	57	50	28	56
Secular	25	20	80	25	16	64	51	36	71
Average			**64%**			**53%**			**60%**

Overall, secular nonprofits were the highest at 71 percent, while evangelical, religious, and ECFA member organizations replied affirmatively at a rate of only 44 percent, 56 percent and 64 percent, respectively. A chi square test showed no significant differences among small organizations, though statistical power was low due to the limited number of responses from this group. However, the test did reveal significant differences among groups for large organizations, $\chi^2(3, N = 143) = 7.882$, $p < .05$.

Follow up 2x2 chi square tests revealed significant differences across large organizations when comparing ECFA members to evangelical, $\chi^2(1, N = 82) = 4.85$, $p < .05$, religious to secular, $\chi^2(1, N = 61) = 3.91$. $p < .05$, and evangelical to secular, $\chi^2(1, N = 55) = 6.42$, $p < .05$. The simple frequencies of response, supported by the chi square test, show that ECFA members are much more likely to use goals than other evangelical organizations in general, even though the use of goals is not a specific requirement of the ECFA. Secular organizations are also more likely to use goals than either Religious or Evangelical groups. While failure to establish measurable goals does not violate standards of the ECFA or the two main monitoring agencies, the use of such goals would seem to indicate a greater willingness by an organization to hold itself accountable, even if only internally. Overall, Secular organizations scored highest in this regard (71 percent), followed by ECFA members at 64 percent.

Compliance with ECFA and Other Agency Standards

Table 4.7 presents a summary of key standards of the ECFA and the two primary nonprofit monitoring agencies (the Better Business Bureau and National Charities Information Bureau). Following this table are additional tables which summarize the actual survey results relating to these standards along with a discussion as to how the various sample groups rated in terms of following them. Using these results, I then answer the research questions and review the hypotheses as discussed in the Methodology section in Chapter 3.

Standard 1: Governing Board

Monitoring agencies frequently begin by looking at the size of an organization's governing board, even though this is not the primary or best measure of accountability since there is no one optimal board size. Too few board members can easily result in domination by the leader or inadequate expertise for proper oversight. Too large a board can become unmanageable or too fragmented to function effectively. The proper number of board members for an entity will be based on a variety of factors including the size, nature and complexity of the organization.

Table 4.7

Summary of Measurable Accountability Standards of Key Nonprofit Monitoring Agencies

Standard	ECFA	Better Business Bureau	National Charities Information Bureau
1. Governing board	A responsible governing body	Adequate governing body	Independent volunteer board; minimum five (5) members
2. Frequency of Board meetings	At least two (2) per year	At least three (3) per year	At least three (3) per year
3. Annual Audit	Annual audit if income is over $500,000 per year. (Otherwise biennially)	Annual audit if income over $100,000 per year	Annual audit
4. Audit committee	Should have an Independent Audit Review Committee	No separate requirement*	No separate requirement
5. Financial statements	Available to anyone upon request	Available to anyone upon request	Available to anyone upon request
6. Conflicts of interest	No conflicts of interest	Only incidental conflicts of interest	No conflicts of interest
7. Use of Funds	Must insure that funds raised are used for purposes intended.**	Fund-raising costs may not exceed 35% of contributions. Fund-raising and administration costs should not exceed 50%.	At least 60% of annual expenses must be used for program.
8. Issuance of an annual report	No requirement except financial statements	Should prepare annual report, available upon request, which includes organization's purposes, description of programs and information regarding governing board.	Should prepare annual report or equivalent, available upon request, that includes organization's major activities and list of board members.

* Included in duties of board.
** Majority of funds to be used for program is implied and is monitored annually by ECFA.

A major standard of all three watchdog groups is that nonprofit entities should have a responsible governing board consisting primarily of independent volunteers who are capable of giving proper oversight to the organization's affairs.[4] In the case of the National Charities Information Bureau (NCIB), five board members is the minimum number for meeting this standard. The other two organizations do not specify any specific number.

Table 4.8 shows the number of members on their governing board as reported by each organization responding. The mean number of board members was 14 with a median number of 12. Ninety-six percent of the organizations responding had at least five board members (the NCIB minimum); only eight (4 percent) did not. Of the eight, four had four members and the remainder three. Each of the eight was a very small organization with an income of less than $250,000 per year. Therefore, it appears that almost all organizations meet this standard and that ECFA members are no more or less accountable in this regard.

Table 4.8

Number of Members on Governing Board

	ECFA	Evangelical	Religious	Secular	Total
4 or fewer	1	3	3	1	8
5 to 7	10	8	5	1	24
8 to 12	35	20	15	20	90
13 to 16	16	3	12	10	41
17 to 20	6	6	4	3	19
21 to 25	2	2	3	7	14
More than 25	3	3	8	9	23
Average	**13**	**13**	**15**	**17**	**14**

[4] The word "primarily" as used here refers to the number of paid staff on the board. All non staff board members are expected to be volunteers according to the standards of the three monitoring agencies.

Fifty-four percent of those responding indicated there were no employees represented on the organization's board of directors while 30 percent reported just one employee as a board member; usually the president or CEO of the organization. Ten percent indicated 2 employees on the board. This finding indicates that, generally speaking, nonprofit organizations have a sufficient number of board members to provide for a variety of skills and perspectives in their governing body and the ability to give effective oversight to the organizations they represent, independent of management control. This assumes, of course, that the board members are selected appropriately.

In just slightly over one percent of the organizations are board members paid for their services. This is consistent with the recommendation of all three watchdog groups that board members of charitable organizations (except those who are also part of the organization's staff) should volunteer their time and not be paid for their services. Almost half of the organizations (46.8 percent) had no term limits for board members, thus hindering, to some extent, the ability to bring on new members as may be desirable or to replace members whose service may no longer be effective or needed.

Part of responsible board governance is ensuring that there is appropriate training of board members to help them properly exercise their duties. This process begins with providing new board members an orientation when they begin their board service. Table 4.9 indicates the number and percentage of organizations that provide orientation for new board members.

Table 4.9

Organizations That Provide Orientation for New Board Members

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	37	71%	21	14	67%	73	51	70%
Evangelical	30	19	63	15	9	60	45	28	62
Religious	36	28	78	14	13	93	50	41	82
Secular	25	24	96	26	22	85	51	46	90
Average			**76%**			**76%**			**76%**

Seventy-six percent of those responding indicated that new members are given some orientation when they join the board. In this case, the percentage was the same for both large and small organizations. Among groups, ECFA members scored lower than average at 70 percent while secular organizations were the highest at 90 percent. A chi square test of independence revealed that the differences between groups for small organizations was not significant, however was significant for large ones, $\chi^2(3, N = 143) = 8.718$, $p<.05$. Separate chi square tests among groups showed significance for large organizations between secular organizations and the other three groups; ECFA and secular, $\chi^2(1, N = 77) = 6.33$, $p<.05$, evangelical and secular, $\chi^2(1, N = 55) = 8.53$, $p<.05$, and secular versus religious, $\chi^2(1, N = 61) = 3.90$, $p<.05$. Secular organizations perform more effectively in providing orientation for their board members than ECFA, evangelical or religious ones.

Similarly, secular organizations are more likely to provide some form of periodic training for board members although the overall average for all groups was only 25 percent and only one group (secular) exceeded 40 percent for this item. Again, there was no difference in overall averages for either large or small organizations indicating that larger organizations, on average, perform no better in this regard than smaller ones. Table 4.10 shows the number of respondents that provide outside training for their boards on a periodic basis after they have begun their duties.

Table 4.10

Organizations that Provide Periodic Outside Training to Help the Board Better Understand the Nonprofit Sector and its Duties

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	10	19%	21	5	24%	73	15	21%
Evangelical	30	5	17	15	1	7	45	6	13
Religious	36	9	25	14	4	29	50	13	26
Secular	25	12	48	26	9	35	51	21	41
Average			**25%**			**25%**			**25%**

Overall, secular organizations provide such training at over twice the rate (41 percent) than the average for the other three groups combined (20 percent). Due to the small number of organizations responding affirmatively to this question among small organizations, the chi square test could not be used. For large organizations, the chi square test showed that there was a significant difference in responses between the four groups, $\chi^2(3, N=143)=12.76, p<.05$. Follow up 2x2 chi squares for large groups showed significant differences between the ECFA and secular groups, $\chi^2(1, N=77)=8.66, p<.01$, evangelical and secular groups, $\chi^2(1, N=55)=9.55, p<.01$, and religious versus secular, $\chi^2(1, N=61)=4.67, p<.05$. Given the importance of this issue, the ECFA may want to review this area to see how it can encourage (and even help provide) some form of training for the boards of its members.

Standard 2: Frequency of Board Meetings

While there is no legal requirement for a specific number of board meetings per year, it is generally acknowledged that the board must meet often enough to have a sufficient understanding of the organization's affairs to provide proper oversight and control. Of those responding, eight organizations (4 percent) had only one board meeting per year, which fails to meet the standard of the ECFA or the two main monitoring agencies. No ECFA member had fewer than two meetings per year, the minimum number for meeting ECFA requirements. Therefore, no ECFA organization failed the accountability test according to this measure. The average number of board meetings per year for all organizations was 5.7 with a median number of four. The number of meetings by group, however, varied widely. On average, secular organizations were inclined to meet more frequently than the other groups with an average of 8.1 meetings per year versus an average of only 4.2, 4.0 and 7.0 for the other three groups. Table 4.11 shows the number of regularly scheduled board meetings per year by group

Table 4.11

Number of Regularly Scheduled Board Meetings Per Year

No.	ECFA	Evangelical	Religious	Secular	Total	Percent
1	–	5	2	1	8	3.9 %
2	26	17	4	3	50	22.8
3	17	4	1	-	22	10.0
4	14	10	12	10	46	21.0
5	1	-	2	1	4	1.8
6	6	3	9	8	26	11.9
7	-	-	-	-	-	-
8	-	-	-	1	1	.5
9	-	-	2	-	2	.9
10	1	-	4	9	14	6.4
11	2	1	2	2	7	3.2
12	6	5	12	16	39	17.8
	73	**45**	**50**	**51**	**219**	**100 %**
Mean	**4.2**	**4.0**	**7.0**	**8.1**	**5.7**	

A one way ANOVA found significant differences between groups, F (3, N= 219) =19.15, $p < .01$. In addition, as indicated by pairwise comparisons of the means, Tukey's HSD test showed that the evangelical and ECFA groups were significantly lower than the religious and secular groups, $p < .05$. It could be assumed that the frequency of board meetings might increase as revenue increases and organizations become larger, however the opposite was noted. The Pearson's Correlation between income and frequency of board meetings was negative ($r = -.191$, $p < .01$) indicating that larger organizations, as measured by income, generally hold fewer board meetings per year than do small ones. Small organizations indicated an average of 6.8 board meetings per year whereas large organizations reported an average of only 5.3 meetings per year.

One explanation for the greater number of board meetings by small organizations is that when an entity is small it often must rely on board members to a greater extent to provide necessary skills and expertise that the organization cannot afford to provide itself. In addition, it often has more problems to deal with. As the organization grows, it is able to hire more staff to properly handle the organization's affairs. In addition, small organizations are generally more localized and have board members who reside close to the organization and therefore travel is not a problem.

As organizations grow larger, they often cover much wider geographical distances which makes frequent board meetings (i.e., monthly), more difficult and costly. Over 95 percent of organizations responding hold two or more board meetings per year, thus demonstrating accountability according to this standard. In addition, larger organizations often have an executive committee of the board which meets more frequently thereby helping to fill in this gap.

While the importance of a responsible governing board is well recognized, just over half (52 percent) of the organizations indicated having a policy designed to ensure regular attendance by board members. Large and small organizations scored almost the same at 51 percent and 53 percent, respectively. If boards are to function properly, regular attendance should be encouraged through appropriate board policies and action.

Standard 3: Annual Audit

The need for regular audits of an organization's financial statements by qualified independent auditors has been noted by almost all writers on the subject of nonprofit accountability and an annual financial audit is a basic standard of all three watchdog groups, although there is some allowance for very small organizations to be audited bi-annually.

Table 4.12

Does the Organization Have an Annual Audit?

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	52	100%	21	20	95%	73	72	99%
Evangelical	30	30	100	15	7	47	45	37	82
Religious	36	35	97	14	6	43	50	41	82
Secular	25	25	100	26	20	77	51	45	88
Average			**99%**			**70%**			**89%**

As shown in Table 4.12, 89 percent of the organizations responding indicated that they do undergo an annual audit or equivalent. Ninety-nine percent of large organizations reported having an annual audit versus only 70 percent of small organizations. Of those indicating that they do not have an annual audit, almost all were small organizations that fell within the criteria for having other than an annual audit as allowed by both the ECFA and the Better Business Bureau. In other instances, certain organizations are required to file state information returns prepared by independent accountants which, for the most part, serve the same purpose as audited financial statements.[5] Therefore, this important element of accountability seems to be followed by most organizations.

Given the high rate among large organizations, the chi square test was not applicable in this case. With 99 percent of large organizations indicating they have an annual audit, ECFA membership appears to make little or no difference in this regard. For small organizations, however, the chi square test did reveal significant differences, $\chi^2(3, N = 76)$

[5] For purposes of this study, state filings were treated the same as audited financial reports.

=11.043, p<.05. Among small organizations, 95 percent of ECFA members reported being audited annually versus an average of only 56 percent for the other three groups combined. Two by two chi squares for small organizations showed a significant difference between ECFA members and evangelical organizations, $\chi^2(1, N=36) = 8.89$, $p<.05$, and ECFA members and religious organizations, $\chi^2(1, N=35) = 9.75$, $p<.05$.

Standard 4: Audit Committees

In recent years, audit committees have become an important part of the governance structure of many organizations. First required by the New York Stock Exchange for publicly traded companies in the 1970s, the concept of audit committees has now expanded into the not-for-profit arena as well. Found primarily in larger organizations, growing public scrutiny of both the public and private sectors has focused increasing attention on the important role the audit committee can play in promoting accountability in any size organization.

Table 4.13 shows the number of organizations surveyed that have an audit committee by both size and group. Overall, 54 percent of large organizations reported having an audit committee versus only 36 percent of small organizations. Seventy percent of large ECFA members have such a committee with small ECFA members reporting roughly the same amount (71 percent). As the percentages show, ECFA members are much more likely to have such a committee than other evangelical or religious organizations, and twice as likely as secular nonprofits.

Table 4.13

Organizations That Have an Audit Committee

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	37	70%	21	15	71%	73	52	71%
Evangelical	30	14	47	15	7	47	45	21	47
Religious	36	16	44	14	2	14	50	18	36
Secular	25	10	40	26	3	12	51	18	35
Average			**54%**			**36%**			**50%**

A chi square test confirmed the high degree of differences among groups, $\chi^2(3, \underline{N} = 219) = 20.30$, $\underline{p} < .01$. The chi square value for large organizations was $\chi^2(3, \underline{N}=143) = 7.91$, $\underline{p}<.05$ while the chi square for small organizations was higher at $\chi^2(3, \underline{N}=76) = 13.76$, $\underline{p}<.05$. Further analysis using 2x2 chi squares showed significant differences between the ECFA and Religious groups for both large and small organizations; $\chi^2(1, \underline{N} =88) =5.41$, $\underline{p}<.01$ and $\chi^2(1,\underline{N} =35)=10.98$, $\underline{p}<.01$, respectively; between ECFA and Secular groups for small organizations, $\chi^2(1, \underline{N} =47) =10.99$, $\underline{p}<.01$, and between ECFA and Evangelical groups for large organizations, $\chi^2(1, \underline{N} =82) =5.31$, $\underline{p}<.01$.

ECFA standards require member organizations to have an audit committee unless the full board acts to serve that purpose. Neither the Better Business Bureau (BBB) or the National Charities Information Bureau (NCIB) make audit committees a separate requirement; however, the BBB does include the functions of an audit committee among the responsibilities of the board.

Because the number of "yes" responses for small organizations was less than the minimum required for meaningful chi square analysis, the chi square test could not be used for this variable to make individual group comparisons. The much higher frequency of positive response by ECFA members (71 percent) than the other three groups combined (22 percent) would seem to indicate, however, that, among small organizations, ECFA membership has had a definite impact when it comes to the use of audit committees, $\chi^2(1, \underline{N} = 76) = 5.41$, $\underline{p} < .05$.

One of the purposes of an audit committee is to provide a small working group of board members that can interface more directly with the organization's auditors for discussion of matters that might be more difficult to handle in a larger group such as the full board. While management is generally present for such meetings, at some point management is usually excused so that the board can discuss the auditors' findings and observations in an environment that might be more difficult or awkward with management present. The benefits of this approach are discussed in the case studies presented in Chapter six.

Table 4.14 shows the number of organizations responding which hold meetings between board members and auditor without the presence of management or staff. Here again, ECFA members scored the highest, with 48 percent of its members indicating such meetings versus an average of only 28 percent for the other three groups combined. Overall, large organizations are twice as likely to meet privately with their auditors than smaller ones (42 percent versus 21 percent). A chi square test reveals significant differences among groups for large organizations, $\chi^2(3, \underline{N} = 143) = 9.04$, $\underline{p} < .05$, however, due to the low number of responses by small organizations, no group comparisons could be tested.

Table 4.14

Organizations Which Hold Private Meetings Between Board Members and Auditors Without the Presence of Management

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	30	58%	21	5	24%	73	35	48%
Evangelical	30	8	27	15	3	20	45	11	24
Religious	36	13	36	14	1	7	50	14	28
Secular	25	9	36	26	7	27	51	16	31
Mean			**42%**			**21%**			**35%**

Among large organizations, follow up 2x2 chi square tests showed significant differences as follows: ECFA versus evangelical, $\chi^2(1, N = 82) = 7.37$, $p<.05$, and ECFA versus religious, $\chi^2(1, N = 88) = 3.97$, $p<.05$. The comparison between the ECFA and secular group, while noticeably different numerically, was in the borderline for being significant statistically at $p< .07$. Therefore, it is reasonable to conclude that ECFA members are more accountable than other evangelical or religious organizations in this area and tend to be more accountable than secular organizations in this regard as well.

Standard 5: Availability of Financial Statements

As part of the survey questionnaire, each organization was asked if it makes available a copy of its audited financial statements to anyone who requests it. As shown in Table 4.15, 100 percent of ECFA members responded positively versus an average of 81 percent for the other three groups combined, all of which were within 2 percent of each other at 80, 80 and 82 percent, respectively. Because of the very small number of negative responses to this item, chi square tests for comparing groups was not appropriate for this item. A simple comparison of percentages, however, shows the overall average for ECFA members of 100 percent to be approximately 20 percent higher than the average for the other three groups combined (81 percent). The average for non-ECFA member large organizations was 87 percent, a difference of 13 percent, with the average for small organizations 73 percent, a difference of 27 percent. A chi square test comparing large ECFA member organizations to the other three groups combined was shown to be significant, $\chi^2(1, N = 143) = 7.54)$ $p < .05$. The chi square for the same comparison for small organizations was similar at $\chi^2(1, N = 76) = 6.97)$ $p < .05$.

Table 4.15
Organizations Indicating That They Make Available a Copy of Their Financial Statements to Anyone Requesting It

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	52	100%	21	21	100%	73	73	100%
Evangelical	30	26	87	15	11	73	45	37	82
Religious	36	30	83	14	10	71	50	40	80
Secular	25	23	92	26	19	73	51	42	82
Average			**92%**			**80%**			**88%**

To determine whether organizations actually do make their financial statements available when requested to do so, as part of this study a letter was sent to the Chief Financial Officer of each organization requesting a copy of either the organization's annual public report (if it included financial statements) or a copy of its audited financial statements if no annual report was prepared. Table 4.16 shows the number of organizations that followed through on the claim that they do provide their financial statements by actually doing so.

Overall, 88 percent of the organizations responding to this survey indicted that they make a copy of their financial statements available to anyone who requests them (Table 4.15). When asked to do so, however, only 61 percent actually complied (Table 4.16). When ECFA members are removed, only 52 (44 percent) of the remaining organizations provided financial statements out of the 119 which said they would. Clearly, this indicates an important gap between what organizations say they do and what they actually do in practice.[6]

Eighty-nine percent of the ECFA organizations which indicated that they make financial statements available actually did so. Only forty-four percent of the other three groups combined provided financial statements, thus supporting the conclusion that ECFA members are much more accountable on this point. The variability between the number of organizations indicating that they make financial statements available upon request and those that actually did so should be a matter of concern for the industry as a whole as it indicates an important credibility gap.

---

[6] This finding raises the issue of the subjective nature of data involved in self-reported evaluations such as that used in this study and the possibility for self serving replies. Some organizations may find it difficult to be completely honest or objective while others may only respond to those who have demonstrated a need to know the information requested. It was intended that by use of multiple questions and objective type answers some of this bias will have been overcome along with the usual cautions appropriate for such self-reported evaluations.

Table 4.16

Percentage of Organizations That Followed Through on Their Claim That They Make Their Financial Statements Available Upon Request

	Large Organizations			Small Organizations			Total All Organizations		
	n	Recd	%	*n*	Recd	%	*n*	Recd	%
ECFA	52	47	90	21	18	86	73	65	89%
Evangelical	26	17	65	11	4	36	37	21	57
Religious	30	10	33	10	4	40	40	14	35
Secular	23	12	52	19	5	26	42	17	40
Mean			**66%**			**51%**			**61%**

n = number of organizations that indicated they do make available financial statements to anyone who requests them.

Large organizations scored higher for all groups except for religious organizations, which often limit such information to only their own members or constituents. Regardless of size, ECFA membership leads to a higher level of accountability in this area.

In order to determine if nonprofit organizations view their donors and the general public as a key audience for purposes of reporting financial information, each organization surveyed was asked to indicate the three primary users of its annual financial report. Table 4.17 provides a summary of responses to this question.

Table 4.17

Primary Users of Organization's Annual Financial Report
(percent of respondents indicating group is one of the three primary users of the organization's annual financial report)

Group	ECFA	Evangelical	Religious	Secular
Board of Directors	90%	53%	88%	88%
Top Management	56	64	70	49
Internal Revenue Service (IRS)	15	27	22	31
ECFA (if a member)	82	-	-	-
A professional, trade, or similar group	4	22	6	2
General Public	7	7	12	16
Donors	23	40	26	51
United Way	4	2	18	29
Bankers or Other Lenders	4	13	18	12
Others	10	4	16	16

As indicated, the board of directors and top management are the primary users of this report except in secular organizations where the rating for donors and top management were almost equal at 51 percent and 49 percent, respectively. The low score for donors reported by ECFA members (23 percent) appears to be due to the fact that most ECFA members (82 percent) indicated that the ECFA organization itself was a primary user of their report whereas the other organizations did not have this category as a potential user.[1] Also, some organizations believe that by being a member of the ECFA and submitting their financial statements to it, the organization is demonstrating its accountability to the public. At the same time, ECFA membership no doubt satisfies many donors to the extent that they

[1] Each year members of the ECFA are required to submit a copy of their audited financial statements to the ECFA as part of their annual membership renewal process.

don't feel the need to review individual annual reports themselves. The trust factor created by the ECFA may, in many instances, fulfill this need.

The much lower scores for both donors and the general public among the ECFA and Religious subgroups indicate that while there is much talk about accountability to donors and the general public, these groups are still not viewed as primary audiences for financial reporting by most organizations. This may help explain why many nonprofit financial reports are not readily understood by the general public; they are not prepared primarily for them and, as noted by Barna (1997), few individuals ever actually request them. Most donors do, however, want to know that they are available and, hopefully, that someone is reviewing them.

It is recognized that the information needs of management and boards are much higher than others because they are the primary users of the organization's financial information and that was taken into consideration when the question was prepared. The question, however, deals with readers of the organization's *annual financial report* which is generally a more public document and intended for a broader, primarily outside, audience. The responses to this question would seem to indicate that there is not a clear understanding regarding the preparation of an annual report for board/management purposes and one intended for more public distribution. This may help explain why so few organizations actually prepare such reports.

Standard 6. Conflicts of Interest

Recognizing the problems that conflicts of interest can cause, a standard of the

ECFA and the other monitoring agencies is that conflicts of interest are to be avoided. To help in this regard, many organizations have developed formal conflict of interest policies. Such policies are helpful in ensuring that employees and board members are aware of the potential for conflicts of interests in the performance of their duties and in expressing the organization's policies regarding them. Table 4.18 shows the number of organizations that indicated having a formal policy regarding conflicts of interest.

Table 4.18
Organizations Having a Written Policy Regarding Conflicts of Interest*

	Large Organizations			Small Organizations			Total All Organizations		
	n	Yes	%	*n*	Yes	%	*n*	Yes	%
ECFA	52	40	77%	21	15	71%	73	55	75%
Evangelical	30	15	50	15	5	33	45	20	44
Religious	36	28	78	14	7	50	50	35	70
Secular	25	21	84	26	13	50	51	34	67
Mean			**73%**			**53%**			**66%**

* Conflict of interest policies are generally not limited to accounting issues only but include any matter in which a board member or employee could materially benefit personally from a decision in which they were involved in making.

Overall, 66 percent of organizations indicated having such a policy. ECFA members scored higher (75 percent) than the overall mean of 66 percent with other evangelical organizations the lowest at only 44 percent. As expected, larger organizations are much more likely to have formal written policies than small ones. While the overall average for small organizations (53 percent) was much lower than that for large ones (73 percent), the rate for ECFA members was similar for both groups, 71 and 77 percent respectively. Among small organizations, ECFA members scored much higher (71%) than the other groups; 33, 50 and 50 percent, respectively, $\chi^2(1, \underline{N} = 76) = 4.84$, $p < .05$. Follow up 2x2 chi square tests among large organizations showed significant differences between the evangelical and other three groups as follows. ECFA, $\chi^2(1, \underline{N} = 82) = 7.33$, $p < .01$, religious, $\chi^2(1, \underline{N} = 66) = 4.42$, $p < .05$, and secular, $\chi^2(1, \underline{N} = 55) = 5.30$, $p < .05$. As a result, once again we can conclude that ECFA membership can be an important factor in predicting higher levels of accountability, particularly among small organizations.

Standard 7: Use of Funds

Perhaps the most common measurement used to evaluate nonprofit organizations is the percentage of funds received that is used for program, administrative and fund raising purposes. Since disclosure of these items is required under generally accepted accounting principles, it is one of the few standard measures by which nonprofit organizations can be compared.[2] Although the amounts differ, all three monitoring agencies have established standards regarding the percentage of funds that should be used for program purposes (Table 4.7).

Based upon the information contained in the financial statements received, Table 4.19 indicates the percentage of funds used, by group, for various purposes. Tables 4.20 and 4.21 present the same information based upon size of organization. The amount of funds spent on program and overhead by all four groups was well within the guidelines of the three major monitoring agencies. The overall average amount of funds spent for program (76

---

[2] For further information regarding these disclosures, see the *AICPA Audit and Accounting Guide, Not-For-Profit Organizations*, issued by the American Institute of Certified Public Accountants, 1996.

percent) is the same percentage noted by Cook (1991) in his study of spending patterns of 127 of the largest charities in the United States at that time (180) and indicates that this amount has remained fairly constant for the past few years.

A factorial ANOVA was performed on the data contained in these three tables which revealed no main effect by subgroup or size for either the amount spent on program or for administrative purposes. It did show a main effect by type of group for amounts spent on fund raising, however, $\underline{F}$ (3, N=115) =3.32), $\underline{p}$< .05, mainly due to significantly smaller amounts spent on fund raising by religious organizations. A Tukey's post hoc analysis, however, revealed that the differences between groups were not statistically significant.

As shown in Tables 4.19 and 4.20, the overall grand mean spending by category for large organizations is approximately the same as for all groups combined. The pattern for small organizations shown in Table 4.21 is somewhat different for religious and evangelical organizations as some of the religious organizations submitting financial information reported no fund raising expense at all. Due to the limited number of responses by small organizations it was not possible to draw statistically valid conclusions based on this sample. It does point out, however, that care must be exercised when comparing financial information between these groups as there can be important and explainable differences which are not always readily apparent.

Table 4.19

Percentage of Total Income Used by Activity – All Organizations

Group	n	Program	Administrative	Fundraising	Other
ECFA*	63	72.6%	13.1%	6.3%	8.0%
Evangelical	21	76.2	13.2	4.3	6.3
Religious	14	80.3	10.0	1.8	7.9
Secular	17	77.4	10.3	5.5	6.8
Grand Mean		**76.6%**	**11.6%**	**4.5%**	**7.3%**

Note: A one way ANOVA showed no significant differences between groups for any of the above ratios.

Table 4.20
Percentage of Total Income Used by Activity - Large Organizations

Group	n	Program	Administrative	Fundraising	Other
ECFA*	47	71.7%	13.0%	5.6%	9.7%
Evangelical	17	75.7	13.7	5.2	5.4
Religious	10	77.4	12.1	2.6	7.9
Secular	12	79.0	9.4	4.1	7.5
Grand Mean		**76.0%**	**12.0%**	**4.4%**	**7.6%**

Table 4.21
Percentage of Total Income Used by Activity –Small Organizations

Group	n	Program	Administrative	Fundraising	Other
ECFA*	16	77.4%	12.7%	7.5%	2.4%
Evangelical	4	78.4	10.7	.8	10.1
Religious	4	87.3	4.7	0	8.0
Secular	5	74.0	12.5	8.3	5.2
Grand Mean		**79.3%**	**10.2%**	**4.2%**	**6.4%**

* **While a total of 67 financial statements were received from the ECFA group, four were determined to be special types of organizations for which the above categories were not . applicable. As a result, only 63 statements were used in performing this analysis**

When using percentages such as the above, it is important to note that the amount spent on programs can vary depending on a number of factors including the age of the organization (new organizations will generally spend more on fund raising as they seek to develop an ongoing support base), and the nature of program(s) (some programs require more administration than others). In addition, accounting practices may differ among organizations regarding how certain expenses are allocated.

In interpreting financial information, however, mere ratios alone are not enough. Without objective goals and other measurements, there is really no way of knowing how effectively funds are actually spent. As government programs have frequently demonstrated, large amounts spent on social activities alone do not guarantee good results. It may simply indicate wasted or poorly managed funds (Nash, 1983). Similarly, small overhead rates can be the result of important administrative functions not being properly performed and low fund raising costs may mean that inadequate investment is being made by management to properly position the organization for the future.

In many cases, secular charities receive much of their funding from the United Way or government grant programs which reduces the need for them to engage in extensive fund raising activities. Similarly, religious organizations may be associated with churches or denominational bodies which provide funding, staff, facilities or other resources at little or no charge. In view of the number of variables involved, financial ratios should be interpreted carefully when evaluating nonprofit performance and should not be used as the sole criterion. The most important factor should be how effective the organization is in carrying out its mission.

Overall, the amount of funds spent on program and other activities by all four groups is well within the standards of all three monitoring agencies, and there were no statistically significant variances among groups. General religious organizations tended to spend slightly higher amounts on programs and less on fund raising than the other three groups. This is most likely due to the fact that some of the religious organizations responding were supported to some extent by denominations or other religious bodies which reduced the need for fund raising by these organizations.

Standard 8: Annual Reports

One of the most frequent criticisms of nonprofit organizations is that they do not provide adequate disclosure of their finances or activities (Herzlinger, 1996; Robinson, 1976). One of the primary purposes of an annual report is to inform the reader of the organization's accomplishments and how management has handled the resources entrusted to it. To help promote the availability of such information, both the Better Business Bureau (BBB)[3] and the National Charities Information Bureau standards[4] require that an "annual report" (or equivalent information) be made available to anyone requesting it. This is in addition to the organization's financial statements which can either be provided separately or included as a part of the annual report itself. ECFA standards require only that members make a copy of their audited financial statements available; they do not specify any additional disclosures.

---

[3] From the *Standards for Charitable Solicitations* issued by Philanthropic Advisory Service of the Council of Better Business Bureaus, Inc.(Appendix E).

[4] Taken from *Standards in Philanthropy* published by the National Charities Information Bureau (Appendix F).

In order to test compliance with this standard, a copy of the organization's annual report was requested from each of the 400 organizations surveyed or, if no annual report was prepared, a copy of the organization's financial statements. Overall, reports or statements were received from only 117 (29 percent) of the 400 organizations surveyed as shown in shown in Table 4.1. The actual nature of the reports received varied widely from simple summarized financial information to full color glossy annual reports. The majority of organizations, however, merely provided the basic audited financial statements as prepared by their auditors.

Table 4.22 shows the nature and number of information/reports received by group. Seventy-one percent of the organizations surveyed provided no type of report whatsoever. Sixty-five percent of ECFA members provided either a financial report or some type of information, almost four times the average rate of only 17 percent for the other three groups combined. While the ECFA clearly performed much better than the other groups in this area, few organizations provided all the information recommended by either the BBB or NCIB and therefore none of the groups is considered to have passed this standard. While ECFA member organizations were clearly much more accountable in providing some form of information, generally a copy of their audited financial statements, they were neither more or less accountable in the area of producing a separate annual report. Unlike other watchdog organizations, however, the ECFA does not have a specific standard in this regard. Given that both the BBB and NCIB do have standards regarding annual reports, the ECFA may want to consider adding this to their own standards to bring them into line with the other two monitoring agencies.

Table 4.22
Nature of Information Received

	ECFA	Evangelical	Religious	Secular	Total n.	Total %
Annual report including financial statements	8	4	3	2	17	4%
Audited financial statements with additional information	10	6	6	4	26	7
Basic audited financial statements prepared by auditor	43	7	1	9	60	15
Summary or other information	4	4	4	2	14	3
Number of organizations providing some financial information	**65**	**21**	**14**	**17**	**117**	**29%**
No information provided	35	79	86	83	283	71
Total	**100**	**100**	**100**	**100**	**400**	**100%**

Note: Totals by group each add up to 100 as that was the total number of organizations surveyed in each group.

Table 4.23 shows the extent of disclosure of various items of information based on a review of the materials received as part of the survey process. In most cases, this information was taken from the financial statements themselves as these were the only documents received. The remainder was taken from annual reports, transmittal letter, or other information provided by the organization. On average, only 40 percent of those responding provided any information about the organization's programs and only 26 percent included the names of board members. In addition, while the purpose or mission of the organization is one of the most important pieces of information regarding a nonprofit, almost one-fourth (25 percent) of all organizations failed to disclose their basic reason for existence.

Table 4.23

Key Information Disclosures (Percentage of Organizations Disclosing the Information Indicated in Ether it's Financial Statements or Other Documents Provided)

	ECFA Member		Evangelical		Religious		Secular		Total	
Information Disclosure	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Purpose of Organization	54 / 65*	83	18 / 21*	86	8 / 14*	57	9 / 17*	35	89 / 117*	76
Mission Statement	7	11	1	5	1	7	5	29	14	12
Description of Programs	28	43	7	33	7	50	5	29	47	40
Program Accomplishments	14	22	8	38	1	7	5	29	28	24
Letter from President or Board Chair	11	17	9	43	4	29	3	18	27	23
Names of Board Members	12	18	9	43	5	36	4	24	30	26
Frequency of Board Meetings	1	2	0	0	0	0	0	0	1	1
Membership in Other Organizations	1	2	2	10	0	0	2	12	5	4
Year of Founding or Incorporation	16	25	4	19	7	50	5	29	32	27
Statement of Functional Expenses	22	34	8	38	8	57	14	92	52	44
Reference to ECFA	9	14	n/a		n/a		n/a		n/a	
* Total number of responses received for this group.										

ECFA and evangelical organizations scored highest at 83 percent and 86 percent, respectively, while only 57 percent of religious organizations and 35 percent of secular ones provided this information. The survey letter used for this study only requested a copy of the organization's annual report or, if no report was prepared, a copy of its latest audited financial statements. As a result, the position could be taken that failure to provide the above information did not constitute a basic weakness in accountability since it was not specifically requested in the survey letter. Given that the above disclosures are recommended by both the BBB and NCIB, however, such information should be considered as important for meaningful reporting by all nonprofit organizations.[5]

At the same time, some organizations might argue that they have no obligation or desire to make such information available to the general public, but only to those with a demonstrated interest in the organization or its mission. This could be a logical position for certain types of nonprofits such as veterans, fraternal and similar organizations which receive their support primarily from, and provide services mainly to, their own members. For organizations which rely on more general public support, however, this position would not be consistent with the current thinking or trend of the major nonprofit monitoring agencies.

[5] As discussed in Chapter 5, one limitation of this study is that in the process of requesting information I only identified myself as a researcher; not as a contributor or other stakeholder Had I been able to do so, it may have resulted in a more favorable response by some of the organizations surveyed.

The annual report of a nonprofit organization serves much the same function as annual reports required of public companies. It is intended to communicate to stakeholders what the organization accomplished during the year and its source and use of resources. Every publicly traded company is required to file, and to make available to its stockholders, an annual report that includes a discussion by management of the company's results for the year. Until recently, there was no similar requirement for nonprofit organizations. Effective in January 2000, however, nonprofit organizations are now required to make their annual IRS Form 990 information returns available to the public. Churches and certain other religious organizations, however, are still exempt from this requirement..

Of those organizations which did provide information, 75 percent did *not* discuss program accomplishments at all and only 23 percent included a letter or message from the president or board chair discussing anything about the organizations activities as is usually done in public companies. As contributors to nonprofit organizations provide the funds necessary for these entities to operate much in the same way as shareholders provide the working capital for public companies, it seems that they should be entitled to the same basic information. As a minimum, organizations should include a summary of their activities and accomplishments during the year along with any other information presented.

ECFA members are slightly higher than average in disclosing their purpose and in describing their programs. They are slightly below average in discussing program accomplishments. The results in this section indicate that there is much room for improvement in reporting by the nonprofit sector, both in terms of the availability of information as well as the nature of information presented.

Based upon the results presented in this chapter, Table 4.24 provides a brief summary of how ECFA members compared to the other groups tested on certain key items.

Table 4.24

Summary Table: How ECFA Members Compare To Other Organizations On Various Areas of Accountability

Area	ECFA Members More, Comparable, or Less Accountable
Sharing Information Openly	More
Have Responsible Governing Board	Comparable
Having Sufficient Number of Board Meetings	Comparable
Undergoing an Annual Audit	More
Having an Audit Committee	More
Providing Financial Statements	More
Conflicts of Interest Policy	More
Use of Funds	Comparable
Providing annual reports	Comparable

CHAPTER 5

DISCUSSION

This chapter discusses the results of this study and their implications for improving the accountability of nonprofit organizations. Based on these findings, I conclude that self-regulation, as practiced by the ECFA, has been successful in increasing accountability, particularly among small organizations which appear to have been more impacted by ECFA membership than large ones. I then examine two important case studies in the light of the ECFA model to determine how self-regulation might further strengthen safeguards against scandal and abuse. The chapter concludes with some possible lessons for both ECFA-style self-regulation in general, and the ECFA in particular, based on this study.

Implications for Accountability and Performance

Mission Statements and Goals

In recent years, increasing attention has been given to the importance of the organization's mission statement, particularly among nonprofit organizations (Drucker 1989b; Nash 1983; Jeavons 1994b). This statement is the key link between the presumably deeply held principles and purpose of the organization and the conduct of those representing it (Lawry 1995, 174).

Ninety-eight percent of the organizations responding to this survey indicated that they have a mission statement (Table 4.5), thus demonstrating strong general recognition of the importance of this document. When it comes to translating their mission statement into specific objectives, however, only sixty percent regularly establish quantifiable goals by which performance can be measured. Seventy-one percent of secular nonprofits do so while the average for the other three groups was much lower at fifty-five percent (Table 4.6).

One of the reasons for the large difference between the secular and other three groups appears to be that in many nonprofit organizations, particularly those with religious orientation, objectives (noble as they may be), are often vague such as to preach the gospel, feed the hungry or serve the poor. To some people, attempting to quantify such lofty aims is considered too "business-like" for religious activities. Secular nonprofits, on the other hand, often receive funding from the United Way or governmental agencies for the purpose of achieving certain objectives such as literacy training, job creation, reducing teen pregnancy or similar activities where funding may be directly tied to the results obtained. In other situations, funding may be based on the number of individuals actually served. Regardless of the reasons for the differences, performance and accountability will generally be improved when the organization's mission is reflected in specific goals and objectives.

Based on their study of this issue, Murry and Tassie (1992) note that in many cases, the lack of agreed upon definitions of effectiveness make measurement difficult (303-305). This highlights the need for there to be a clear understanding regarding an organization's mission and goals if management is to be held accountable for achieving them. One of the roles of the board is to help assess things that are not easily measurable and to see that organizational performance is periodically assessed in some meaningful way. Measurable goals and objectives provide one of the few real means by which the performance of nonprofits can be evaluated on a regular basis. While having measurable goals is not currently a standard of the ECFA or other monitoring agencies, their use by management and boards can help improve accountability by providing a benchmark against which performance is measured.

Governing Board

Most writers on the subject of nonprofit management emphasize the importance of an effective governing board including Drucker (1990), Carver (1990), Herzlinger (1994) and Brown (2000). The fact that board members often do not fully understand their role, or the nature of the organization they are expected to help govern, has also been frequently noted (Deloitte & Touche 1995; Drucker 1990). This is especially true in the nonprofit sector where board members often have little or no experience in actually working in a not-for-profit environment. To overcome this problem, boards need not only training in how to govern the organization they serve, but often training in the nature of the industry and mission of the organization as well.

In their study of nonprofit social service agencies, Green and Griesinger (1996) observed that board development is one of the most significant factors in distinguishing effective organizations from less effective ones. The fact that, on average, only 25 percent of all organizations responding to this study provide any outside training for their boards (Table 4.9) reveals that much can be done to help board members better understand and perform their role.

In the past, boards of directors frequently included a number of the organization's top management among their members. More recently, there has been a growing belief that boards should be bodies distinct from management, serving the role of detached overseers responsible for determining the organization's primary goals and monitoring adherence to those goals. Boards today are viewed as being in a unique position to reflect the broader social values by which the organization should conduct its affairs as well as the social dynamics by which the organization should function (Bradshaw and Vogel 1981, 226-227). The average number of board members for all organizations responding to this study was 14, with a mean of 13 (Table 4.8). Generally speaking, this means that most nonprofits have sufficient board members to provide for a variety ot skills, knowledge and diversity in their overall governance structure. Whether such skills, knowledge and diversity are actually reflected in most nonprofit boards is another matter and depends upon how carefully board members are selected.

Neither board size or frequency of board meetings, however, ensure an effective board. In many cases, smaller boards may be more effective than larger ones because of their ability to focus on issues more quickly and the lack of various, and often divergent, viewpoints that often occur in large boards. Further, too frequent of board meetings may indicate that the board is overly involved in the day-to-day affairs of management rather than focusing on the bigger, more strategic issues of the organization.

In a recent scandal involving the mishandling of over $4 million dollars by the former head of the National Baptist Convention USA, the organization's governing board had over 200 members. Even so, there was little or no management oversight of the organization's affairs, which allowed the problem to occur (Blum 1999). Failure of the board was also cited as a major weakness in both the PTL (Tidwell 1993) and United Way (Glaser 1994) scandals. Boards must be of sufficient size to properly perform their role, but not so large as to be ineffective. More important than size is how well the board understands and carries out its responsibilities.

The frequency of board meetings is generally dictated by a number of factors including the nature of the organization, competency of management and the level of board involvement needed at the time. Newer organizations often require more frequent board involvement than older, more established ones. Additionally, boards with widely disbursed members may find it difficult to meet on a frequent basis and thus rely more on management or a smaller board executive committee to handle much of the work. Therefore, there is no hard and fast rule that can be applied to all organizations as each will have its own unique set of circumstances that must be considered.

Because it is a membership based group, the ECFA assists boards by establishing minimum standards that all member organizations are expected to meet. Since the board chair of each member organization is required to sign an annual renewal application indicating that the organization is in compliance with these standards, it ensures that there is awareness at the board level of standards that the organization is expected to meet. One of the benefits of self-regulation is that it helps in the creation of standards than can address known weaknesses in industry behavior or simply increase the level of existing standards, at least for the group's members. It can also provide a means of monitoring adherence to those standards as well.

Measuring Performance

Measuring performance is important to the success of any organization. For nonprofits it can be even more critical as traditional measurements, such as net income, return on investment or earnings per share, are not applicable (Green and Griesinger 1996; Hall 1991). Because of this lack of readily available measures, many organizations have failed to properly address this issue. Focusing on this problem, Drucker (1989b) warns that "the temptation to content oneself with the goodness of our cause – and thus to substitute good intentions for results – always exists in nonprofit organizations" (89). Another problem is that effectiveness is often viewed differently by different constituencies, often within the same organization.

But it is not just routine performance that needs to be measured. Over time, circumstances change, methods change and organizations change. Periodically, management and the board should step back and do a more thorough analysis to determine if the organization's mission is still relevant and how well the organization is performing in relation to that mission. In recent years, various organizational self assessment tools have been developed for this purpose.[1] Further, in order to provide for a more independent evaluation, the use of an outside consultant or "peer review" by colleagues from similar organizations can be helpful. The requirement and discipline of periodic self appraisal is one of the hallmarks of the academic accreditation process and can benefit other

---

[1] One such tool is Peter F. Drucker's self assessment workbook, *The Five Most Important Questions You Will Ever Ask About Your Nonprofit Organization*. 1993. Others include the *Self Assessment for Nonprofit Governing Boards Kit* published by the National Center for Nonprofit Boards, Washington: D.C. and similar materials available from the Independent Sector, also located in Washington, D.C.

organizations as well. It provides an important means by which both boards and management can evaluate an organizations performance assists in the process by providing a framework for doing so.

Annual Audits and Audit Committees

Annual audits are intended to provide an independent, objective evaluation of an organization's finances and its handling of income received. Overall, 88 percent of organizations responding indicated that they undergo an annual audit (Table 4.12). Ninety-nine percent of ECFA members reported doing so while the other groups ranged between 82 percent and 88 percent. Differences between large and small organizations were more significant. Ninety-eight percent of large organizations reported having an annual audit versus an overall average of only 68 percent of small organizations. Among small organizations, ECFA members scored highest at 95 percent, much higher than the average of 59 percent for the other three groups combined. Based on this finding it can be concluded that ECFA membership does influence smaller organizations to be audited at a much higher rate than other groups, thus indicating a greater level of accountability in this area. Because of the protection it affords, board members, as well as others, should carefully consider becoming involved in any nonprofit organization that does not undergo some form of external audit process on a regular basis.

The main purpose of an audit committee is to oversee the financial reporting of an organization and to ensure the objectivity of the independent audit process. A secondary purpose is to see that the auditors serve the organization objectively, without undue influence of management. Audit committees provide auditors with direct access to the board so that, if necessary, the auditor can discuss directly with board members matters of concern that might reflect unfavorably upon management or be difficult to discuss with management present. Gerald Zack, a CPA with the Nonprofit Resource Center, indicates that one of the most important steps a nonprofit board can take in helping to prevent fraud is to have direct communication with the organization's external auditor (Zack 1998).

In organizations where the board is small in number, the audit review function is frequently handled by the full board as there is not sufficient need for a separate audit committee for this purpose. In other cases, despite the opportunity the audit process affords for private discussion between the external auditor and board members regarding the organization's financial affairs, only 35 percent of organizations replying indicated holding meetings where only board members and the auditor are present. When ECFA member responses are factored out, the rate drops to only 28 percent. This indicates that many boards either do not see the benefit of confidential, open discussion with their outside audit firm or perhaps do not fully understand the nature of the auditors role.[2]

ECFA members appear to be much further ahead in the use of Audit Committees than other groups with 70 percent of ECFA members indicating that they have an audit committee versus only 44 percent for evangelical, 35 percent for religious and 26 percent

---

[2] Based on personal observation in working with nonprofit boards as both a CPA and consultant, one explanation for this, I believe, is that larger organizations often have more businessmen included among their board members whose own company boards hold such meetings and therefore they better understand the benefits of such meetings. Another reason is that more and more audit firms now request private meetings with client boards for their own protection to ensure that management does not withhold important audit information from the board.

for secular organizations (Table 4.13). As shown in Table 4.14, ECFA members are also more likely to meet privately with their auditors than other groups, and large organizations are almost twice as likely to do so as small ones.

Availability of Financial Information

For many years, a major criticism of nonprofit organizations has been their failure to provide information about their finances. Even though it has been shown that most individuals never request a financial statement from a nonprofit organization (Barna, 1997), the desire to have such information available is one of the major demands of those calling for greater accountability by this industry. In a study to determine the types of information desired by donors to nonprofit causes, Campbell (1998) found that 72 percent of individuals surveyed desired more financial information, but were not specific as to the type of information they wanted. This high level of interest in financial information helps explain why making available an organization's financial statements to those requesting them is one of the basic standards of the ECFA, Better Business Bureau and the National Charities Information Bureau.

In spite of such findings, a large number of organizations still refuse to make financial information available to the public, even when indicating they will. The fact that only 65 percent of ECFA members surveyed in this study provided financial statements is of particular note since doing so is one of the ECFA's seven membership standards. This rate is almost identical to the results obtained by Goldsmith (1996) who performed a similar test on a sample of 176 ECFA members in 1995. The response rate to his request for financial statements was only slighter better, at 66.5 percent, thus indicating that there has been no improvement in the rate of compliance with this standard since that time. As noted, however, response rates from the other groups were much lower.

Despite this weakness, one of the ECFA's accomplishments has been in getting organizations (at least among its members) to provide open financial disclosure regarding their finances to the public (Table 4.22). This demonstrates again that self-regulatory type efforts are able to bring about industry improvements that organizations, operating independently, would most likely not achieve on their own. Table 4.22 also shows that ECFA members are slightly more likely to prepare annual reports or financial statements with additional information for public distribution, however, due to the small numbers involved, no statistical conclusions can be drawn from these numbers.

Use of Funds

All financial statements reviewed in connection with this study showed that the organizations involved had spent their funds within the guidelines of all three monitoring organizations (Tables 4.19, 4.20 and 4.21). While on one hand this is commendable, it is also a fact that these guidelines are very general and are not adequate to either disclose or prevent the fraudulent or improper use of funds. Funds spent many be properly classified as program or administrative expenses in the financial statements, but if such amounts are excessive, or spent for the personal benefits for employees as was the case in several major nonprofit scandals, financial statements alone would not reveal it. In addition, even if funds were properly spent on programs and reported as such, there is no assurance that the programs were effective or even needed.

One indication of increasing concern over how funds are spent by nonprofits is indicated by a recent action of the newly formed BBB Wise Giving Alliance; a combination of the Better Business Bureau's Philanthropic Advisory Service and the National Charities Information Bureau. In January 2002, the newly combined group issued proposed new guidelines calling for 65 percent of charitable funds be spent on program instead of the 50 percent and 60 percent dictated in their current standards, respectively. In calling for this change it was pointed out that, according to a recent study of the donating public, most individuals surveyed believe that 85 percent of funds received by a charity should be spent on program (Williams 2002). This is much higher than the current level spent by most organizations and will require significant changes in how many nonprofits operate if they are to even get close to this higher level.

As part of its fiduciary responsibility, most boards review and approve the annual budget of their organizations and 91 percent of organizations responding to this survey indicated their boards do so. In addition, boards may establish their own policies regarding how much funds can be used for particular purposes. Ultimately it is management's job to properly administer the funds entrusted to it, but it is the board's responsibility to ensure that management has done so.

Financial statements provide one of the best means for understanding how an organization obtains and uses its funds. If such statements are audited, they also provide some assurance that the statements meet at least basic reporting requirements and have been reviewed by an independent party. Beyond that, it is difficult to regulate how an organization actually spends its funds. Here again, appropriate board oversight is the key to holding management accountable for how funds are used.

Accountability of Large Nonprofit Organizations Versus Small Ones

As expected, this research demonstrates that large organizations are generally more accountable than small ones in most areas. At first glance, it could be assumed that this is due to larger organizations having more staff, greater resources, and a better awareness of the issues involved. While this may be true, taken too literally this view could lead to the conclusion that the larger the organization the more accountable it is.

No studies were noted during the literature review that would provide details on nonprofit scandals or management failures, nor would most organizations likely reveal such information if asked. Problems in smaller organizations usually receive far less publicity than in larger, more prominent ones, and the amounts involved would most likely be much less as well. The number of scandals in recent years involving major organizations shows that size alone is no guarantee of protection from such unfortunate incidents. In many cases, the opposite may be true. In larger organizations, problems can go undetected because they are not as readily apparent as they might be in smaller ones. In addition, inefficiency, waste or improper spending in one area may be concealed due to a large number of programs in process while, in smaller organizations, such problems might come to light more quickly due to higher visibility. Further, even when detected, problems are often "covered up" in order to avoid embarrassment for the organization and a possible decline in support as a result.

There are at least three main reasons why large organizations appear to be more accountable than small ones. First, the larger the organization, the greater the number of stakeholders to whom the organization is accountable. These can include donors, board of directors, grant making agencies, governmental entities, beneficiaries and the public at large. Larger organizations are generally more visible to the public and the expectations regarding their behavior higher. As demonstrated by a major United Way scandal in the early 1990s, the impact of a major problem (in this case the excessive salary and benefits paid to its executive director) resulted in a public uproar and subsequent decline in revenue of tens of millions of dollars. The organization also suffered a loss of public confidence that has still not been fully restored.

Second, large organizations generally have more professional staff and board members who are accustomed to higher levels of accountability. This has not always prevented problems, to be sure, but the capability and understanding of what needs to be done is usually present to a greater degree, even if it is sometimes not followed. And third, the effort and cost involved in providing higher levels of accountability generally represents a much smaller percentage of total resources in large organizations than in small ones. Because the cost of most accountability efforts such as board meetings, audits and public reporting is normally reflected as part of administrative overhead, such costs can be viewed as more detrimental to a small organization than the perceived benefits they will receive from expenditures for these activities if it increases their overhead costs above acceptable levels. The larger the entity, the smaller the impact of such costs on the total expenditures of the organization.

At the same time, small organizations can offer certain advantages that large organizations do not. Often, their size and limited budget make monitoring of activities much easier. In addition, a singular focus or limited number of programs can make for clearer measurement of accomplishments and results. Therefore, size of the organization should have little to do with its level of accountability. As shown in the results section preceding (Chapter 4), while large organizations are generally more accountable than small ones, in several areas small ECFA members have been shown to be just as accountable as large ones. While larger organizations will probably always be more accountable than small ones overall, the ECFA has demonstrated that self-regulation can be an effective means of helping smaller organizations become more accountable and reducing the gap between the accountability of large and small organizations in general.

Accountability of Religious Organizations Versus Secular Ones.

A key objective of this study has been to determine if religion, or religious belief, is a major factor affecting the character and degree of accountability exhibited by nonprofit organizations. Because both the ECFA and evangelical groups are, by definition, religious in nature, when they are included with the general religious sample group the overall rate is much higher than for secular nonprofits on most of the items tested. This is almost entirely due, however, to the influence of the higher response rates for ECFA members on several factors. When ECFA members are excluded from the calculation, there is no appreciable difference between the overall level of accountability demonstrated by secular organizations and that exhibited by religious ones, excluding ECFA members. This indicates that religion alone is not a significant factor in determining accountability. Instead, ECFA membership was found to be the most important factor in terms of this study. This points toward affirming the belief that ECFA's model of self-regulation is a critical factor in determining the higher level of accountability demonstrated by its members.

Nature of Financial Reporting

One of the key areas of this study has dealt with the issue of whether an organization makes its financial statements available to anyone who requests them. This requirement is the most uniform standard among the three monitoring agencies and is one of the most often discussed issues in the literature on nonprofit accountability (Herzlinger 1996; Robinson, 1976; Mueller and Smith 1970; Randall 1989). This interest in financial information is not new, however. Citing a study of annual reports by charities done in the early 1950s, Andrews (1956) highlighted the importance of voluntary financial reporting in demonstrating responsibility to the general public for the welfare of the funds donated to it (310). The events of the past 20 years or so, along with changing public expectations, have only served to heighten the level of interest in this area.

While there is much call for public reporting by nonprofits today, there is far less clarity about exactly what types of information such reporting should contain. As a result, the contents of most financial reports are driven largely by requirements of the accounting profession, not the concerns of the general public. As has been noted previously, accounting disclosures are generally technical in nature and few individuals really understand a set of typical nonprofit financial statements. Much of the information is summarized in such a way that it is of limited value to most readers in truly understanding the activities and accomplishments of the organization.

ECFA standards only require that members make their annual audited financial statements available, they do not specify their content. Better Business Bureau standards go further by indicating that organizations should provide an annual report that includes information about the purposes, activities, governance, finances and tax-exempt status of the organization. The National Charities Information Bureau calls for an annual report that includes either the audited financial statements (or comprehensive summary), a description of the organization's major activities, and a list of its board members. As shown by this study, however, few organizations actually include such information in their financial reports and fewer yet provide much information at all (Table 4.23).

Even though much of the clamor for more information comes on behalf of the general public, the majority of organizations responding did not rate the general public as a primary audience for their annual reports. Included in the survey instrument used in this study was a request to indicate the three primary users of their organization's annual financial report. On average, only 10 percent of respondents indicated the general public among the top three. Donors to the organization fared somewhat better, at 34 percent, while the highest numbers went to the organization's board of directors (89 percent) and top management (59 percent) (Table 4.18). This may help explain why so many organizations merely provide their basic auditor- prepared financial statements, when requested, rather than information more geared to the general public.

Overall, the board of directors ranked highest in terms of primary users, averaging 89 percent for the ECFA, Religious and Secular groups. The evangelical group was substantially lower at 53 percent. This high rating for the board is most likely due to the fact that the annual audit report is generally presented to, and approved by, the organization's board of directors. In addition, the board has legal liability for the organization. If a board's primary understanding of the organization's finances comes only from the annual audit report, however, it is probably not receiving sufficient information to properly oversee the organization. Audited financial statements are, by their nature, summarized presentations of often a great deal of data. To govern effectively, boards should be receiving financial information more frequently than once a year.

Even when financial statements are provided to the public, a major problem still exists. Most people do not have sufficient background or training to readily understand a typical nonprofit financial report. As a result, two things can occur. First, the organization has missed an excellent opportunity to explain its work and accomplishments to an interested party. Second, the financial statement they did send may create either confusion or misunderstanding in the reader's mind, thus resulting in a negative image of the organization rather than a positive one. Nonprofits should view the request for financial information as an opportunity to increase public understanding of their work rather than just an unwelcome obligation to be met.

Based upon a review of the financial statements received in connection with this study, the content of financial reports is one area where, I feel, much improvement can be made. Overall, most organizations are not providing reports that contain much of the information stakeholders are interested in. With just a few simple changes, reporting can be made more informative and more meaningful. While the ECFA has been successful in increasing the amount of financial information available, I encourage the organization to go further and provide guidance for its members on better annual reporting in general.

Answers To The Research Questions

The results of this study provided sufficient data to answer the research questions set forth in chapter 1. The following section addresses these questions.

Question 1. Does self-regulation as practiced by the ECFA result in a higher level of accountability among its members than other nonprofit organizations?

As shown in Table 4.24, ECFA members demonstrated higher levels of accountability than other nonprofit groups in at least five key areas based upon measurable standards developed by the ECFA, the Philanthropic Advisory Service (the nonprofit division of the Better Business Bureau) and the National Charities Information Bureau (NCIB). These include a greater willingness to provide financial information, a higher percentage of organizations having an annual audit and audit committee, a greater tendency to publish annual reports and more frequent use of conflict of interest policies. Through statistical testing, membership in the ECFA was found to be a primary factor in explaining the differences between groups.

Question 2. Can the effect of the ECFA on accountability be explained by self-selection according to subculture?

2a. Are ECFA member organizations more accountable than other evangelical organizations?

Due to both the size and importance of the evangelical subgroup as a part of the overall religious nonprofit sector, special attention was given to determining whether or not the evangelical culture itself is a primary factor in the level of accountability shown by this group. It is estimated that there are close to 100,000 parachurch organizations currently operating in the United States with the number growing each year (Willmer, Schmidt and Smith 1998). Generally speaking, the vast majority of these organizations would be considered "evangelical" or comprised of individuals of evangelical persuasion. ECFA members currently number just over 1,0000, approximately one percent of the above total.

By selecting samples from both ECFA members and similar, nonmember evangelical organizations, this study compared the responses for these groups for a variety of factors discussed earlier in this section to see if they differed significantly with one another or the other two groups. Responses for the evangelical (non ECFA member) group were much lower on providing financial statements [only 21 percent of evangelical organizations provided financial statements whereas 65 percent of ECFA members did so (see Table 4.1)] and had statistically significant lower scores in the following areas:

- Providing orientation to new board members (Table 4.9)
- Having an annual audit (Table 4.12)
- Having an audit committee (Table 4.13)
- Having a conflict of interest policy (Table 4.18)

2b. Are ECFA member organizations more accountable than other religious organizations?

ECFA members consistently rated higher than other religious organizations on a number of standards including annual audits (Table 4.12), audit committees (Table 4.13), providing financial statements (Tables 4.15 and 4.16), and producing annual reports (Table 4.23). In each of these areas, the differences were found to be statistically significant among at least some of the groups. The primary area where religious organizations were rated higher was in the percentage of funds used for program purposes (Table 4.19), however, this difference was not found to be statistically significant.

2c. Are religious organizations more accountable than non-religious ones?

Because both the ECFA and evangelical groups represent, by their very nature, religious organizations, if they are combined with the religious test group, the higher results of the ECFA group tend to raise the overall score for the three groups combined, at least in those areas where the ECFA scored highest. When just looking at the religious group on its own, however, it was generally less accountable than the ECFA or secular groups in most areas, but more accountable than the evangelical sample. The major exceptions were that religious organizations were least likely to provide financial information (Table 4.16) but spent the least amount on fund raising (Table 4.19). Based on these results, it does not appear that religious organizations are, in general, more accountable than other organizations and, in some cases, they were less accountable.

Question 3. Are larger nonprofit organizations (both within the ECFA and without) more accountable than smaller ones?

As expected, large organizations generally scored higher on almost every category than small ones. Using total annual income as the primary measure of size, a positive correlation was noted between size of the organization and several elements of accountability as indicated by the following Pearson's correlations where the correlation is significant at the .01 level.

Size is positively correlated to	Pearson's Correlation
Number of members on board	.335
Having an annual audit	.368
Having a finance committee	.268

Overall, 87 percent of organizations responding to this survey indicated that they provide financial statements to those requesting them (Table 4.15). Large organizations were more likely to do so (91 percent) than small ones (78 percent). When it came to actually doing so, however, the results were much lower. Overall, only 64 percent of the those organizations indicating they provide financial information actually did so. Sixty-eight percent (68 percent) of large organizations did so versus only 55 percent of small ones (Table 4.16). Of the major standards tested, there were none in which small organizations rated as high as large ones overall, although there was some variation between groups (see Tables 4.12, 4.13, 4.15, and 4.18).

Question 4. Are the overhead ratios of ECFA members lower, on average, than those of other similar organizations.

Overhead is normally defined as the amount of total income used for fund raising and administrative purposes, expressed as a percentage of total income. The amount (percent) of funds spent on program was similar for all four groups: within 10 percent of the overall average (Table 4.20). The percentage of funds spent for overhead purposes varied more with ECFA members showing the highest percent and religious organizations showing the lowest, particularly on fund raising; however, an ANOVA showed no significant differences among groups for this factor. The lower rate for religious entities appears due to the built-in constituency of members and support generally inherent in such organizations, along with a greater use of volunteers rather than better management or greater efficiency, as several religious organizations reported incurring no expenditures for fund raising at all. Therefore, the answer to this question is "no." The overhead ratios of ECFA members, on average, are not lower than those of other, similar organizations. Thus, it can be concluded that greater accountability does not necessarily lead to lower overhead ratios. Efforts at better accountability may actually result in slightly higher overhead amounts due to the extra administrative work involved. At the same time, such efforts may also lead to more accurate reporting of all amounts.

Question 5. Do the financial statements currently made available by nonprofit organizations meet public expectations?

Overall, while most financial statements received met technical accounting standards, few contained much additional information that would be helpful to the reader in better understanding the organization. Generally, most people are interested in knowing what the organization's main programs are, who are the board members responsible for providing oversight, and what the organization has accomplished during the year with the funds entrusted to it. If this information is not provided elsewhere, the annual financial statements afford a logical and effective place for doing so.

Only 12 percent of organizations disclosed their mission statement and less than half (40 percent) provided a description of their programs. Fewer yet (only 24 percent) provided information regarding program accomplishments. Approximately the same number (23 percent) included anything from the president or board chair discussing what happened during the year. Such information would no doubt have been available in other documents had they been requested and therefore this response does not mean that organizations failed to provide it. A key objective of an annual report is to provide a summary of the organization and its activities. If the annual report, or financial statements, are intended by the ECFA and other monitoring agencies to be the primary source of accountability to the public, then information regarding the organization's mission, governing board and accomplishments will enhance the effectiveness of these documents.

The matter of public expectations and information disclosure also raises the issue of organizational confidentiality. In many cases, nonprofits are organized to serve only their own members or constituents. In these cases, organizations should not be expected to make information available to simply anyone who requests it. Except for reporting to the government or groups with which they may be affiliated, these organizations should be able to limit the disclosure of important information to those who have a legitimate need to know.

As discussed in the methodology section preceding, where identifiable, this type of organization was excluded from this study for the above reason. Public disclosure of information, as discussed in this paper, is intended to refer to those organizations which raise money from the general public, are able to grant tax deductible receipts for such support, and therefore should be accountable to the larger general public for the benefits they provide as a charitable, tax free organization.

Question 6. Are the financial statements of ECFA members significantly different than those of nonmember organizations?

One difference between profit and nonprofit organizations is in how they view their financial statements and how much financial information is made available to the public. By regulation, public companies are required to disclose their complete financial statements along with other information to the public. Reporting requirements for charities are less stringent, and religious organizations qualifying as churches or religious orders are exempt from public reporting of their finances at all except in certain instances. It should be noted that reporting requirements for private, non public, businesses are less stringent than for either publicly traded companies or general charitable organizations and are generally limited to annual income and sales tax returns.

The financial statements of public companies are generally presented in the form of an annual report which includes the types of disclosures discussed above. Rarely will a business merely give out its plain audited financial statements. Except for requirements of the Securities and Exchange Commission (SEC) for certain filings, there are no specific rules specifying the form or content of annual reports for businesses. Rather, these have developed over the years as a general understanding of what such reports should contain has evolved. Similar expectations are now emerging for the nonprofit sector.

Part of this study was intended to determine the type of financial information currently being made available to the public and whether or not ECFA member financial reports are significantly different than those of other nonprofits. As shown in Table 4.22, only 4 percent of total organizations surveyed provided an annual report that included both financial statements and other information. Almost four times as many (15 percent) provided basic financial statements as prepared by their auditors; however, a full 71 percent provided no information at all. ECFA members scored much higher in this regard, with 65 percent of those surveyed providing at least some financial information versus only 21 percent, 14 percent and 17 percent for the evangelical, religious and secular groups, respectively.

Overall, the nature and content of the financial statements provided by ECFA members were similar to those of the other groups except that secular nonprofits are far more likely to include a schedule of functional expenses in their financial statements than other groups. The reason for this appears to be mainly due to the fact that secular charities are required to include this schedule in their financial statements while other nonprofit organizations are not, although inclusion of this statement is recommended for all nonprofit entities.

Creation of the ECFA

Given the size and history of the nonprofit sector, a logical question might be, "why did such a group as the ECFA emerge out of the evangelical sector and not a more well established and recognized part of the nonprofit community"? Part of the answer seems to lie in the circumstances under which the ECFA was founded.

Following several major scandals involving religious organizations in the 1970s, this sector was coming under frequent attack from the press and raising concern among government officials.[3] As a result, several pieces of legislation had been introduced into congress intended to bring about greater government regulation of the nonprofit sector. Included in the proposed legislation was a provision that would have required all nonprofit organizations to disclose the percentage of funds used for fund raising purposes in public solicitations. Since most parachurch organizations rely heavily upon mail solicitation for their survival, they were particularly concerned over the potential impact such disclosures might have upon their ability to raise funds. One of the primary reasons for creation of the ECFA was to prevent the need for this regulation. Had the scandals of that period involved other types of organizations, the initial seeds of self-regulation for this industry might well have come from different quarters.

A second driving force behind the ECFA seems to have been a genuine concern by some evangelical leaders over the spiritual impact scandals were having on the public in general. Since most evangelical organizations are involved in some form of ministry activity intended to draw individuals into a closer relationship with God, it was believed that public distrust caused by the scandals was making it harder for them to do so.[4] As a result, evangelical convictions do appear to have influenced the founding of the organization and the decision of many organizations to become members. Given the small number of organizations that have joined the ECFA out of the total potential membership pool,

---

[3] These scandals included such well known groups as the Pallotine Fathers, The United Methodist Church, Roman Catholic Church, Father Flanagan's Boy's Town, Christian Children's Fund, and the Assemblies of God denomination.

[4] Taken from the minutes of the plenary founding session of the ECFA, 11 September 1979.

however, evangelical religious persuasion alone does not appear sufficient to account for the higher levels of accountability demonstrated by ECFA members when compared to the level of other evangelical, but non ECFA member, organizations.

Despite its successes, the question remains as to whether ECFA style self-regulation is a sufficient safeguard against the kind of nonprofit scandals that have embarrassed the industry in recent years. This question is addressed using two case studies involving recent nonprofit scandals and examining them in the light of the preceding discussion.

Case Studies

Of all the nonprofit scandals in recent years, perhaps none has received more attention and greater media publicity than that of Jim Bakker and the Praise the Lord Club (PTL). Another important scandal is that of New Era Philanthropy. Because PTL was once a member of the ECFA, it could be argued that self-regulation failed in this case. Given that PTL ultimately withdrew its membership due to concern by the ECFA over PTL's failure to comply with ECFA standards, however, a counter argument can be made that self-regulation did in fact raise important red flags prior to the scandal. In the case of New Era Philanthropy, the organization was not part of any self-regulatory or other group. As a result, there was no independent oversight body that might have helped prevent this tragedy. New Era provides an example of what can happen in the absence of adequate oversight. This section looks at both of these cases through the lens of the ECFA model to see if self-regulation failed in the Jim Bakker case or if there were other factors involved. It also looks at the New Era case to see how ECFA membership, or adherence to ECFA or similar standards, might have prevented this scandal.

Jim Bakker and the Praise the Lord Club (PTL)

An early pioneer in the development of religious television, Jim Bakker was instrumental in starting not just one, but two, Christian television networks and building a loyal following of viewers and contributors. Starting as a small time traveling evangelist in the mid 1960s, by 1987, when he resigned under pressure, his PTL ministry had reached almost $130 million a year in income and employed 2,000 people (Ostling 1987, 70).

Leading to Bakker's downfall were two, largely unrelated, events. The first involved a sexual relationship in 1981 with a church secretary that was subsequently covered up with the payment of approximately $265,000 in exchange for her silence on the matter. This event, when later revealed, caused Bakker to lose many followers; however, that was not what eventually sent him to prison or caused his ministry to go bankrupt. The second, and major problem, was fiscal mismanagement and the overselling of lifetime memberships in PTL's 2300 acre religious theme park and ministry complex.

Most people understand that television is an expensive medium and that is why television programing is dependent upon large amounts of advertising to cover the cost of operations. Religious television does not generally have commercial sponsors so it must depend upon raising donations as its major source of revenue. This can be a very difficult and time consuming process. But Bakker's aspirations went far beyond just his television program. They ultimately included hotels, a religious-oriented theme park, school, counseling center and other activities. To support all of these programs, it was necessary for

Bakker to raise more and more money. Ultimately this led to a scheme of selling $1,000 lifetime memberships that would allow participants to stay for three nights each year at one of several hotel facilities located on PTL's campus. Although there is nothing inherently wrong with such an arrangement, in order to keep greater amounts of money coming in, Bakker eventually sold far more memberships than could ever be accommodated by the limited number of rooms available.

Clever as he was, Bakker might have found a way out of this problem had he had time to do so. At the very time of his resignation, a major new hotel which would have increased room capacity was under construction. Unfortunately, rumors of his sexual encounter with Jessica Hahn were growing and the *Charlotte Observer*, a well known newspaper that had been investigating the incident for some time, was about to break the story. Learning of what the paper had uncovered , in March 1987 Bakker abruptly resigned from PTL just days before the story was released. Others tried to keep the organization going, but the financial problems were too great and by June 1987, just three months later, the organization had filed for bankruptcy. Claims from creditors and other parties resulted in numerous lawsuits over the use of funds by Bakker. This led to his trial and conviction of fraud for selling the promise of accommodations which he knowingly could not provide and the mismanagement of charitable funds. PTL's assets were eventually sold to pay creditors; however, none of the lifetime partners were ever able to recover any of their investments.

Whether the PTL scandal could have been avoided is a question that has been asked by many, including the ECFA. The PTL case exhibits many characteristics common to other nonprofit scandals including a very charismatic leader, an inadequately functioning board and insufficient financial information.[5] While signs of problems at PTL were apparent to some observers, there was only so much that outsiders could do.

As discussed earlier, the ECFA and other nonprofit monitoring agencies all call for a responsible governing board as part of their standards. This implies the existence and functioning of a board of sufficient size and expertise to understand the nature of the organization it is governing and capable of dealing with the issues of overseeing such an entity. In PTL's case, both the ECFA and Bakker's own outside legal counsel believed that the board was inadequate for the size and complexity of the ministry and advised Bakker accordingly. In 1983, just shortly after Bakker joined the ECFA, Art Borden, president of the ECFA at the time, wrote to Bakker recommending that the PTL board be enlarged by several members (from 6 to 11) in order to strengthen the board and to add more members with a business background (Tidwell 1983). Even by 1984, at which time PTL was raising close to $50 million a year, the board still consisted of only six members; most of whom had little or no experience in the business world or managing an organization anywhere near the size of PTL. Four of the six members were ministers, including one from a small church of only 250 members (Shepard 1989, 86-89).

Contributing to this belief that adequate ministry oversight was lacking was the fact that PTL had a long history of management and financial problems that should have been a

---

[5] Other notable scandals during the past few years include New Era Philanthropy (discussed later in this paper), excessive salaries and benefits taken by the president of United Way of America, embezzlement by the president of the National Baptist Convention, Improper management of Father Flanagan's Boy's Town, and collapse of the Arizona Baptist Convention Retirement program to name a few.

clear warning to board members that caution was in order. In 1979, the Wall Street Journal carried a front page article citing numerous problems at PTL, including excessive management turnover and high debt problems.[6] Just a few years later, a leading Christian magazine reported that the organization was under investigation for fiscal mismanagement by the United States Justice Department and by the Federal Communications Commission (FCC) for other matters (Spring 1983). These continuing problems, which by this time were public knowledge, should have called the board's attention to serious management issues within the organization. The ECFA was aware of these problems, and discussed them with PTL management, although not directly with the PTL board.

Because PTL's board size did meet the minimum requirements of the ECFA, this situation was not technically a violation of ECFA standards; however, it certainly did not comply with the goal or intent of the standard. Merely enlarging the board in this case would not likely have made much difference since Bakker was intentionally withholding information from PTL's board. Sworn testimony presented at Bakker's trial revealed that the board of directors was never informed about the organization's precarious financial situation, the true status of the ongoing investigation by the Internal Revenue Service, or other important matters. In addition, board members were not completely independent as they consisted mainly of Bakker's closest allies and subordinates.

Between 1981 and 1986, PTL was a member of the ECFA, although it failed to fully comply with all of the ECFA's standards. Unfortunately, however, the extent of

[6] The Wall Street Journal (Brunswick: New Jersey), 29 June 1979.

noncompliance was not readily apparent at the time and involved some areas of subjectivity such as who is to say whether a board is responsible or not. According to Borden, most of the areas of noncompliance did not show up until much later and, as will be discussed, for those weaknesses that were noted, assurance had been given to the ECFA by Bakker and PTL's top management that the problems had been corrected (Borden 2000).

Another standard PTL failed to meet was that relating to conflicts of interest. In the early days of PTL, most board members were also PTL employees. A later board member was an employee of the firm which managed PTL's hotels. To maintain the board's loyalty, Bakker sometimes gave financial gifts to the churches with which board members were associated. While additional board members who were similarly beholden to Bakker would probably not have been any more effective, a larger board, which included more members with business backgrounds, as recommended by the ECFA, might have had a better chance of identifying some of the organization's problems by virtue of their greater collective knowledge and experience. Again, however, this information did not come to light until after the organization had collapsed and PTL was no longer associated with the ECFA.

Generally, most board members of nonprofit organizations serve without pay as an act of public service and as a contribution of their time to the organization. The standards of the National Charities Information Bureau specifically require that all board members volunteer their time. ECFA's standards do not address the issue of payment for board service, but do specify that board members should avoid conflicts of interest. PTL's board members were paid in an effort to maintain their loyalty and support. Shepard (1989) reports that Bakker and Richard Dortch (PTL's executive vice-president) "further compromised the board's independence . . . by paying board members larger sums for their work" (328). Thus, conflict of interest was a limiting factor in the board's ability to properly perform its role.

A further standard not met by PTL was that dealing with audit committees. ECFA standards require that members have an audit review committee, the majority of which are not staff, to serve as the board's primary link with the organization's outside auditor firm. To satisfy the ECFA's requirements, PTL had (at least on paper) an audit committee. But it consisted of only two members, both employees, one of whom was Richard Dortch, the PTL executive who was responsible for the illegal payoff to Jessica Hahn and other questionable activities (Tidwell 1993, 174).

Of all the standards violated by PTL, however, the most critical one was that dealing with the use of funds. Both Federal and state law require that charitable funds be used for the purposes for which they are raised and one of the ECFA's seven standards deals with this issue as well. In addition, laws governing philanthropic activities specifically prohibit private benefit to individuals from charitable funds. The whole legal case that eventually sent Jim Bakker to prison was based on the fact that Bakker raised money for one thing and then spent it on another, including items for his own personal use. While numerous examples were cited in court testimony, the primary evidence that convicted both Bakker and Dortch involved the sale of lifetime partnerships where millions of dollars that donors had intended to build hotel facilities for annual stays by members were used to support Bakker's TV program and expensive life style (Shepard 1986 and 1989; Tidwell 1993; Barnhart, 1988).

PTL joined the ECFA in 1981, just two years after the ECFA had been formed, and frequently displayed the ECFA membership seal on its television broadcast. Problems with PTL existed almost from the start and ECFA records show numerous letters to Bakker, as well as a personal visit to PTL by an ECFA review team, to discuss concerns over PTL's compliance with ECFA's standards. In each case, Bakker or Dortch repeatedly gave assurances that the problems were being corrected, even to the extent of providing fabricated documents in an attempt to show that they had been (Borden 2000). Finally, amid growing pressure by the ECFA over PTL's financial problems and failure to respond to the ECFA's concerns, PTL withdrew from the organization in 1986 by not renewing its membership. In accordance with ECFA requirements, PTL stopped using the ECFA seal at that time.

The PTL case served to point out certain weaknesses in the ECFA model at the time. First, that it was unable to prevent such a situation from actually occurring and second, that it had to rely solely upon the integrity of its members to ensure compliance with ECFA's standards.[7] This included not only following the "letter of the law," but the spirit as well. Further, enforcement was difficult when an organization knowingly failed to comply with membership standards. The only recourse the ECFA had was to terminate the organization's membership which, in the early days of its history, it was very reluctant to do without strong proof of failure to comply and only after every opportunity for corrective action had been given. This is similar to the problem of church denominations whose only means of dealing

[7] Primarily as a result of the PTL scandal, the ECFA now has an ongoing review process in which members are periodically visited by a member of ECFA's team to determine compliance with the council's standards.

with problem members is to revoke their membership, an act most are very hesitant to do until every other alternative has been exhausted. In response to questions regarding this period, Borden indicated, "the ECFA wanted to believe that they (PTL) were telling the truth. We probably gave them too much leeway. We might have been too young and too naive at the time" (Borden 2000).

In voluntary associations such as the ECFA, mechanisms for enforcement are generally limited, but tend to become stronger as the organization grows and peer pressure from the other members helps to strengthen the entity's hand. In a voluntary situation, however, external control can only go so far. Organizations such as the ECFA generally serve as the catalyst for establishing basic industry standards and promoting compliance among an industry group. Ultimately, however, it is the responsibility of an organization's own board and management to ensure that appropriate standards of conduct are followed. While scandals such as PTL are often used as an argument against the effectiveness of self-regulation, the above case also demonstrates that had the PTL board been more responsible (a standard of all three monitoring groups), and insisted upon the organization complying with ECFA standards during the time it was a member, many of the resulting problems might have been prevented (or at least minimized). Therefore, rather than the PTL scandal undermining the concept of self-regulation, it can also be viewed as demonstrating the benefits of self-regulation.

New Era Philanthropy

Another major scandal that challenges ECFA's self-regulation model is that of The

Foundation For New Era Philanthropy (New Era or Foundation). Believed to be the biggest charity fraud case in American history, New Era was a classic "Ponzi" or "pyramid " scheme in which organizations were encouraged to transfer funds to the Foundation with the promise that after a certain period of time (generally six months) they would receive double their money in return. Organizations were told that the additional funds represented matching gifts from a group of wealthy benefactors interested in helping worthwhile causes, but who supposedly preferred to remain anonymous and make their gifts through the Foundation.

At no time was New Era a member of the ECFA, nor did it receive any form of sanction from it. Because New Era's founder and president, John Bennett, had a personal interest in evangelical causes, however, many of the organizations that became involved with New Era were ECFA members. According to current ECFA president Paul Nelson, the ECFA was aware of New Era and had some concerns regarding its operations, but lacked any jurisdiction over the Foundation and had no evidence of any actual wrong-doing. As a result, the ECFA was not in a position to pass on any warnings to its members (Nelson 2000). When the truth about New Era did become known, however, the ECFA was quick to use its reputation and influence to help bring about a successful solution to the crisis that eventually resulted in most organizations (whether ECFA members or not) recovering the majority of the funds they had lost.[8]

Founded in 1989, New Era enjoyed spectacular growth as word of its "double your

---

[8] According to the ECFA, as of February 2001, approximately 90% of funds lost had been restored to the organizations involved using the plan which was proposed by the ECFA and ultimately approved by the court.

encouraged other organizations to get involved and many reinvested the initial funds they had received for more than one six month period, thereby hoping to gain an even greater return. From just a few hundred thousand dollars of income in 1989, by 1995 the Foundation had taken in almost $354 million in funds. But such schemes demand an ever-increasing cash flow and ultimately become unsustainable. When it eventually collapsed in 1995, New Era owed over $100 million to approximately 400 different organizations including some of the most prestigious universities and charities in the country (Carnes 1997; Hanchette and Williams 1995). Bennett was eventually convicted of 82 counts of fraud and related charges and sentenced to 12 years in prison.

How so many individuals and organizations could be taken in by New Era has been the subject of much debate and served to heighten the growing concern over the nonprofit sector at the time. It also did much to further tarnish the public's image of this sector. In 1995, the PTL scandal was still fresh in people's minds and William Aramony, the former president of United Way of America, had just been convicted of mismanagement, money laundering and filing false tax returns (Sebastian 1995). As a result, new concerns over accountability by nonprofits was raised.

As New Era had never been an ECFA member, the ECFA was free of any responsibility in this case. Because of the large number of ECFA members that were involved, however, the ECFA saw this as an opportunity to use its influence to help both its members and others affected by it. Recognizing the enormous amount of time and money that would be involved in litigating the matter, the ECFA quickly formed a coalition of members to act collectively in a united response to the situation and share the legal costs among all those participating rather than filing separate legal actions. Eventually, 185 organizations joined this action which gave the ECFA tremendous influence in dealing with the courts and others.

Using both biblical and moral arguments regarding fairness and justice, the ECFA encouraged those organizations which had received more money than they had invested to return the extra amount in order to reimburse those who had lost their investment. As a result of strong positive response to the ECFA's approach, this plan was eventually adopted by both the court and creditors for all organizations involved as a fair and equitable means of resolving the matter in an efficient and cost effective manner (Frame 1996). Following this method, most organizations were eventually able to recover the majority of funds they had invested, thereby minimizing much of the damage.[9] The ability of the ECFA to accomplish such an improbable, yet successful, solution cannot be explained apart from the trust factor that the ECFA had been able to achieve.

Like PTL, New Era violated several common accountability standards which, if followed, might have helped prevent this scandal. First, there was the lack of a responsible governing board who understood what was happening in the organization and how it was really operating. Board membership appears to have been "honorary" with little or no actual involvement by board members (Moore, Rocque and Williams 1995b). Other violations involved both how the funds received were actually used and conflicts of interest. At Bennett's trial, the United States government charged him with misusing $55 million in

---

[9] According to the ECFA, as of December 2001, overall most organizations involved had recovered approximately 91 percent of the funds they had invested in New Era.

funds, including the diversion of over $4 million to his own private businesses and paying himself more than $26,000 a week in consulting fees (Frame 1995, 56). Clearly, a large portion of the funds raised was never used for the charitable purposes intended and much of it went for Bennett's own personal use.

Further, there was very little information provided to either the public or the board regarding the Foundation's finances. For several years, New Era failed to file required annual Federal information returns (Form 990's), a violation of law. In addition, its financial statements were never actually audited (Berg 2000). Had the board insisted that New Era become a member of the ECFA, follow the standards of the Better Business Bureau or the National Charities Information Bureau, or, at a minimum, undergo an annual audit, the organization's problems would have most likely come to light much sooner than they did.

The PTL and New Era cases both serve to highlight the fact that self-regulation is ultimately voluntary and that trust is fungible within many contexts. Even so, the benefits involved appear to outweigh such limitations and the disadvantages inherent in the alternative of greater government regulation. Self-regulating organizations represent the consent of the governed, thereby strengthening the commitment of their members to the success and mission of the organization. The trust built up by the ECFA, although abused by PTL, was the crucial factor that enabled it to play such an important role in resolving the New Era case.

Why Financial Abuses Occur?

Based on this study, there appear to be at least two major reasons why financial abuses in nonprofit organizations occur. Barnard (1938) noted that in every organization there are natural conflicts between the interests of the organization and the instincts and interests of employees. This can result in various abuses from simple failure to perform adequately to more overt acts of fraud and embezzlement. As many of the scandals in recent years have shown, such incidents often involve top leadership in the organization. This may simply be an example of the old adage, "power corrupts," but it also highlights the need for proper internal controls throughout the organization.

In other cases, abuses may not be intentional but simply the result of inadequate management and oversight. Nonprofit organizations are frequently founded by entrepreneurial individuals with a deep desire to help others, but whose lack of management skills results in inadequate policies, poor systems and an organization that ultimately goes out of control. And in still other cases, insufficient resources may prevent the organization from hiring adequate staff to properly administer the work. In his book on corporate culture, Schein (1985) emphasizes the fact that organizational cultures are created by leaders and creating culture is one of the leaders most important functions. If an organization is to have a culture of accountability, the leader must set the tone. When the leader is not fully accountable, or fails to create the proper culture, there is often little others can do unless the board steps in.

A 1976 study by the National Association of Accountants designed to improve the accountability of nonprofit organizations concluded that the management of most nonprofit organizations was generally poor (Gambino and Reardon 1981). With the growing awareness of this problem, and the increasing emphasis on better management of this sector in recent years, hopefully this is not still the case. Because of the element of human nature, abuses can never be completely eliminated. The standards developed by the ECFA and other organizations, however, provide important means by which the opportunities for, and incidents of, major abuse can be reduced.

Lessons for ECFA Style Self Regulation

General Lessons

Several lessons can be learned from the aforementioned scandals and others regarding both the benefits and limitations of self-regulation. While the PTL situation caused some to question the ECFA's effectiveness, it also helped create an awareness of the benefits of organizations being identified with some form of accountability standards; both for external purposes and as a form of protection for their own boards as well. According to Paul Nelson, ECFA president, the PTL scandal also resulted in an increase in membership for the ECFA at the time (Nelson 2000). At the same time, it also pointed up the fact that impressions alone can be deceiving. Both Bakker and Bennett had good reputations, were well regarded in their fields, and appeared to be sincerely engaged in worthwhile activities. While their original intentions may have been noble, somewhere along the line their behavior moved further and further away from a clear sense of responsibility for their actions. With no one holding them accountable, things became progressively worse until disaster hit.

Another lesson deals with the importance of a strong, effective governing board. In the case of both PTL and New Era, the boards involved were too weak or insufficiently informed to fully understand what was happening in the organization. The United Way, however, had a well qualified board. Its board roster read like a "Who's Who" of corporate America, including the board chairs of International Business Machines, Sears Roebuck & Company, American Express, J.C. Penney Company and the Hospital Corporation of America, just to name a few. In this case, the board simply was not performing its role adequately and asking the hard questions. It was strong, but not effective. Self-regulation cannot substitute for a weak or inadequately functioning board, but it can encourage the development of strong boards.

The above also highlights another issue. If boards are the primary point of accountability in an organization, what is the incentive for them to do their job properly and to whom is the board accountable? Unlike commercial companies where board members are typically paid for their services and share in the company's profits, charitable organizations are generally prohibited from remunerating board members (except for reimbursement of expenses). Most people like to feel that board members are donating their time and talents to the charitable organizations they serve, just as others contribute money. For this reason, since the inception of laws governing charitable organizations, private inurement or benefit to those involved in governing nonprofit organizations has been specifically prohibited by law. For most board members, the primary incentive for doing a good job is their own sense of responsibility and, as the United Way board learned, the risk of "reputational liability" if they fail to properly perform their duties.

In the past, membership on nonprofit boards was often viewed as an honorary role rather than one involving serious oversight of the organization's affairs. Incidents such as the above have heightened awareness of the board's responsibility and many boards are now taking their roles far more seriously. For example, as a result of the scandal involving its president, the United Way of America instituted a number of new requirements (several similar to ECFA's standards) including annual audits, an enlarged board composed solely of volunteers, a board finance committee, greater public disclosure of information, a code of ethics and more rigorous financial controls (Sinclair 1999, Sebastian 1995).

A third lesson reinforces what the ECFA and other monitoring agencies have already pointed out: the need for organizations to have some form of standards by which they can demonstrate accountability to the public. The standards developed by the ECFA, Better Business Bureau and the National Charities Information Bureau are all appropriate guidelines for this purpose (see copies in Appendices D, E and F following), or a board may simply develop its own. By following standards set by independent bodies such as the above, organizations (and their boards) can have some assurance that they are doing the right thing in this regard. One benefit of self-regulation is that membership in an organization such as the ECFA is a means by which boards themselves can be held accountable. The standards required for group membership become benchmarks by which organizations can measure themselves. The ECFA has gone even further by now requiring members to undergo a periodic review to determine their level of compliance with ECFA standards.[10] Such an independent look at an organization's practices can be very helpful to a board in evaluating its own performance.

---

[10] Currently, a goal of the ECFA is for each member organization to be reviewed by an ECFA staff person at least once every 5 years to monitor the member's compliance with ECFA standards.

And fourth, unwillingness to submit to self-regulation or some standard of accountability should be a warning for potential donors and others to exercise caution in dealing with a particular organization. The fact that New Era was not a member of the ECFA when so many of the organizations involved were members should have raised questions as to why not. Boards should insist that their organization adheres to some standards of accountability, even if they are simply internally developed ones.

Lessons for the ECFA.

The above cases can also be used to point out both strengths and weaknesses in the ECFA model. First, these incidents confirm that the ECFA's standards have been well thought out and focus on key aspects of accountability which, if followed properly, should provide a strong deterrent against organizational mismanagement. These include a responsible governing board, annual audits, public disclosure of finances, conflict of interest policies and requirements over the use of funds. In both the PTL and New Era cases, some of these elements were missing, or at least deficient.

Had Bakker had a more responsible board, namely one that was more independent and knowledgeable of the complexities of running the type of activities PTL was engaged in, it is probable that some of the problems could have been prevented. Similarly, New Era did not have a properly functioning board at all. Nor did it have proper financial controls, accurate financial statements or an independent audit. By making such standards a requirement for membership, the ECFA helps ensure that at least these basic elements of accountability are in place.

A weakness in the ECFA model can been seen in the fact that PTL was a member of ECFA for several years, even though there were known problems in Bakker's ministry at the time. There is ample evidence that the ECFA was aware of what was happening at PTL, although not to the full extent, and engaged in both correspondence and personal visits with Bakker in attempts to address the issues. In the absence of clear evidence to the contrary, however, the ECFA was forced to withhold action for fear of embarrassment and possible legal action had their concerns regarding PTL turned out to be unfounded.

To be truly effective, a self regulating organization must be able to monitor adherence to its standards and take appropriate action when compliance is deemed to be lacking. In the case of academic institutions, removal or withholding of accreditation is a strong deterrent to not meeting appropriate standards. In membership type groups, expulsion from membership is often the only effective enforcement action, although members are usually given an opportunity to correct deficiencies with removal from membership only used as a last resort. To strengthen their effectiveness, the ECFA should consider developing some form of intermediate type sanctions that can be used in dealing with members who are not fully in compliance with membership standards, but in the process of correcting the situation.

A third lesson deals with the need for some form of verification that organizations are doing what they claim. Even with financial information, it is very difficult for donors or the public to determine the trustworthiness of almost any organization without some form of third party assistance. Just as Underwriters Laboratory and similar organizations provide independent verification of product reliability, the ECFA and Better Business Bureau are designed to help provide assurance to the public regarding the credibility of organizations.

Self-regulation is intended to instill trust among those it serves. As demonstrated by New Era, the trust in ECFA by its members and others allowed it to effectively mediate a complex legal situation, thereby avoiding costly and time consuming litigation. In order to help maintain this trust, some form of independent verification such as that provided by independent accountants is helpful in substantiating that organizations are doing what they claim. Periodic checks such as those now used by the ECFA, or a review by one's peers such as those used in academic accreditation are possible means by which this can be accomplished.

Impact of the Failure of "High Profile" Organizations

Scandals and failures are a part of organizational life and the more well known the organization or leader, the more harm these incidents can have. While it may be possible to calculate the economic loss involved in such situations, what is generally more damaging is the erosion of confidence in not only the organization itself, but in other similar entities that may be carrying out their programs in an exemplary manner. Following the conviction of William Aramony of the United Way, giving to that organization dropped dramatically, not only nationally but to most local chapters as well. In addition, a survey commissioned shortly after the event by *The Chronicle of Philanthropy*, a leading nonprofit industry group and trade publication, found that ninety-eight percent of 301 individuals surveyed indicated that they now had less respect for the management of nonprofit organizations in general. Also as a result, over seventy percent said they planned to take a closer look at the groups they were currently supporting (Moore, Rocque and Williams 1995).

At the same time, such incidents have been the catalyst for much of the progress in nonprofit accountability in recent years. The ECFA itself was an outgrowth of several nonprofit scandals in the mid 1970s and PTL, New Era and the United Way all served to highlight the need for better management of the nonprofit sector overall. Thus, while problems involving high profile organizations generally reflect negatively upon the industry as a whole, they often result in eventual improvement in industry practices and norms.

The Impact of the ECFA and Self Regulation

As discussed previously, perhaps the ECFA's greatest impact, and that of most self-regulatory efforts, has been the development of a set of standards that a large number of organizations have voluntarily agreed to follow. In his book, *Making Nonprofits Work*, Light (2000) observes that much of the move towards standards in recent years has been because the nonprofit industry has had so far to go in developing the basic systems needed for minimal accountability and effectiveness (52). Standards provide a benchmark by which organizations can not only be compared one with another, but a means by which organizations can measure their own performance as well.

It was not practical to assess whether the higher level of accountability shown by ECFA members was achieved as a direct result of the ECFA's influence or if it existed prior to its formation; however, an attempt was made to address this issue. According to Olan Hendrix, first president of the ECFA, when the organization was established in 1979, few organizations met all of ECFA's standards. As a result, most had to make some changes in their practices in order to meet the requirements for membership. Because many organizations were not audited at the time, obtaining auditors and undergoing an annual audit was a frequent area requiring change. In addition, many organizations had to increase the size of their boards with additional volunteers or decrease the number of employees holding board membership. A third main area was in making financial information available to the public. Prior to 1979, few organizations voluntarily provided financial information to the public, so this represented a radical change for most organizations. In general, more significant changes were required for small and mid-sized organizations than for large ones (Hendrix 2000).

Confirmation of the above is evidenced by the fact that for many of the items tested in this study, small organizations representing ECFA members scored much higher than the other, nonmember groups. As for other religious organizations in general, no significant difference was noted between the level of accountability indicated by these organizations and that shown by the other groups tested. The results of this study indicate that, overall, the ECFA has been successful in increasing the accountability of its members in several ways. Primary among these are the willingness of member organizations to make financial information available to the public, annual audits, audit committees to oversee the organizations' finances, and policies to avoid conflicts of interest.

The ECFA came into being at a time when there were few, if any, generally agreed upon standards of accountability for this sector. Overall, it appears to have impacted the nonprofit industry in at least three main ways:

1. It was the first, all voluntary nonprofit industry group established solely for the purpose of promoting financial accountability.

2. It developed a set of standards that is now being used as a model for other groups as a basis for self monitoring and regulation.

3. It has demonstrated that self-regulation can be effective in improving accountability among member organizations, thereby reducing the need for outside regulation.

But not all efforts at self-regulation are successful. Following a long, and sometimes rocky five year process, an attempt by the National Religious Broadcasters (NRB) to form their own accountability group along the same lines as the ECFA was abandoned. Instead, NRB members who represent nonprofit organizations with incomes of over $500,000 a year are now required to be members of the ECFA as well (Lawton 1993). While this shows the failure of the NRB's attempt at self regulation on one hand, it confirms the success of the ECFA on the other. Recognizing the limitations of self-regulation of the nonprofit sector, McIlquham (1999) concludes that "it is better to self-regulate, despite its flaws, than react to a far more restrictive set of government-issued guidelines that lack any understanding about how and why nonprofits operate." He also acknowledges that the ECFA offers a good working model for the nonprofit industry (18-24).

The ECFA was founded at a time of little public accountability by nonprofit organizations and in the wake of several significant scandals which focused public attention on the needs in this area. While the organization continues to enjoy steady growth, the pace of its growth has slowed in recent years. This, I believe, is due to a maturing of the organization and the improvements in accountability that have taken place over the past twenty years. In addition to the changes brought about by the ECFA, greater government regulation and broader industry recognition of public expectations regarding this issue have all contributed to a more responsive charitable sector.

Strengths and Limitations of Self Regulation

While this study has attempted to demonstrate the benefits of self regulation, it recognizes that there are certain limitations as well. One of the features of nonprofit organizations is that they are democratic institutions, voluntarily established to carry out the desired activities of those who support them. In a free society, an almost unlimited variety of organizations can flourish providing a rich diversity of social, cultural and spiritual benefits for its citizens. Among the strengths of self-regulation under such a system is that it, too, is a voluntary relationship entered into by those agreeing to abide by a certain set of rules and standards which reflect the values of the group. The standards are not forced on them by an outside party and can be changed as necessary to meet the needs of the group. Self-regulation also promotes common benefits for the group such as the informal networks, relationships and trust that naturally develop when people work together towards a common goal. As demonstrated by the New Era case discussed previously, it was this network of relationships and trust that was key to the ECFA being able to arrange for a satisfactory settlement, primarily because of its ability to negotiate with, and on behalf of, so many of its members and other parties.

At the same time, limitations exist also due also to the voluntary nature of the self-regulator process. Those given the responsibility for carrying out such activities can only do so within the authority that has been granted to them. This will be generally limited to guidelines and policies that have been established by, and which are acceptable to, the majority of the group being governed. To the extent that funding to carry out the process of self- regulation must be provided by the group itself, there will always be the tension of having to enforce standards without alienating so many members that support for the function is withdrawn. In addition, there are legal considerations that affect how much information a monitoring group can say regarding an organization without risking a potential lawsuit.

Under self-regulation, there are both positive and negative forms of controls. On the positive side, affiliation with a group that helps promote trust is one of the primary benefits. Identification with such an organization can assist in the recruitment of employees, donors, volunteers and even board members. It also promotes mutual cooperation among members and a sensitivity to the needs of the group as a whole. From a negative perspective, the inability to meet a group's membership standards, or disassociation from the group for failure to comply with its standards, can all send very negative messages to current and potential stakeholders. More severely, intermediate sanction from the Internal Revenue Service, withdrawal of an organization's tax exempt status and even bankruptcy can all result from an organization's failure to conduct itself in a proper manner. And, in worst case scenarios, management and board members themselves can be held personally liable for improper conduct by the organization.

Findings in the Light of Other Research

While research on the subject of accountability is limited, the results of this study are consistent with, and support, other research on this topic. In her study on developing a framework for accountability in nonprofit organizations, Schene (1991) also concluded that accountability of the nonprofit sector is better addressed through improving the efforts of management and boards of directors than through increased regulation and government monitoring. Overall, 81 percent of the nonprofit agencies she surveyed ranked the role of the board of directors as high in importance as mechanisms for accountability, with 48 percent ranking it as number one in importance (198-199). Similar findings were noted by Lake (1997) in her study of accountability structures in nonprofit organizations, particularly those regarding the role of the board of directors in ensuring proper oversight.

My observations regarding the lack of training for board members and the general need for a broader understanding of the larger body of stakeholders to whom nonprofit organizations are accountable are similar to those noted by Green and Griesinger (1996) in their study of nonprofit social service agencies. They also found that few organizations provide any form of ongoing training for board members and that orientation of new board members was typically minimal (94). On a similar note, following a survey of 139 non-educational charitable organizations, Nason (1984) concluded that the survival of most nonprofit organizations today will be directly linked to the board development that takes place.

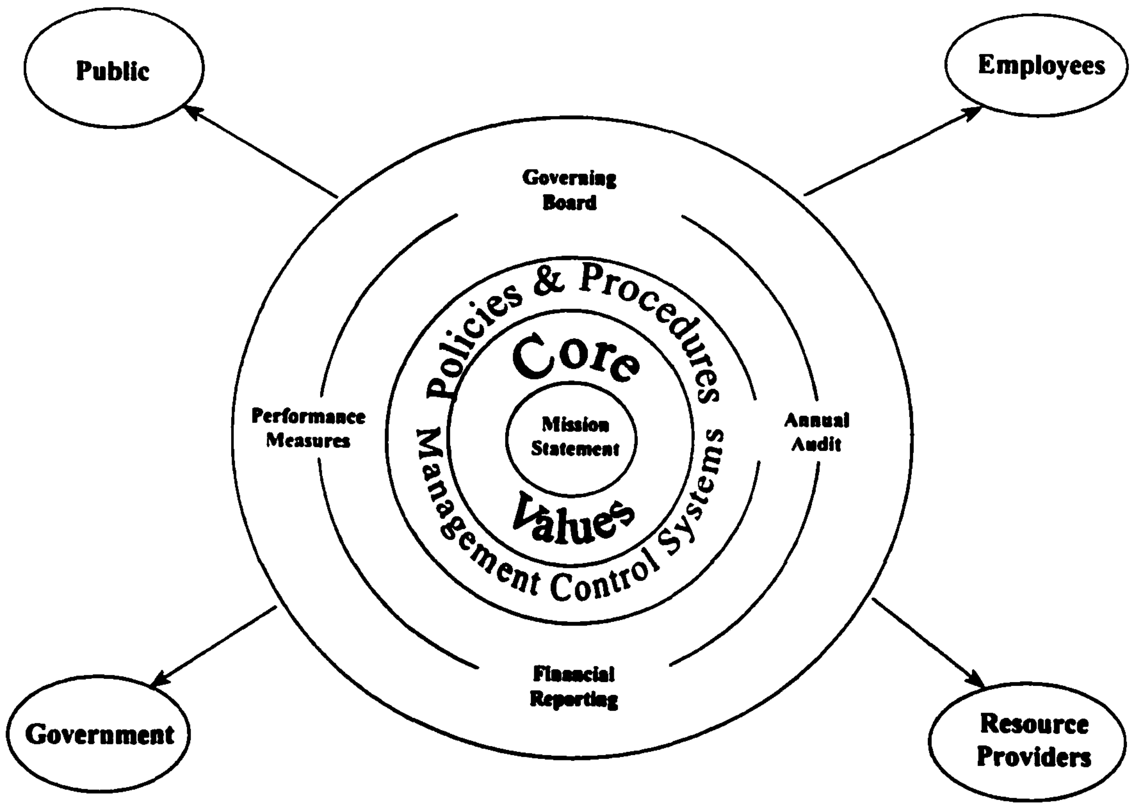
The results of this study also support those of Goldsmith (1996) who, in discussing the creation of a self-regulating organization for the nonprofit sector at large, states that "Self-regulation by such an organization would be a more effective means of assuring contributors of the financial accountability of members than either government regulation or private outside regulation" (93-94). Overall, there appears to be general agreement by most writers on the subject that the nonprofit industry must do a better job of being accountable to the public and other stakeholders. The main differences of opinion lie in the degree to which government needs to be involved in achieving this.

A Framework for Accountability

While the concept of accountability is well established in the literature, as shown by this study, there is an important gap between what writers on the subject are recommending and actual industry practice. In many cases, boards are still not aware of their role in this process or of what is required for their organizations to be more accountable. And, in many cases, management is generally reluctant to encourage discussion of this topic in view of what it might entail.

To help users of this study more readily understand the relationships involved, Figure 5.1 shows a basic framework for accountability of nonprofit organizations. At its center is the mission statement from which the organization's core values emerge. Policies, procedures and management control systems should be designed to support the mission and values, consistent with good business practices. Surrounding these elements are the four main components of the accountability structure; the governing board, the annual audit, financial reporting and performance monitoring. These help provide the basic accountability structure necessary to promote and sustain trust in the organization with its stakeholders. This graph can be used as part of a self assessment process to determine whether each of these elements is being properly considered in terms of the organization's policies and practices.

Figure 5.1 A Framework for Accountability



Recommendations for further research

As noted in the literature review, research on the nonprofit sector is still limited and there are many areas where further research is needed. Suggested areas for further research on the topic of nonprofit accountability are as follows:

Accountability Measures and Organizational Effectiveness

As discussed throughout this dissertation, the absence of a "bottom line" measurement as typically found in most businesses makes it difficult to compare the effectiveness of one nonprofit organization with another, or even to determine effectiveness

effectiveness of one nonprofit organization with another, or even to determine effectiveness at all. Whether a higher level of accountability is indicative of greater organizational effectiveness or merely provides donors with a better feeling of "comfort" regarding an organization should be explored. Institutions such as schools and hospitals have long been able to measure their performance in ways that allow for comparison among entities. Most nonprofits, however, still lack effective measurement standards for comparison among similar organizations or for their own evaluation purposes. More work needs to be done on finding meaningful, cost effective ways to measure both the efficiency and effectiveness of most nonprofit organizations. Because of their role in overseeing the affairs of an organization, boards, in particular, can benefit from more guidance in this area.

New Efforts at Accountability

Even during the course of this study, new measures for increasing accountability were being developed, highlighting again the continuing concern over this matter. In 1999, the Internal Revenue Service (IRS) issued new regulations designed to increase the amount of financial information that nonprofit organizations must make available by requiring that all such organizations (except churches and certain other religious organizations) make their annual IRS Information Return (Form 990) available to the public. This form contains not only the organization's financial statements, but a significant amount of other information as well. Unfortunately, much of this information is technical in nature and will not likely be readily understood or used by most people. While the revised Form 990 will satisfy some users, it still does not provide much of the basic information regarding programs and accomplishments that many readers are seeking. At the same time, a fourth monitoring agency called "Ministry Watch" was formed to provide research and ratings regarding Christian ministries using the internet.[11] Research regarding how much "oversight" of this sector is really needed, and regarding when such efforts cease to be cost effective could be helpful.

The Need for Self-regulation in Other Nonprofit Subgroups

Certain groups such as hospitals and colleges have long maintained their own mechanisms for self-regulation and the ECFA was formed to address a specific problem within a particular industry subgroup; the evangelical religious sector. The overall size and diversity of the nonprofit sector is far too large to allow for effective oversight by just one group. Are there other subgroups that would benefit from similar forms of self-regulation? If so, which groups would most likely benefit from this approach and what areas can best be self-regulated? Using the IRS taxonomy codes, a study could be performed to identify other subgroups that would most likely benefit from industry self monitoring and standard setting. In addition, further studies could assess the types of standards that are best suited for self-regulation and whether an effective model for self-regulation can be developed that could be used by a number of groups, at least as a starting point.

Implications of Study for Professional Practice

One of the goals of this study has been to identify ways of helping improve the overall management and accountability of the nonprofit sector. Through the testing of

[11] Ministry Watch is an online database program of Wall Watchers Inc, a charitable nonprofit organization.

compliance with key standards of the ECFA and other similar agencies, this study demonstrates that the ECFA has been successful in promoting better standards of accountability among its members and that self-regulation can be effective in improving industry norms. And, through a review of the financial statements provided by those responding to the survey part of this study, certain weaknesses in current reporting practices have been identified.

Given the nature and scope of this study, it is hoped that existing monitoring agencies will use these findings to review their respective standards to see if there are areas where improvements or changes might be beneficial. If nothing more, this study demonstrates that greater compliance with existing standards would go a long way in enhancing both the performance and perception of this industry.

As shown in the results section of this study (Chapter 4), compliance with existing accountability standards is still limited at best and, currently, there is not sufficient pressure for most organizations to increase their level of compliance with these standards. Both Goldsmith (1996) and Nelson (2000) observed that membership in the ECFA tended to increase immediately following a major scandal, which indicates that such events have a positive impact in promoting voluntary self-regulation. The nonprofit industry cannot rely solely on such incidents to improve its practices, however, and it is hoped that this study will encourage nonprofit leaders to take this issue more seriously. At the same time, over regulation can prove detrimental and ultimately cease to be beneficial at some point. A proper balance should be found between insufficient regulation on one hand and over regulation on the other.

The ECFA rightfully deserves to be recognized for all it has achieved. At the same time, the fact that its members, while significant, still represent only a small fraction of the total number of parachurch organizations in existence indicates there is still much room for improvement if self regulation is to be viewed as the answer to better accountability for this sector. In addition, the fact that one-third of its members which were surveyed as part of this study failed to comply with one of its basic and most visible membership standards, that of providing their financial statements when requested, should be a matter of concern and an area for review by the organization. If self-regulation is to be truly successful, ways of ensuring appropriate levels of compliance with agreed upon standards must be found.

But as also noted by this study, the effectiveness of the ECFA and similar groups is not limited to just monitoring compliance with standards. Such groups help bring to light issues affecting an industry and help develop solutions that organizations, acting independently, would not likely achieve for themselves. The ECFA's part in resolving the New Era scandal is an example of how an organization with a limited scope can go beyond its basic mission and assist in the larger role of helping the broader industry and public good.

Summary

A primary purpose of this study was to identify general standards of accountability for nonprofit organizations and to measure the extent of compliance with such standards by ECFA members as compared with other, similar organizations. The results of this research indicate that ECFA members, overall, demonstrate higher levels of accountability as measured by these standards. In spite of better performance by ECFA members in some areas, however, the overall results demonstrate that there is much room for improvement within the nonprofit sector as a whole. Overall, open sharing of financial information is weak as is reporting on program results. Large organizations typically perform better in these areas than small ones. Small ECFA members organizations, overall, were generally more accountable than comparable, nonmember ones.

In recent years there have been significant changes in the nonprofit sector; both in its role and in public expectations regarding its openness and transparency. The development of industry standards, greater emphasis on organizational performance, and the increase in research on this sector have all contributed to a greater awareness and understanding of the role of accountability in the ongoing success of these organizations. Created to help meet these expectations, the ECFA has demonstrated the benefits that self regulation can bring to this endeavor. But do these fruits of self regulation provide the safe guards against abuses and scandals that motivated the establishment of ECFA? This will be addressed in the next chapter.

CHAPTER 6

CONCLUSIONS

In recent years, organizational accountability has become an increasingly important issue faced not only by the not-for-profit sector, but by other industries and government as well. Following years of corporate indifference and a variety of scandals within all three of these groups, Americans are now demanding a higher level of integrity from their leaders and institutions. This has resulted in greater emphasis on ethical behavior by individuals and higher levels of public accountability by organizations.

While scandals involving nonprofits have caused some people to lose confidence in these institutions, the nonprofit sector as a whole has continued to grow in response to an increasing demand for the services and benefits it provides. At the same time, greater public expectations, increased regulation and growing competitive pressures are all making the nonprofit arena a more challenging environment in which to operate. All of these issues have served to focus greater attention on this industry and promote an increase in research on this important sector.

To be successful in the long run, organizations must both gain and retain the trust of their customers, employees and other key stakeholders. For nonprofit organizations, this includes donors, employees, board members, government and the public at large. It also means having a proper understanding of public expectations in this regard, as well as meeting them. Accountability by nonprofits has become an important part of this process and is critical if organizations are to survive in this new environment. Without some assistance, however, few organizations will likely be able to handle this challenge effectively. This is where voluntary industry associations such as the ECFA can play an important role.

Established in response to several nonprofit scandals in the 1970s, the ECFA has been a pioneer in developing a model of what voluntary self-regulation in this large and diverse sector can accomplish. It has successfully established voluntary standards of behavior accepted by over 1,000 member organizations and which have served as the model for similar attempts at self regulation by other groups including the National Religious Broadcasters Association and the Maryland Association of Nonprofits. It has also built a membership base that represents a large and influential portion of the national religious nonprofit sector.

Using the ECFA standards and those of two other standard setting bodies as a guide, this research has shown that ECFA members do exhibit higher levels of accountability than similar non-member organizations in several areas. ECFA members were found to be much more open in providing financial information to the public, a key element of accountability according to all three of the these groups. In addition, ECFA members were more likely to undergo annual audits and to use a board audit committees in monitoring their organization's financial affairs. They also showed much greater use of "conflict of interest" statements designed to help prevent behavior among board members or employees that might result in personal benefit or possible embarrassment for the organization. At the same time, this study also reveals that there is much room for improvement by this sector, especially in the areas of board training, financial oversight and reporting to the public. At the same time, this study points out some areas for improvement such as board training and the content of annual reports.

This study further reveals that religious beliefs alone do not appear to be as significant a factor in determining an organization's level of accountability as might be expected given the nature of religious organizations. Evangelical religious persuasion contributed to the original motivation for establishing the ECFA but, for the most part, non-ECFA member religious organizations tested in this study (both evangelical and otherwise) were neither significantly more or less accountable than their secular counterparts.

As predicted, larger organizations showed higher levels of accountability than smaller ones. Small ECFA member organizations, however, were found to exhibit higher levels of accountability in several areas than comparable organizations in the other groups tested. This appears to indicate that the ECFA has had its greatest influence upon smaller entities which have traditionally shown less accountability than large ones. In addition to simply promoting the credibility of its members, the ECFA has also been successful in going beyond its basic charter in terms of influence. Its role in helping achieve an effective solution to a major industry scandal demonstrated the broader reputation and political capital the ECFA has developed within much of the nonprofit sector.

In recent years, the federal government has sought to enhance accountability of the nonprofit industry by passing public disclosure laws increasing the amount of information that must be made available to the public. Although such laws provide access to greater amounts of information for the press and others who might be interested in obtaining such data, mere disclosure of financial results after the fact is of only limited value. As demonstrated by recent scandals in this sector and others, good accountability requires an ongoing process of proper governance, an effective system of internal control, regular (and competent) audits by an independent audit firm and meaningful reporting to stakeholders. While government regulation may help in this process, real improvement will only be achieved as nonprofit leaders and boards recognize the importance of this issue and are willing to take the steps necessary to ensure that the proper mechanisms for accountability are in place in their own organizations. This is particularly true for religious organizations where issues of church and state limit the amount of control governmental agencies can exercise over these entities.

Currently, religious organizations represent almost one half of all nonprofit organizations in this country. Because of their nature, the ECFA model of self-regulation serves as an important example of what can be accomplished through voluntary effort in improving the accountability of these otherwise largely unregulated entities. It also shows that voluntary efforts in this area can be successful, even if on a limited scale. At the same time, it must be recognized that self-regulation, by its very nature, has certain limitations. As a voluntary endeavor, it is generally limited to only those activities and enforcement mechanisms allowed for by the members; although it is sometimes able to go beyond such constraints as the group's informal networking and political capital develops. In addition, there is a tendency for a built in bias towards the interests of the membership. In spite of such limitations, the benefits of voluntary efforts of this nature are considered by many to be far greater than the alternative of greater government regulation.

Throughout its history, America's nonprofit sector has been one of this country's most important national resources. Nonprofit activities provide vital services which benefit all of society in one way or another and promote the moral, spiritual and social welfare of its citizens. The continual growth of these organizations is testimony to their ongoing need and significance. To preserve their place in society, management and boards must continually ensure that public expectations regarding their benefit, effectiveness and accountability are met. As demonstrated by this study, self-regulation is one means of helping achieve this goal.

> "The duty of every man is to devote a certain portion of his income for charitable purposes and....his further duty is to see it applied as to do the most good."
>
> Thomas Jefferson

REFERENCE LIST

AICPA. 1973. *Objectives of Financial Reporting*. American Institute of Certified Public Accountants. New York: AICPA.

Albanese, Robert. 1978. *Managing: Toward Accountability for Performance*. Homewood, IL: Richard D. Irvine, Inc.

Andrews, F. Emerson. 1956. *Philanthropic Foundations*. Philadelphia: Russell Sage Foundation.

Andrews, Kenneth R. 1984. Difficulties in Overseeing Ethical Policy. In *Corporate Governance and Institutionalizing Ethics*, ed. Michael W. Hoffman, Jennifer Moore and David Fedo, Lexington, Mass: D.C. Heath & Company. 27-30.

Anthony, Robert N., and David W. Young. 1994a. Accounting and Financial Management. In *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco: Jossey Bass. 403-484.

________. 1994b. *Management Control in Nonprofit Organizations*. Burr Ridge, IL: Irwin.

Bakal, Carl. 1973. *Charity USA: An Investigation into the Hidden World of the Multi-Billion Dollar Charity Industry*. New York: Times Books.

Bakker, Jim. 1996. *I Was Wrong*. Nashville: Thomas Nelson.

Barna, George. 1997. *How to Increase Giving to Your Church*. Ventura, CA: Regal Books.

Barnard, Chester I. 1938. *The Functions of the Executive*. Cambridge: Harvard University Press.

Barnhart, Joe E. 1988, *Jim and Tammy: Charismatic Intrigue Inside PTL*. Buffalo, NY: Prometheus Books.

Barr, Stephen. 1999. Watchdogs or Lapdogs? *CFO Magazine*, May, 45-60.

Bennett, James T., and Thomas J. Dilorenzo. 1994. *Unhealthy Charities*. New York: Basic Books.

Berg, Thomas C. 2000. Too Good to Be True: The New Era Foundation Scandal and Its Implications, In *More Money, More Ministry: Money and Evangelicals in Recent North American History*, ed. Larry Eskridge and Mark A. Noll. Grand Rapids, MI: Eerdmans Publishing Co. 374-395.

Billitteri, Thomas J. 1997. Research on Charities Falls Short. *The Chronicle of Philanthropy,* 27 November, 31-33.

Blau, Peter M., and W. Richard Scott. 1962. *Formal Organizations.* San Francisco: Chandler Publishing Company.

Blum, Debra E. 1999. Leaders of Black Church Call for Increased Accountability in Wake of Scandal. *The Chronicle of Philanthropy*, 8 April.

Board, Stephen. 1979. The Great Evangelical Power Shift. *Eternity Magazine*, June, 17-21.

Bogart, William T. 1995. Accountability and Nonprofit Organizations: An Economic Perspective. *Nonprofit Management & Leadership*. 6, no. 2 (Winter): 157-170.

Bole, William. 1990. Business Leaders Express Deep Concern Over Erosion of Ethics. *Religious News Service*, 12 December unpaged.

Borden, Art, former president of ECFA, Telephone interview by author, 8 August 2000, privately held.

Bowie, N.E., and R.E. Freeman. 1992. *Ethics and Agency Theory: An Introduction.* New York: Oxford University Press. 29-40.

Bowie., Norman. 1979. Business Codes of Ethics. In *Ethical Theory and Business,* ed. Tom L. Beauchamp and Norman Bowie, Englewood Cliffs, NJ: Prentice-Hall.

Bradshaw, Thornton, and David Vogel. 1981 *Corporations and Their Critics: Issues and Answers to the Problems of Corporate Social Responsibility.* New York: McGraw-Hill.

Braiotta, Louis, and Biegler, John C. 1981. *The Audit Directors Guide.* New York: John Wiley and Sons.

Brown, William A., 2000. *Organizational Effectiveness in Nonprofit Human Service Organizations: The Influence of the Board of Directors.* Ph.D.diss. Claremont Graduate University.

Brown, William G., Thomas Nygren, Sarah Turner and Elizabeth Duffy, eds. 1994. *The Charitable Nonprofits.* San Francisco: Jossey-Bass.

Bruce, Paul K., R. Elkin, Daniel Robinson, and Harold Steinberg, eds. 1980. *Reporting of Service Efforts and Accomplishments.* Stamford, Conn: Financial Accounting Standards Board.

Butler, John K. 1991. Toward Understanding and Measuring Conditions of Trust: Evolution of a Condition of Trust Inventor, *Journal of Management* 17, no. 3: 643-663.

Campbell, Bruce. 1998. Donors Want To Know Where the $$ Goes. *Fund Raising Management*, July, 40-42.

Carnes, Tony. 1997. New Era's Bennett To Prison. *Christianity Today*, 27 October, 86-91.

Chandler, Russell. 1992. *Racing Toward 2001: The Forces Shaping America's Religious Future*. San Francisco: HarperSanFrancisco.

Carver, John. 1990. *Boards That Make a Difference*. San Francisco: Jossey-Bass Publishers.

Chaves, M. 1998. The Religious Ethic and the Spirit of Nonprofit Entrepreneurship. In *Private Action and the Public Good*, ed. Woody Powell and Elizabeth Clemens. New Haven, CT: Yale University Press. 47-65.

Chisolm, Laura B. 1995. Accountability of Nonprofit Organizations and Those Who Control Them: The Legal Framework. *Nonprofit Management & Leadership* 6, no. 2 (Winter): 141-156.

Cook, James. 1991. Charity Checklist. *Forbes Magazine*, 28 October 180-184.

Covington, Sally. 1994. Who Governs the Non-profit Sector? *Fund Raising Management*, July, 33-36.

De Tocqueville, Alexis. 1945. *Democracy in America*. Translated by Henry Reeve and revised by Francis Bowen. New York: Alfred A. Knopf.

Deloitte & Touche. 1995. *The Effective Not-for-Profit Board: Governance of Non-for-Profit Organizations*. Toronto: Deloitte & Touche.

DiMaggio, Paul. 1998. The Relevance of Organizational Theory to the Study of Religion, In *Sacred Companies*, ed. N.J. Demerath III, Peter Hall, Terry Schmitt, and Rhys William, New York: Oxford University Press. 7-23.

Drucker, P.F. 1996, Letter to Editor, *Harvard Business Review*, 74 no. 3 (May-June): 164-169.

________. 1993. *The Five Most Important Questions You Will Ever Ask About Your Nonprofit Organization*. San Francisco: Jossey-Bass.

________. 1991. It Profits us to Strengthen Nonprofits, *The Wall Street Journal*, 19 December, A1.

________. 1990. *Managing the Nonprofit Organization.* New York: HarperCollins.

________. 1989a. Managing to Minister. *Leadership Magazine*, Spring, 14-22.

________. 1989b. What Business Can Learn from Nonprofits. *Harvard Business Review* 67 no. 4 (July-August): 88-93.

________. 1974. *Management: Tasks, Responsibilities, Practices.* New York: Harper & Row.

Dwivedi, O.P., and Joseph Jabbra. 1988. *Public Service Accountability.* West Hartford, CT: Kumarian Press.

Emerson, R.M. 1996. Social Exchange Theory. *Annual Review of Sociology*, 2, 335-362.

Eisenhardt, Kathleen M. 1989. Agency Theory: An Assessment and Review. *Academy of Management Review* 14, no. 1, 57-58.

Ernst & Whinney. 1988. *The Audit Committee: Functioning in a Changing Environment.* Cleveland: Ernst & Whinney.

Etzioni, A. 1988. *The Moral Dimension: Toward a New Economics.* New York: The Free Press.

________. 1964. *Modern Organizations.* Englewood Cliffs, NJ: Prentice Hall.

Evangelical Non-Profits Call for Voluntary Financial Disclosure, *Eternity Magazine*, February 1978, 10.

Ewell, Peter T. 1994. Accountability and the Future of Self-Regulation. *Change Magazine*, November-December, 25-29.

Frame, Randy. 1996. New Era Settlement Seeks $85 Million in Repayments. *Christianity Today*, 8 April, 40.

________. 1995. The "Post New Era" Era Ministries Band Together to Overcome Losses. *Christianity Today*, 17 July, 55-56.

________. 1990. TBN: Growth Has Bred Criticism. *Christianity Today*, 8 November 1990, 56-59.

Fremont-Smith, Marion R. 1989. Trends in Accountability and Regulation of Nonprofits, In *The Future of the Nonprofit Sector*, ed. Virginia Hodgkinson, Richard Lyman and Associates. San Francisco: Jossey-Bass. 75-88.

Fritzsche, D.J. 1995. Personal Values: Potential Keys to Ethical Decision Making. *Journal of Business Ethics* 14 no. 11 (November): 909-922.

Fry, Ronald E. 1995. Accountability in Organizational Life: Problem or Opportunity for Nonprofits. *Nonprofit Management & Leadership* 6 no. 2, (Winter): 81-193.

Fukuyama, Francis 1995. *Trust: The Social Virtues and the Creation of Prosperity*. New York: The Free Press.

Gambino, Anthony J., and Thomas Reardon. 1981. *Financial Planning and Evaluation for the Nonprofit Organization*. New York: National Association of Accountants.

Gardner, John W. 1990. *On Leadership*. New York: The Free Press.

Glaser, John S. 1994. *The United Way Scandal: An Insider's Account of What Went Wrong and Why*. New York: John Wiley & Son.

Glazer, Amihai and Kai Konrad. 1996. Signaling Explanation of Charity. *The American Economic Journal* 86, no. 4 (September): 1019-1028.

Goldsmith, G.P. 1996. Self Regulation of the Financial Disclosure of Evangelical Not-for-Profit Organizations, Ph.D. diss., Kent State University.

Greanias, George, and Duane Windsor. 1984. Corporate Governance: The Legal Framework for Institutionalizing Ethical Responsibility. In *Corporate Governance and Institutionalizing Ethics*. ed. Michael W. Hoffman, Jennifer Moore and David Fedo, Lexington, Mass: D.C. Heath and Company. 95-105.

Green, Jack C., and Donald W. Griesinger. 1996. Board Performance and Organizational Effectiveness in Nonprofit Social Services Organizations. *Nonprofit Management and Leadership* 6, no. 4, (Summer): 381-402.

Griesinger, Don W. 1996. Why Study Nonprofit Organizations. *Drucker Management*, Spring, 12-16.

Gronbjerg, Kirsten & Sheila Nelson. 1998. Mapping Small Religious Nonprofit Organizations: An Illinois Profile. *Nonprofit and Voluntary Sector Quarterly* 6, no. 4 (March): 13-31.

Hall, Peter Dobkin. 1992a. Historical Perspectives on Nonprofit Organizations. In *The Jossey-Bass Handbook of Nonprofit Leadership and Management*, San Francisco: Jossey-Bass.

________. 1992b. *Inventing the Nonprofit Sector.* Baltimore: The Johns Hopkins University Press.

________. 1987. Abandoning the Rhetoric of Independence: Reflections on the Nonprofit Sector in the Post-Liberal Era. In *Shifting the Debate: Public/Private Sector Relations in the Modern Welfare State*. ed. S.A. Ostrander, S. Langton, and J. Van Til, New Brunswick, CT: Transaction Books.

Hall, Richard H. 1991. *Organizations: Structures, Processes & Outcomes.* Englewood Cliffs, NJ: Prentice Hall.

Hammack, David C. 1995. Accountability and Nonprofit Organizations: A Historical Perspective. *Nonprofit Management and Leadership* 6, no. 2 (Winter): 127-139.

Hammack, David C., and D. R. Young. 1993. *Nonprofit Organizations in a Market Economy.* San Francisco: Jossey-Bass.

Hanchette, C. Quinn, and Grant Williams. 1995. Claims Against New Era Foundation Total More Than $35 Million. *The Chronicle of Philanthropy*, 19 October, 35-37.

Hannan, Michael T. and John H. Freeman. 1977. *The Population Ecology of Organizations.* American Journal of Sociology 82, no. 5 (March): 929-964.

Hansmann, Henry B. 1980. The Role of Nonprofit Enterprise. *The Yale Law Review* 89, no. 5 (April): 835-901.

Harper, Betty S., and Phil Harper. 1988. Religious Reporting: Is It The Gospel Truth. *Management Accounting*, February, 34-39.

Harvey, Philip D., and James D. Synder. 1987. Charities Need a Bottom Line Too, *Harvard Business Review* 65, no. 1 (January-February): 14.

Herman, Robert D., 1994. *The Jossey-Bass Handbook of Nonprofit Leadership and Management*, San Francisco: Jossey-Bass.

Herman, Robert D., and Richard Heimovics. 1991. *Executive Leadership in Nonprofit Organizations.* San Francisco: Jossey-Bass.

Hendrix, Olan. First president of the ECFA. Telephone interview by author. 3 November 2000. Privately held.

Herzlinger, Regina E. 1996. Can Public Trust in Nonprofits and Governments be Restored? *Harvard Business Review* 74, no. 2 (March-April): 97-107.

________. 1994. Effective Oversight: A Guide for Directors, *Harvard Business Review* 72, no. 4 (July-August): 52-60.

Hodgkinson, Virginia Ann, and Richard Lyman & Associates. 1989. *The Future of the Nonprofit Sector*. San Francisco: Jossey-Bass.

Hodgkinson, Virginia A. 1988, Research on the Independent Sector: A Progress Report, In *Philanthropy: Voluntary Action for the Public Good*, ed. Robert L. Payton, New York: MacMillan Publishing, 1988. 226-259.

Hyndman, Noel S. 1988. The Disclosure of Information by UK Charitable Institutions. Ph.D. diss., The Queens University of Belfast.

Independent Sector. 1996. *Giving and Volunteering in the United States*. Washington, D.C: Independent Sector.

________. 1993. *A Portrait of the Independent Sector*. Washington, D.C.: Independent Sector.

James, Estelle. 1990. Economic Theories of the Nonprofit Sector: A Comparative Perspective, In *The Third Sector: Comparative Studies of Nonprofit Organizations*, ed. Helmut K. Anheier and Wolfgang Seibel. Berlin: Walter de Gruyter. 21-29.

Jeavons, T. H. 1994a. Ethics in Nonprofit Management: Creating a Culture of Integrity, In *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco: Jossey-Bass Publishers. 184-207.

________. 1994b. *When The Bottom Line is Faithfulness*. Bloomington, IN: Indiana University Press.

Kanungo, Rabindra N. and Jay A. Conger. 1990. The Quest for Altruism in Organizations, In *Appreciative Management and Leadership: The Power of Positive Thought and Action in Organizations*, ed. Suresh Srivastva, David Cooperrider and Associates, San Francisco: Jossey-Bass.

Kaplan, Robert S., and David P. Norton. 1996. *The Balanced Scorecard*. Boston: Harvard Business School Press.

Kearns, Kevin P. 1996. *Managing for Accountability: Preserving the Public Trust in Public and Nonprofit Organizations.* San Francisco: Jossey-Bass.

________. 1994. The Strategic Management of Accountability in Nonprofit Organizations: An Analytical Framework, *Public Administration Review* 54 no. 2 (March-April): 185-192.

Koontz, Harold. 1967. *The Board of Directors and Effective Management.* New York: McGaw-Hill.

Kramer, Ralph M. 1992. Privatization in the Personal Social Services in the United Kingdom, the Netherlands and Italy. In *The Nonprofit Sector in the Global Economy,* ed. Kathleen McCarthy, Virginia Hodgkison and Russy Sumariwall, San Francisco: Jossey-Bass. 90-107.

Kramer, Ralph. M., and T.R. Tyler. 1996. *Trust In Organizations: Frontiers of Theory and Research.* Thousand Oaks, CA: Sage Publications.

Lake, Helen L., 1997. Organizational Accountability Structures in Nonprofit Organizations: A Case Study. Ph.D. diss., University of Southern California.

Lawry, Robert P. 1995. Accountability and Nonprofit Organizations: An Ethical Perspective. *Nonprofit Management & Leadership* 6 no. 2 (Winter): 171-180.

Lawton, Kim A. 1993. Broadcasters Pass Revamped Ethics Code, *Christianity Today,* 5 April 80-81.

Leat, Diana. 1990. Voluntary Organizations and Accountability, Theory and Practice, In *The Third Sector: Comparative Studies of Nonprofit Organizations.* ed. Helmut Anheier and Wolfgang Seibel. Berlin: Walter de Gruyter & Co. 141-153.

Light, Paul C. 2000. *Making Nonprofits Work: A Report on the Tides of Nonprofit Management Reform.* Washington D.C.: The Aspen Institute.

Locke, E.A., and D. Henne. 1986. *International Review of Industrial and Organizational Psychology.* New York: John Wiley & Sons.

Makower, Joel. 1994. *Beyond the Bottom Line.* New York: Simon & Schuster.

Margolis, Joseph. 1979. Conflict of Interest and Conflicting Policies, In *Ethical Theory and Business,* ed. Beauchamp, Tom L., and Norman Bowie. Englewood Cliffs, NJ: Prentice Hall.

Marts, A.C. 1953. *Philanthropy's Role In Civilization.* New York: Harper & Brothers.

Martz, Larry 1988. *Ministry of Greed.* New York: General Publishing Company.

Maurer, J.G. 1971. *Readings in Organizational Theory: Open-System Approaches.* New York: Random House.

McAllister, Daniel J. 1995. Affect and Cognition-Based Trust As Foundations for Interpersonal Cooperation in Organizations. *Academy of Management Journal* 38 no.1 (February): 24-59.

McFarlan, F. Warren. 1999. Working on Nonprofit Boards: Don't Assume the Shoe Fits. *Harvard Business Review* 77 no. 6 (November-December): 65-80.

McIlquham, John. 1999. Self-Regulation: Nonprofits Need to Move Now. *The Nonprofit Times*, April, 18.

Monks, Robert A. G., and Nell Minow. 1991. *Power and Accountability.* New York: HarperCollins.

Moore, Jennifer, Armanda Rocque, and Grant Williams 1995a. A Debacle for Charities' Credibility, *The Chronicle of Philanthropy*, 1 June, 1, 25-29.

________. 1995b, How Did One Man Fool So Many? *The Chronicle of Philanthropy*, 1 June, 25-27.

Mueller, Gerhard, and Charles H. Smith. 1970. *Accounting: A Book of Readings.* New York: Holt, Rinehart and Winston Inc.

Munro, Rolland, and Jan Mouritsen. 1996. *Accountability: Power, Ethos & The Technologies of Managing.* London: International Thomson Business Press.

Murphy, Patrick. 1989. Creating and Encouraging Ethical Corporate Structures, *Sloan Management Review* 30 no. 2 (Winter): 81-87.

Murray, Vic, and Bill Tassie. 1992. Evaluating the Effectiveness of Nonprofit Organizations, In *The Jossey-Bass Handbook of Nonprofit Leadership and Management.* San Francisco: Jossey-Bass. 303-324.

Nash, Michael. 1983. *Managing Organizational Performance.* San Francisco: Jossey-Bass.

Nason, John W. 1984. A Report on An Inquiry Into Current Programs Toward Strengthening the Performance of Board members of Nonprofit Organizations. (Photocopy) Report of the Association of Governing Boards of Colleges and Universities.

Nelson, Paul, President of ECFA, Telephone interview by author, 17 August 2000, privately held.

Newman, William H. 1978. *Constructive Control.* Englewood Cliffs: Prentice Hall.

NGOs Are a $1.1 Trillion Industry Worldwide, *Nonprofit World,* September/October 1999, 8.

Oden, Thomas C. 1988. Truth or Consequences? A Biblical Guide to Accountability. *Christianity Today*, 18 March, 34-39.

Ostling, Richard N. 1987. A Really Bad Day at Fort Mill. *Time Magazine*, 30 March, 70.

Paine, L.S. 1994. Managing for Organizational Integrity. *Harvard Business Review* 72, no. 2 (March-April): 106-117.

Paul, Samuel. 1992. Accountability in Public Services: Exit, Voice and Control. *World Development*, 20, no.7, 1047-1060.

Payton, Robert L. 1988. *Philanthropy: Voluntary Action for the Public Good.* New York: MacMillan Publishing.

Petit, Thomas A. 1967. *The Moral Crisis in Management.* New York: McGraw-Hill.

Petrick, Joseph A., and John F. Quinn. 1997. *Management Ethics: Integrity at Work.* Thousand Oaks, CA: SAGE Publications.

Pfeffer, Jeffrey, and Gerald R. Salancik. 1978. *The External Control of Organizations.* New York: Harper & Row.

Pinchot, G., and E. Pinchot. 1993. *The End of Bureaucracy & The Rise of the Intelligent Organization.* San Francisco: Berrett-Koehler Publishers.

Quinn, Robert E., and John Rohrbaugh. 1983. A Spatial Model of Effectiveness Criteria: Towards a Competing Values Approach to Organizational Analysis. *Management Science*, March, 363-377.

Rae, S. & Wong, K. 1966. *Beyond Integrity: A Judeo-Christian Approach to Business Ethics.* Grand Rapids: Zondervan.

Ramanathan, K.V. 1982. *Management Control in Nonprofit Organizations.* New York: John Wiley & Sons.

Randall, A. 1989. Pressure to Put More Heart Into Accountability. *Accountancy Magazine*, December, 70-72.

Reece, William S. 1979. Charitable Contributions: New Evidence on Household Behavior. *The American Economic Review* 69 no. 1 (March): 142-151.

Robinson, Daniel D. 1976. Private Philanthropy and Public Needs. *The Journal of Accountancy*, February, 46-54.

Rose-Ackerman, Susan. 1996. Altruism, Nonprofits and Economic Theory. *Journal of Economic Literature* XXXIV (June): 701-725.

________. 1986. *The Economics of Nonprofit Institutions: Studies in Structure and Policy.* New York: Oxford University Press.

Rosenberg, Claude Jr. 1994. *Wealthy and Wise.* Boston: Little, Brown and Company.

Ross, Frank 1988. The Audit Committee--Why You Need One, How to Form One. *Nonprofit World*, November-December, 26-29.

Ruckel, James Edward. 1993. *Distinctive Qualities of Third Sector Organizations.* New York: Garland Publishing.

Russ Reid Company. 1995. *The Heart of the Donor.* Pasadena: Russ Reid Company.

Salamon, Lester M. 1995. *Partners in Public Service.* Baltimore: The Johns Hopkins University Press.

Salamon, L. 1987. Of Market Failure, Voluntary Failure, and Third Party Government: Toward a Theory of Government-Nonprofit Relations in the Modern Welfare State. In *Shifting the Debate: Public/Private Sector Relations in the Modern Welfare State.* ed. S.A. Ostrander, S. Langdon, and J. Van Til. New Brunswick, CT: Transaction Books. 123-127.

Saxon-Harrold, Susan. 1990. Competition, Resources, and Strategy in the British Nonprofit Sector. In *The Third Sector: Comparative Studies in Nonprofit Organizations.* ed. Helmut K. Anheier and Wolfgang Seibel, Berlin: Walter de Gruyter & Co. 123-137.

Schein, Edgar H. 1985. *Organizational Culture and Leadership.* San Francisco: Jossey-Bass.

Schene, Patricia M. 1991. Accountability in Nonprofit Organizations: A Framework for Addressing the Public Interest. Ph.D. diss., University of Colorado at Denver.

Scott, Richard. 1992. *Organizations: Rational, Natural, and Open Systems.* Englewood Cliffs, NJ: Prentice Hall.

Sealander, Judith. 1997. *Private Wealth and Public Life: Foundation Philanthropy and the Reshaping of American Public Policy from the Progressive Era to the New Deal.* Baltimore: John Hopkins University Press.

Sebastian, Pamela. 1995. Boards of Nonprofits Learn Lessons From United Way's Troubles. *The Wall Street Journal,* 22 February, B1.

Selznick, Philip. 1948. Foundations of the Theory of Organization. *American Sociological Review* 13 no. 1 (February): 25-35.

Shaw, W., and V. Barry. 1989. *Moral Issues in Business.* Belmont: Wadsworth Publishing Company.

Shapiro, Susan P. 1987. The Social Control of Impersonal Trust. *American Journal of Sociology* 93 no. 3 (November): 623-658.

Shepard, Charles E. 1989. *Forgiven: The Rise and Fall of Jim Bakker and the PTL Ministry.* New York: Atlantic Monthly Press.

________. 1986. Bakker's Personal Use of Donations Reported. *The Charlotte Observer,* 27 January, A1.

Sinclair, Matthew. 1999. United Way Pushes Nine New Membership Requirements. *The Nonprofit Times,* June, 4.

Sitkin, S., and Darryl Stickel. 1996. The Road to Hell: The Dynamics of Distrust in an Era of Quality, In *Trust and Organizations: Frontiers of Theory and Research.* ed. Roderick Kramer, and Tom Tyler. Thousand Oaks: Sage Publications. 196-215.

Spring, Beth. 1983. FCC Ends Its Investigation of the PTL Organization. *Christianity Today,* 21 January, 24-26.

Steckel, Richard, and Jennifer Lehman. 1997. *In Search of America's Best Nonprofits.* San Francisco: Jossey-Bass.

Sternberg, William. 1992. Cooked Books. *Atlantic Monthly,* January, 20-26, 35-38.

Taylor, Barbara E, Richard Chait and Thomas Holland. 1996. The New Work of the Nonprofit Board. *Harvard Business Review* 74 no. 5 (September-October): 36-46.

Thompson, Robert R, and Gerald R. Thompson. 1991. *Organizing for Accountability*. Wheaton, IL: Harold Shaw Publishers.

Tidwell, Gary L. 1993. *The Anatomy of A Fraud*. New York: John Wiley & Sons, Inc.

Watson, Robert A. and Ben Brown. 2001. *The Most Effective Organization in the U.S.* New York: Crown Publishing.

Weidenbaum, Murry L . 1979. *The Future of Business Regulation*. New York: American Management Association.

Weisbrod, Burton A. 1988. *The Nonprofit Economy*. Cambridge: Harvard University Press.

White, Jerry. 1983. *The Church & Parachurch: An Uneasy Marriage*. Portland, OR: Multnomah Press.

Williams, Grant. 2002. Watchdog Group Proposes Changes in Evaluating Charity Operations, *The Chronicle of Philanthropy*, 24 January, 24-25.

Williams, Harold M. 1977. Audit Committees-The Public Sectors View. *The Journal of Accountancy*, September, 71-74.

Williamson, O.E. 1975. *Markets and Hierarchies*. New York: The Free Press.

Willmer, Wesley K., J. David Schmidt, and Martyn Smith. 1998. *The Prospering Parachurch*. San Francisco: Jossey-Bass.

Wuthnow, Robert. 1994. *God and Mammon in America*. New York: The Free Press.

Zack, Gerald M. 1988. Protect Your Organization Against Fraud. *Board Member Magazine*, April.

Zucker, L.G. 1986. Production of Trust: Institutional Sources of Economic Structure, 1840-1920. *Research in Organizational Behavior* 8: 53-111.

Appendix A

SURVEY LETTER
(On Claremont Graduate University Letterhead)

Date

Chief Financial Officer
Name of Charity
Address

In recent years, the issue of accountability by nonprofit organizations has become an increasingly important topic. It has also led to increased scrutiny by the Internal Revenue Service as well as calls for greater regulation of the nonprofit sector as a whole.

To help find out more about this important issue, and hopefully help prevent increased regulation of nonprofit organizations, your assistance in participating in a brief, confidential survey would be greatly appreciated..

I am a doctoral student at the Claremont Graduate University performing research on America's important nonprofit sector. Your organization has been carefully chosen, along with others, as being able to provide a representative sample and perspective of the nonprofit community at large. Your response to the enclosed questionnaire will be completely confidential and only summary results will be made public and primary for academic purposes. No organizations participating in this survey will be named.

The survey should only take about 20 minutes to complete. In exchange for your help, I will be happy to share a summary of my research with you upon its completion. You will also have the satisfaction of knowing that you have contributed your knowledge and opinions to a research project designed to help the nonprofit community at large. Please complete the enclosed survey and return in the envelope provided.

The second part of this survey is a request that you send me a copy of a recent annual report or audited financial statements for your organization. (a self addressed label is enclosed for this purpose). Again, these statements will be treated respectfully and confidentially and only used to provide summary statistical information.

Thank you in advance for your very kind help in connection with this study.

Very truly yours,

Jim Canning

Appendix B

NONPROFIT ORGANIZATION SURVEY QUESTIONNAIRE

The purpose of this questionnaire is to gather data on various practices followed by nonprofit organizations regarding board governance, financial management and public reporting. Your response will be combined with others and summarized for reporting purposes. All replies will be treated as strictly confidential and no individual organizations will be identified.

GENERAL

1. Please briefly indicate the primary nature or purpose of your organization (i.e., community improvement, health services, youth activities, etc).

   ____

2. Total annual income of your organization for latest fiscal year.

   ____Under $250,000
   ____$250,000 to $499,999
   ____$500,000 to $999,999
   ____$1 million to 4,999,999
   ____$5 million to $10 million
   ____$10 million to $50 million
   ____Over $50 million

3. Is your organization a member or any organized professional, accrediting, or regulating group? (Y/N)______ If yes, please indicate name of group(s).

   ____
   ____
   ____

4. Approximately how many full time employees (or full time equivalents) does your organization currently have? ________

5. Approximately how many years has your organization been in existence? ________

6. Does the organization have a written mission statement? ____Yes ___No

BOARD/GOVERNANCE

7. How many individuals are on the organization's board of directors? ________

8. Are any board members also employees? ____Yes ____No. If yes, how many? ________

9. How many times a year does the board of directors regularly meet? ________

	Yes	No
10. Are officers elected by the board annually?	____	____
11. Are written minutes kept of all board meetings?	____	____
12. Are board minutes appoved at the following board meeting?	____	____

	Yes	No
13. Does the board have a separate "Finance Committee" that reviews financial matters for the board?	_____	_____
14. Does the organization have a formal policy regarding regular attendance at board meetings by members of the board?	_____	_____
15. Does the organization have a formal policy limiting the terms of board members?	_____	_____
16. Are board members compensated or paid for their service other than reimbursement of expenses?	_____	_____

If yes, please explain____________________________________

____

	Yes	No
17. Do new board members receive orientation as to their responsibilities?	_____	_____
18. Do board members receive any periodic training outside the organization to help them better understand the nonprofit sector and their duties?	_____	_____

FINANCES

	Yes	No
19. Does the organization prepare an annual budget? (If no, skip to #22)	_____	_____
20. Is the budget approved by the board of directors?	_____	_____
21. Is the board provided with periodic financial reports regarding the organizations's finances at each board meeting?	_____	_____

22. If no, how often does the board receive such updates?

____

	Yes	No
23. Is the salary of the organization's chief executive officer approved annually by the board or board executive committee?	_____	_____
24. Does the organization have a written policy regarding activities or transactions that might involve a conflict of interest?	_____	_____
25. Does the organization have a board approved policy requiring that a certain percentage of funds received must be spent on program or limiting the amount funds that can be spent on administration and fund raising?	_____	_____
26. Does any member of the board review the expenses of the organization's Chief Executive officer on a regular basis?	_____	_____

If yes, who?____

AUDITING | Yes | No

27. Are the organization's financial statements audited annually by an independent CPA firm? _____ _____

28. Doe the organization have an audit committee made up of independent board members, none of whom are staff members? _____ _____

29. Do the auditors meet annually with the board of directors or a representative group of the board without management present? _____ _____

30. Does the organization have an internal auditor or internal audit function? _____ _____

31. Does the organization have a policy of changing its outside auditors periodically? _____ _____

FINANCIAL REPORTING

32. Does the organization publish a publication annually which summarizes the organization's main program activities and results for the year? _____ _____

33. If yes, does it include the organization's audited financial statements? _____ _____

34. Is the report provided to anyone who requests it? _____ _____

35. Does the organization make available a copy of its audited financial statements (AFS) to anyone who requests them? _____ _____

36. Are the organization's AFS prepared in accordance with generally accepted accounting principles? _____ _____

37. Do the audited financial statements include a statement of functional expenses? _____ _____

38. Does the organization file an annual form 990 with the IRS? _____ _____
If not, please explain_______________________________________

39. Does the organization send a copy of its form 990 to anyone who requests it? _____ _____

40. Using the numbers 1, 2, and 3 only (1 being the most important, ect) please indicate below the 3 primary users of your annual financial report.

_____The organization's board of directors. _____Donors
_____Top management of the organization. _____United Way
_____The Internal Revenue Service _____Bankers or other lendors
_____The ECFA (if organization is an ECFA member)
_____A professional, trade, or similar body of which organization is a member.
_____The general public (not necessarily donors)
_____Other (please indicate)_______________________________________

PERFORMANCE MONITORING | Yes | No

41. Does the organization regularly establish quantifiable, measurable goals by which to monitor its performance? ____ ____

42. If yes, please briefly indicate some of the things that are measured.

____

____

____

____

YOUR OPINIONS

43. Overall, please rate how well do you feel THE NONPROFIT SECTOR IN GENERAL is currently doing in demonstrating good accountability to donors and the public.

Poor		Weak		Fair		Good		Very Good	Excellent
1	2	3	4	5	6	7	8	9	10

44. Overall, please rate how well you feel YOUR ORGANIZATION demonstrates good accountability to its donors and the public.

Poor		Weak		Fair		Good		Very Good	Excellent
1	2	3	4	5	6	7	8	9	10

Please provide your response to the following statements by circling your answer.

45. There is currently adequate regulation of the nonprofit industry to provide proper accountability.

Strongly Disagree Disagree Undecided Agree Strongly Agree

46. Self-regulation is the best means for improving accountability by nonprofit organizations.

Strongly Disagree Disagree Undecided Agree Strongly Agree

47. Greater government regulation is needed to improve accountability in the Nonprofit Sector.

Strongly Disagree Disagree Undecided Agree Strongly Agree

****

Thank you for completing this questionnaire. Please return in the envelope provided.

If you are interested in receiving a summary of the results when completed, please put your name and address on the enclosed card and mail it separately to preserve the confidentiality of this survey information.

Appendix C

NONPROFIT ORGANIZATION FINANCIAL STATEMENT ANALYSIS

Survey No.___________

A. NATURE OF REPORT

1._____Plain audited financial statements only.
2._____Plain audited financial statements with statement of functional expenses
3._____Audited financial statements with additional information
4._____Annual report that includes audited financial statements
5._____Summary or condensed financial statements
6._____Condensed or unaudited financial statements
7._____Form 990 or state report
8._____Other____

B. NATURE OF AUDITOR'S REPORT

1._____Unqualified (clean) Opinion
2._____Qualified opinion
3._____Compilation
4. _____No Auditors Report
5. _____Other____________________

C. KEY FINANCIAL INFORMATION FOR YEAR OF REPORT:

	Dollars (In thousands)	% of Total Revenue
Total Revenue	$__________________	___________
Total Contributed Revenue	__________________	___________
Total Expenditures:		
Program	__________________	___________
Administration	__________________	___________
Fundraising	__________________	___________
Net income over (under) expenses	__________________	___________

D. ADDITIONAL INFORMATION PRESENTED (check all that apply)

_____Purpose of Organization
_____Mission Statement
_____Description of Programs
_____Program Accomplishments
_____Letter from President or Board Chair

_____Names of Board members
_____Frequency of Board meetings
_____Membership in other Organizations
_____Year of Incorporation
_____Statements of Functional Expenses
_____Reference to ECFA (if applicable)

E. OTHER INFORMATIVE DISCLOSURES___________________________
____
____
____
____

COMMENTS____
____
____
____
____

Appendix D

SUMMARY OF ACCOUNTABILITY STANDARDS OF THE ECFA

Standard 1 - Doctrinal Statement

Every member organization shall subscribe to a written statement of faith clearly affirming its commitment to the evangelical Christian faith, and shall conduct its financial and other operations in a manner which reflects those generally accepted biblical truths and practices.

Standard 2 - Board of Directors and Audit Review Committee

very member organization shall be governed by a responsible board of not less than five individuals, a majority of whom shall be other than employees/staff and/or those related by blood or marriage, which shall meet at least semiannually to establish policy and review its accomplishments. The board shall appoint a functioning audit review committee, a majority of whom shall be other than employees/staff and/or those related by blood or marriage for the purpose of reviewing the annual audit and reporting its findings to the board.

Standard 3 - Audited Financial Statements

Every member organization shall obtain an annual audit performed by an independent certified public accounting firm in accordance with generally accepted auditing standards (GAAS) with financial statements prepared in accordance with generally accepted accounting principles (GAAP).

Standard 4 - Use of Resources

Every member organization shall exercise management and financial controls necessary to provide reasonable assurance that all resources are used (nationally and internationally) to accomplish the exempt purposes for which they are intended.

Standard 5 - Financial Disclosure

Every member organization shall provide a copy of its current audited financial statements upon written request.

SUMMARY OF ACCOUNTABILITY STANDARDS OF THE ECFA (continued)

Standard 6 - Conflicts of Interest

Every member organization shall avoid conflicts of interest.

Standard 7 - Fund Raising

Every member organization shall comply with each of the ECFA Standards for Fund Raising.

(Note: There are 12 separate fund raising standards dealing with various fund raising issues. They deal primarily with truthfulness in advertising and ensuring that funds raised are used for the purposes intended)

Appendix E

SUMMARY OF BETTER BUSINESS BUREAUS' "STANDARDS FOR CHARITABLE SOLICITATIONS"

Public Accountability

1. Provide on request an annual report that includes information about the soliciting organization's purposes, current activities, governance, finances and tax-exempt status.

2. Provide on request complete annual financial statements.

3. Present adequate information in financial statements to serve as a basis for informed decisions.

4. Provide on request an accounting of all income and fund raising costs of controlled or affiliated entities.

Use of Funds

1. Spend a reasonable percentage, at least 50%,of total income from all sources on programs and activities directly related to the purposes for which the organization exists.

2. Spend a reasonable percentage, at least 50%, of public contributions on the programs and activities described in solicitations, in accordance with donor expectations.

3. Spend a reasonable percentage, not exceeding 35%, of related contributions on fund raising.

4. Spend a reasonable percentage, not exceeding 50%, of total income on fund raising and administrative costs.

5. Substantiate upon request, application of funds, in accordance with donor expectations, to the programs and activities described in solicitations.

6. Establish and exercise adequate controls over disbursements.

SUMMARY OF BETTER BUSINESS BUREAUS' "STANDARDS FOR CHARITABLE SOLICITATIONS" (continued)

Solicitations and Informational Materials

1. Ensure that solicitations and informational materials, distributed by an means, are accurate, truthful and not misleading, in whole and in part.

2. Substantiate on request that solicitations and informational materials, distributed by any means, are accurate, truthful and not misleading, in whole and in part.

3. Include in solicitations a clear description of the programs and activities for which funds are requested.

4. Identify in direct contact solicitations a) the solicitor and his/her relationship to the benefitting organization, b) the benefitting organization or cause, and c) the programs and activities for which funds are requested.

5. Identify at the point of solicitations in conjunction with the sale of goods, services or admissions, a) the benefitting organizations; b) a sources from which written information is available; and c) the actual or anticipated portion of sales or admission price to benefit the charitable organization or cause.

Fund Raising Practices

1. Establish and exercise controls over fund raising activities conducted for the organizations' benefit, including commitment to writing of all fund raising contracts and agreements.

2. Establish and exercise adequate controls over contributions.

3. Honor donor requests for confidentiality.

4. Conduct fund raising without excessive pressure.

Governance

1. Have an adequate governing structure.

2. Have an active governing body that meets at least three times a year, with a majority of its members present on average.

SUMMARY OF BETTER BUSINESS BUREAUS' "STANDARDS FOR CHARITABLE SOLICITATIONS" (continued)

3. Have an independent governing body whose compensated members constitute no more than 20% of the total voting membership.

4. Do not engage in transactions in which board members have material conflicting interests resulting from any relationship or business affiliation.

Appendix F

STANDARDS IN PHILANTHROPY
NATIONAL CHARITIES INFORMATION BUREAU

1. **Governance, Policy and Program Fundamentals:** The board should be an independent, volunteer body. It is responsible for policy setting, fiscal guidance, and ongoing governance, and should regularly review the organization's policies, programs and operations. The board should have.

    a. A minimum of 5 voting members.

    b. An individual attendance policy.

    c. Specific terms of office for its officers and members.

    d. In-person, face-to-face meetings, at least twice a year, with a majority of voting members in attendance at each meeting.

    e. No fees to members for board service, but payments may be made for costs incurred as a result of board participation.

    f. No more than one paid staff person member [usually the chief staff officer] who shall not chair the board or serve as treasurer.

    g. No material conflicts of interest involving board or staff, and policy guidelines to avoid such conflicts.

    h. A policy promoting pluralism and diversity within the organization's board, staff and constituencies.

2. **Purpose:** The organization's purpose, approved by the Board, should be formally and specifically stated.

3. **Programs:** The organization's activities should be consistent with its statement of purpose.

4. **Information:** Promotion, fund raising, and public information should describe accurately the organizations' identity, purpose, programs and financial needs.

5. **Financial Support and Related Activities:** The board is accountable for all authorized activities generating financial support on the organizations's behalf:

STANDARDS IN PHILANTHROPY
NATIONAL CHARITIES INFORMATION BUREAU (continued)

5. **Financial Support and Related Activities:** (continued)

   a. Fund-raising practices should encourage voluntary giving and should not be intimidating.

   b. Descriptive and financial information for all substantial income and for all revenue generating activities conducted by the organizations should be disclosed upon request.

   c. Basic descriptive and financial information for income derived from authorized commercial activities involving the organizations's name, which are conducted by for-profit organizations, should be available. All public promotion of such commercial activity should either include this information or indicate that it is available from the organization.

6. **Use of Funds:** The organization's use of fund should reflect:

   a. Reasonable annual program, management/general, and fund raising expenses with at least 60% of annual expenses applied to program.

   b. Consideration of current and future need and resources in planning for program continuity. Usually, the organization's net assets available for the following fiscal year should not be more than twice the higher of the current year's expenses or the next year's budget. There should not be a persistent and/or increasing deficit in the unrestricted fund balance.

7. **Annual Reporting**: An annual report, or equivalent package of documentation, should be available on request and should include:

   a. An explicit narrative description of the organizations's major activities, presented in the same major categories and covering the same fiscal period as the audited financial statements.

   b. A list of board members.

   c. Audited financial statements or, at a minimum, a comprehensive financial summary that:

      1. Reflects all revenues

STANDARDS IN PHILANTHROPY
NATIONAL CHARITIES INFORMATION BUREAU (continued)

2. Reports expenses in the same program, management/general and fund-raising categories as in the audited financial statements.

3. Reports all ending balances. (When the annual report does not include the full audited financial statements it should indicate that they are available on request.)

8. **Accountability:** Complete financial statements should be prepared in conformity with generally accepted accounting principles (GAAP), accompanied by a report of an independent certified public accountant, and reviewed by the board.

A statement of functional allocation of expenses should be available on request, if this is not required to be included among the financial statements.

Combined financial statements for a national organization operating with affiliates should be prepared in the foregoing manner.

9. **Budget:** The organization should prepare a detailed annual budget consistent with the major classifications in the audited financial statements and approved by the board.