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NONPROFIT BOARD ACCOUNTABILITY:
A LITERATURE REVIEW AND CRITIQUE

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Accountability is a buzzword in today's nonprofit society. The press is full of stories detailing the sordid affairs of nonprofit organizations that have betrayed the confidence and trust of the public. What does accountability mean to a nonprofit organization today? What role does the board play in establishing and maintaining this accountability? The purpose of this essay is to explore the current literature on board accountability and recommend a strategy for boards to follow in maintaining their own system of accountability. Three main areas of accountability will be addressed: financial and legal accountability, moral accountability, and outcomes accountability. Self-assessment tools will be reviewed as a means of identifying areas of accountability that a board may need to work on.

INTRODUCTION

Nonprofit organizations and their boards continue to find themselves under the microscope of public scrutiny after the highly publicized and scandalous events of years past including the United Way's questionable spending and the Red Cross's bumbled 9/11/01 relief efforts. Corporate world crisis such as Enron's collapse have brought issues of governance and accountability to the forefront. This focus of attention brings with it inevitable criticism and doubt that organizations are doing what they say they will do. Legitimacy is an ongoing struggle for the nonprofit organization.

These justifiable fears of many people surround the question of accountability for nonprofit organizations. Who will ensure that money given to these organizations will be spent wisely? Who will guarantee that these nonprofit agencies will produce the desired outcome? Are these organizations operating within tax exemption and fund raising laws? Much of this responsibility lies with the nonprofit board. If, in a broad sense, accountability is defined as maintaining the public trust and serving the public good, then

creating a system that outlines and mandates that nonprofits be accountable will surely strengthen the sector's attempts at legitimacy.

Accountability means different things to different stakeholders. Michael Harmon (1995) describes accountability as a relationship in which we answer for or account for our actions to some authority. From a donor's standpoint, accountability means that their donation will be used for what it is intended. Donors have a reasonable expectation that their gift will be used appropriately to support the group's mission (Association of Fundraising Professionals, 2004; Maehara, 2002). Those who give charitably have developed criteria that spell out the characteristics of an organization worth giving to. The Donor Bill of Rights (2004) is a set of standards that donors can reasonably expect from an organization to which they give charitably. These rights basically define an organization's accountability practices.

From a funder's point of view, accountability involves assuring that outcomes are met and the organization has a system for monitoring these objectives (Buckmaster, 1999, Schweitzer, 2004, Harwood, 2004). Funders are increasingly demanding detailed reports and statistics about the money that has been given to nonprofits. The competition for funds is constantly growing and funders have the ability to choose where their money will go based on proven results.

From a public perspective, we want it all. We want to be assured that our money is going where it should go, and that someone is checking to make sure that nonprofit organizations are spending this money prudently. Brody (2001) offers a comprehensive approach to this issue and identifies four different aspects of accountability: fiscal honesty and avoidance of fraud, good governance, adherence to the mission and demonstration of the organization's effectiveness. Kearns (1994) identified two main areas in his system of accountability; a set of performance standards, either explicit or implicit that are generated by the organization's strategic environment, and the response to these standards, either reactive or proactive from inside the organization.

For the purposes of this paper, I will focus on three main areas of accountability that nonprofits and their boards must pay attention to; financial and legal accountability, moral accountability, and outcomes accountability. This paper will research these different areas of board accountability and suggest ways that boards can achieve and maintain accountability through the use of board self-assessment.

DEFINING BOARD ACCOUNTABILITY

Board accountability has been described in detail in both broad and narrow terms (BoardSource, 2004; Carver, 1997, 2002; Hertzlinger, 1996; Independent Sector, 2001, 2004; Kearns, 1994; Schweitzer, 2004). A broad definition is one that involves preserving the public trust and serving the public

good (Gardon, 2001). In this definition, nonprofit boards are held to be accountable not only to their constituents, but also their donors, the general public, the media, and peer agencies (Independent Sector, 2004). Accountability involves stewardship and the obligation to accept responsibility. As safeguards of a public trust, board members are responsible for protecting the organization's assets (BoardSource, 2004). John Carver describes this responsibility in his definition of owner-representative. This board-ownership relationship is the essential, defining relationship of an organization in which board members stand in for the ownership, operating on its behalf (Carver, 2002). This broad definition is something most boards readily identify with but have a difficult time measuring their success at.

A narrower definition of accountability for nonprofit boards includes their adherence to legal requirements, fiscal responsibility and a code of ethics (BoardSource, 2003, 2004; Henderson, Chase & Woodson, 2002; Keating & Frumkin, 2003; Harwood, 2004; Reiser, 2003). This definition lends itself to a need for clearly defined, measurable and objective means of evaluating accountability. The Independent Sector (2004) suggests that accountability means being able to account for an organization's implied promises to its constituencies by pursuing its stated mission in good faith, employing defensible and transparent management and governance practices in the process. Others define accountability in terms of board functions; deliberate board training, true engagement of board members, trust and transparency, and board diversity are key elements in reaching organizational objectives (Schweitzer, 2004).

Rationale for Board Accountability

Without standards of accountability, nonprofit organizations and their boards run the risk of losing public trust. Loss of trust can have insurmountable ramifications for an organization in attracting and maintaining donors, establishing relationships with other organizations, and fostering legitimacy. As more and more nonprofit organizations fight for the same funding and public and governmental scrutiny increases, it is critical that boards be aware of their responsibilities and liabilities. In her article, Can Public Trust in Nonprofits and Governance Be Restored? , Regina Herzlinger (1996) points out several problems that can occur when organizations are not held to be accountable. Ineffective boards that do not fulfill their purpose or obligations, inefficient boards that mismanage or unwisely use their money, private interests within an organization, and assuming excessive risk are all cited as pitfalls for a board that is not concerned with accountability.

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Financial and Legal Accountability

Two of the biggest concerns for nonprofit boards today are financial and legal accountability. For the board, knowledge about financial performance and legal status of the organization is critical. Effective boards take an active role in ensuring the organization's resources are used wisely and that the mission is fulfilled (Keating & Frumkin, 2003). In the wake of corporate scandals and mismanagement, the American Competitiveness and Corporate Accountability Act of 2002, commonly known as the Sarbanes-Oxley Act made private industry responsible for sound fiscal reporting and monitoring practices. Although nearly all of the provisions of the bill apply to publicly traded corporations, the bill has also served as a wake up call for nonprofits. In the document, The Sarbanes-Oxley Act and Implications for Nonprofit Organizations (Independent Sector, 2003), it is suggested that if nonprofit leaders do not ensure effective governance of their organization, the government may step forward and regulate nonprofit governance for them.

While nonprofit organizations are not required to meet all of the requirements of the Sarbanes-Oxley Act, it is recommended that nonprofit organizations and boards consider the following as good practice for insuring fiscal responsibility and meeting minimal standards outlined in the Act; annually conduct independent and competent financial audits, submit accurate, complete and timely Form 990 or 990-PFs, avoid personal loans to directors or executives, develop a comprehensive complaint process, and have a written, mandatory document retention and destruction policy (Independent Sector, 2003).

In their article, Reengineering Nonprofit Financial Accountability: Toward a More Reliable Foundation of Regulation, Keating and Frumkin (2003) suggest a comprehensive plan for nonprofit organizations to consider in maintaining fiscal and legal accountability. Their model recommends adopting a sound internal management and governance system that includes training and a code of ethics to lead the organization. It also recommends a system of financial reporting and record keeping and disclosure that allows others to clearly examine the organization's practices.

Moral Accountability

When an individual makes a donation to a charitable organization, how will they know that the money they give is actually going to the cause that it is intended to go to? The media is full of stories described fraudulent activities and inflated "overhead" costs in which only a small fraction of the money collected actually ever makes it into the hands of the charitable recipient. Different stakeholder groups have different concerns about nonprofit performance and accountability. Donors want to be assured that their

contributions fulfill their charitable intent. Clients want accountability to ensure high quality, cost-effective services and programs, and the community desires accountability to prevent poor allocation of services (Keating and Frumkin, 2003).

The board plays a vital role in establishing and maintaining moral accountability for an organization. According to BoardSource (2004), a board member should meet, and has legal responsibility to uphold certain standards of conduct and attention in carrying out his or her responsibilities to an organization. These duties can be defined in three main areas; duty of care, duty of loyalty, and duty of obedience. Duty of care describes the level of competence of board member is expected to maintain. A board member owes a duty to exercise reasonable care when he or she makes a decision as steward of the organization. The duty of care demands that a board member make a decision in good faith, with the rational belief that the decision is in the best interest of the nonprofit. Duty of loyalty is a standard of faithfulness to the organization. The idea of the duty of loyalty is simple: a board member must perform his or her duties to further the interests of the nonprofit, rather than his or her personal interests (Reiser, 2003). Board members should never use information for personal gain and must act in the best interests of the organization. Finally, duty of obedience requires board members to be faithful to the organization's mission. The basis for this rule lies in the public's trust that the organization will manage donations and provide services that are in accordance with the goals of the organization.

Outcomes Accountability

Nonprofit organizations generally lack a meaningful basis for demonstrating the value of what they do (Salamon, 1999). There are ever increasing questions about the basic effectiveness and efficiency of nonprofit organizations. This has prompted calls for more formal mechanisms for holding nonprofit organizations and their boards accountable for the pursuit of their charitable missions. While attempts to introduce qualitative assessments into the evaluation process are appealing, the results are often too subjective to be reliable (Brody, 2002). Accountability has become vital in the non-profit sector as governments effect funding stringencies by introducing criteria based on the ability to prove that specified goals have been achieved. Many funders require organizations to set program goals including outcome-related goals and then publicly report on the achievement of these goals. The intended outcome is to increase public confidence and to improve program effectiveness by systematically holding organizations accountable for outcomes and results (Buckmaster, 1999).

Many nonprofit organizations don't have the capacity to provide extensive data on outcomes. Meeting donor information requirements can

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require sophisticated information systems and other technology. Better infrastructure and management systems would also enhance the efficiency of service delivery, but many organizations can't afford to make the investments (Townsend, 2003). While measuring impact and effectiveness remains difficult, measures of program activity can be collected and disseminated. Keating and Frumkin (2003) recommend more extensive disclosure of a program's rationale, inputs (names of donors and number of employees and volunteers), and outputs (number of clients served and hours of service delivered) as ways of improving outcome accountability. Similarly, Henderson, Chase and Woodson (2002) describe a system of analyzing service efforts and accomplishment measures. This system includes inputs, or the amount of effort expended on a program such as cost, outputs or the level of services provided in other words, what was actually achieved, outcomes, or the effect a service has on the organization's stated objectives, and efficiency or a comparison of the level of inputs with outputs or outcomes.

Nonprofit boards can play a critical role in developing and implementing a performance measurement system that focuses on both qualitative and quantitative outputs and outcomes. Henderson, Chase and Woodson (2002) suggest the following steps to implementing such a system; clearly identify the organization's mission, develop qualitative requirements for indicators and measurements, develop primary indicators and measurements and then implement the performance measurement system. While this system seems simple enough, actually defining and measuring sometimes ambiguous services can be a very difficult endeavor.

WAYS TO ADDRESS ACCOUNTABILITY

There are infinite ways in which a board can address and assess their own accountability. The methods mentioned above are just a few examples of recommendations for achieving financial, moral and outcomes accountability. Board self-assessment is one way of identifying and improving organizational accountability practices. Carver (2002) describes the practice of self-evaluation to mean the board's careful, recurring comparison of its process and products with what it said would be its process and products. A good self-assessment tool is used to continuously improve an organization's performance. Self-assessment should be based on criteria of established expectations that measure against the mission of the organization (Independent Sector, 2001). The process should look at how its membership composition, member selection process, organization or structure, and overall performance can be strengthened (Axelrod, 1994).

Board self-assessment is ultimately done because the board wants to know how it is doing so that it can improve itself. Self-assessment can help to refocus the organization's attention to the mission and can reveal hidden issues and opportunities. It can help to renew individual board member's commitment

and understanding of their roles and act as a springboard for further investigation into accountability practices. Although there are no hard and fast rules regarding how often and when a self-assessment should take place, it is important to establish an expectation that the process will take place regularly during the fiscal year (Hacker, 2003; Moredock, 2004). Conducting the assessment prior to approving the budget or setting the agenda for the upcoming year may be beneficial in addressing those issues that were identified during the self-assessment process. The steps in conducting the self-assessment vary; the board itself can implement the assessment or a consultant can be brought in to coordinate the effort. Assessment tools range from traditional written question and answer forms to on-line surveys that are scored and results are returned within hours after completion.

Regardless of what form the assessment tool takes, it should be easy to use and produce information that can be used to generate action steps for improvement. William Partridge (2000) recommends that a self-assessment tool should strive to achieve the following: identify shortcomings in the board's internal processes, generate ideas for improvement, and create a genuine commitment to improvement. According to Elliot (2002), results of your board self-assessment should serve as a point of discussion in board meetings. This discussion may ultimately lead to organizational efforts to streamline reporting structures, reengineer member services, and create a consistent set of messages among board members and others that can be incorporated into member communication. Boards and their missions are dynamic. The evaluation process ensures that strategic plans stay on track and the individuals responsible for setting and carrying out the plan are prepared to respond to the changing needs of the organization. The Internet and literature are full of examples of various assessment tools and checklists. Self-assessment tools range from individual board member assessments that ask how many board meetings members have attended and questions regarding conflict of interest, to full board assessments that help boards to stand back from their usual preoccupations and reflect on how the board is meeting its responsibilities. Although they vary in scope, most comprehensive board self-assessment tools ask individuals to rate their satisfaction on the following categories:

1. The mission- vision, goals and by-laws are written and understood.
2. Role of the board – responsibilities and expectations are clear.
3. Leadership – is knowledgeable, knows the direction of the organization and invites discussion.
4. Board governance – by-laws address accounting practices, adherence to laws, policy on conflict of interest, rules of conduct.

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5. Consumers - clearly identified consumers and a system for including community opinion and input.
6. Goals - broken down into measurable objectives and progress is assessed at regular intervals.
7. Strategic plan - relates to goals and mission with input from key stakeholders.
8. Finances – independent audits and written funding strategies.
9. Personnel policies.
10. Areas for improvement.

More sophisticated assessment tools may focus on communication, team effectiveness, and assessing the board's key competencies. More specific checklists may focus on boards that are just forming and concentrate on basics such as recruiting board members, developing the mission and goals and establishing by-laws. The key to a successful self-assessment is matching the evaluation tool to the desired outcome and linking the need to the organization's mission statement (Elliot, 2002). A recommended model of board self-assessment that will address the accountability issues described in this essay should include questions that ask board members to evaluate their board in the following areas: financial and legal practices and soundness; moral accountability including written board governance practices, a code of ethics, adherence to the mission; and outcome expectations and practices. The following is a partial list of board self-assessment tools that are available on-line:

- The Board of Directors Self-Evaluation. Available at www.mapfornonprofits.org.
- Nonprofit Organization Self-Assessment Tool. Available at www.tacs.org.
- Wilder Nonprofit Life Stage Assessment Tool. Available at www.wilder.org/pubs/inventory/lifestages.html.
- BoardSource's Self-Assessment for Nonprofit Governing Boards. Available at www.BoardSource.org.
- John Carver's Board Self-Assessment. Available on-line at www.carvergovernance.com.
- Governance Self-Assessment Checklist (GSAC) "Quick Check". Available at www.iog.ca/boardgovernance/html/ass.hmtl.

CONCLUSION

Public trust is the single most important asset of a nonprofit organization. Without it, donors will not give and volunteers will not get involved (Independent Sector, 2004). The unique role that nonprofit

organizations maintain is in part due to the trust placed in the sector to promote the public good. Nonprofit boards play a critical role in establishing and maintaining this trust. Boards are the extreme ends of the accountability chain, "the buck stops with the board" (Carver, 1990).

Carol Trice Gray (1995) offers the following characteristics in her definition of an accountable organization; the organization holds a public trust to improve the quality of life, clearly states the mission and purpose, upholds transparent practices and freely and accurately shares information about its governance, finances and operations, is accountable to all those it exists to serve, and is responsible for mission fulfillment, leadership on behalf of public interest, stewardship and quality.   The issues highlighted in this article are just some of the areas of accountability that the responsible board must pay attention to. A comprehensive plan to address areas including financial/legal issues, moral issues, and outcomes can be more thoroughly identified by the completion of a board self-assessment. Not all nonprofit organizations take accountability seriously as evidenced by ongoing front page news stories. Publicly traded companies have been forced to be up front about their financial and reporting practices. Nonprofits may be next in line for similar regulations if they are not proactive in developing their own standards of accountability. Steps taken toward a comprehensive system of accountability in the nonprofit world will undoubtedly help to legitimize the sector and increase the public's trust of the system. Boards will play a vital role in making this type of system a reality.

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