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Good Governance in Not-for-Profit Organizations: A Review of the Literature on Boards of Directors

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ABSTRACT: We review factors that contribute to good governance in not-for-profit (NFP) organizations, specifically the performance and effectiveness of Boards of Directors. Assessing Board performance is a difficult task because of the variety of missions that NFPs strive to achieve and the assortment of stakeholders that they aim to appease. It is further complicated by the limited amount of data that are available and relevant to NFP Boards. Researchers often control for good governance by using an organization's self-reported information about basic policies and procedures as a proxy for performance, but assessing a Board directly often involves more nuanced information. This review provides background information about NFP Boards, discusses relevant governance theories and the related Board roles commonly examined in NFP research, examines what is known about the performance and effectiveness of Boards in those roles, and suggests ideas for future NFP Board governance research.

JEL Classifications: M40; M41.

Keywords: accounting; board of directors; governance; nonprofit; not-for-profit; Form 990; performance; effectiveness.

I. INTRODUCTION

Good governance is believed to improve an organization's quality of financial reporting (Cohen, Krishnamoorthy, and Wright 2004; Carcello, Hermanson, and Ye 2011), enhance its reputation and integrity (Arjoon 2006), and increase organizational efficiency and effectiveness (M. Yetman and R. Yetman 2012). In this literature review, we examine factors associated

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with good governance in not-for-profit (NFP) organizations, with a focus on the Board of Directors (hereafter "Board"). Specifically, we review the theoretical underpinnings of NFP Boards of Directors' roles and responsibilities and discuss how those responsibilities can be used to assess the performance and effectiveness of the Board.[1]

Although governance broadly includes monitoring mechanisms both internal and external to an organization, NFP governance studies often focus on internal attributes, especially those related to the decisions and actions of the Board and/or the processes that they oversee (Middleton 1987; Harris 1989; Miller-Millesen 2003; Stone and Ostrower 2007; Boland, Harris, Petrovits, and Yetman 2020). Researchers study factors specific to NFP Boards because the literature shows that although the effects of some Board attributes are similar between sectors, there are also many differences, including compensation, director expectations, and financial expertise requirements (Forbes and Milliken 1999; Brower and Shrader 2000; O'Regan and Oster 2005).

Additional, distinctions can be found when examining different types of NFPs due to differing missions, performance metrics, and regulations between various types of entities (Jegers 2021). NFPs are established around a mission, and their success or failure is largely defined by adherence to and fulfillment of that mission (Baruch and Ramalho 2006). NFPs often provide services and benefits to their members and/or the general public, many of which are essential to thriving communities, including hospitals, universities, youth programs, various credit unions, cooperative utilities, and mutual insurance companies (Jegers 2021).

Although there are several resourceful and extensive literature reviews on Board governance in other literatures (Cravens and Wallace 2001; Cohen et al. 2004; Lamoreaux, Litov, and Mauler 2019; Street and Hermanson 2019), there are currently no reviews in the accounting literature that synthesize the various factors that contribute to effective NFP Board governance. As Boards of Directors routinely use financial disclosures, oversee financial statement audits (where applicable), and rely on various accounting-related data to execute their mission, the accounting research literature is one of the core empirical streams to provide evidence on governance topics of interest (Leatherwood and O'Neal 1996). A compilation of this information should prove helpful to NFP accounting researchers and others who aim to use an integrated framework of theories and performance metrics when examining Board effectiveness (Miller-Millesen 2003; Stone and Ostrower 2007). As Carcello et al. (2011) suggest, it is necessary to understand the ways in which a variety of Board characteristics interact, rather than focus solely on one factor or category of factors, to fully evaluate a Board's effects on an organization's processes and outcomes.

This review contributes to the literature by presenting the evolution and current landscape of research involving the performance and effectiveness of NFP Boards. Moreover, we identify gaps in the understanding of how those factors might be measured. Insights from this review could impact future studies involving NFP governance and potentially affect how Board members monitor and evaluate themselves and their organizations.

II. BACKGROUND AND METHODOLOGY

Corporate governance in for-profit organizations, specifically that involving Boards of Directors, is a research topic that has been covered in great detail over the past few decades, as evidenced

[1] Researchers often use the terms "performance" and "effectiveness" interchangeably, even though they have slightly divergent definitions (Baruch and Ramalho 2006). Effectiveness is the broader construct and relates to whether the desired results are being produced. Performance, which is often linked specifically with financial indicators, is one of the items assessed within effectiveness. Because this review includes multiple measures, some financial in nature and others not, we alternate these terms in the narrative where appropriate.

by reviews in several disciplines, including accounting (Zahra and Pearce 1989; Pettigrew 1992; Johnson, Daily, and Ellstrand 1996; Shleifer and Vishny 1997; Forbes and Milliken 1999; DeZoort and Salterio 2001; Cohen et al. 2004; Huse 2005; Brennan and Solomon 2008; Bennington 2010; Carcello et al. 2011). However, research in the accounting literature focused on NFP Boards is not nearly as mature as that concerning corporate Boards. According to Chelliah, Boersma, and Klettner (2016, 3), "There is a dearth of academic research in the nonprofit sector on issues of governance."

It is generally understood that Boards of Directors of all types of organizations are responsible for providing oversight and accountability, representing the organization to its various stakeholders, and establishing and enforcing the expectations by which to gauge performance. However, accounting and governance standards specifically for NFP organizations were not even promoted by the American Institute of CPAs (AICPA) until the mid-1970s, and data regarding NFP Boards were not widely available until the following decade (Figlewicz, Anderson, and Strupeck 1985). The debate as to how best to achieve good governance in NFP organizations was ongoing during this time, when The Commission on Private Philanthropy and Public Needs recommended sector-spanning guidelines that contrasted with those of the AICPA, which had begun releasing governance recommendations for specific NFP industries, such as hospitals, universities, and voluntary health and welfare organizations. Governance reforms were also being urged by the American Accounting Association, but a consensus was not reached on specific monitoring or reporting requirements outside of an increase in the length of IRS Form 990 (Figlewicz et al. 1985).

Today, accounting researchers often rely on information obtained from IRS Form 990 to serve as an indicator of "good governance" in NFPs (Neely 2011; Yetman and Yetman 2012; Harris, Petrovits, and Yetman 2017; Boland et al. 2020). Form 990 is a 12-page document that must be submitted to the IRS annually by most tax-exempt organizations, and it contains questions regarding an entity's governance, operations, and finances.[2] Boland et al. (2020) test a variety of composite governance measures derived from Form 990 data about the Board's policies and practices.[3] They find that a simple measure of the sum of five binary Board governance variables—the existence of an audit committee, a majority-independent Board, a salary review, performance information available on the organization's website, and no outsourcing—performs well as an indicator of good governance in their 2009–2014 sample of NFP organizations. Boland et al. (2020) are clear that their recommended measure is a way to *control* for NFP governance, but it is not meant to serve as an *assessment* of Board governance when governance is a primary variable of interest. Form 990 data can provide a starting point for researchers to examine indicators of good governance, but it is unable to provide the quantitative or qualitative information necessary to assess the actual effectiveness of a Board of Directors.

There is a body of research that has begun to address methods by which to evaluate NFP Boards within singular aspects of their diverse roles and responsibilities, but there is currently a gap in the accounting literature when it comes to assessing NFP Boards in terms of performance and effectiveness as a whole. In this review, we fill that gap by synthesizing existing NFP Board governance research—which, in some cases, still presents inconsistent findings—that is relevant to researchers and practitioners interested in assessing good governance.

[2] Organizations with gross receipts of $200,000 or total assets of $500,000 must file Form 990. If only one of these applies, the abbreviated Form 990-EZ may be submitted instead. Private foundations must file Form 990-PF.
[3] Form 990 disclosures are limited to internal governance mechanisms. We assert that these all fall within the purview of the Board of Directors. Although management is tasked with the implementation of certain governance mechanisms (e.g., outsourcing duties), strategic decision-making and oversight are the responsibility of the Board.

To obtain a robust scope of relevant articles in the accounting and related research literature streams, we reviewed publications from 1990 to 2023 in 37 journals. The list of journals included in our search is provided in Appendix A. The list includes the six journals widely considered to be the top journals in accounting, the 15 non-top six and nonpedagogical journals published by the American Accounting Association, and 18 accounting journals rated "B" or better (as of 2023) on the Australian Business Deans Council list of journals that publish accounting or accounting-tangential studies. In each journal, we examined all article titles and potentially relevant abstracts and conducted a search on a variety of keywords, including "not-for-profit," "nonprofit," "Board of Directors," and "governance." The search resulted in a preliminary sample of 125 articles relating to NFP governance, which was distilled down to 93 when including only those with a specific focus on Boards.[4]

In the following section, we delineate the roles and responsibilities of NFP Boards of Directors according to the relevant theoretical perspectives commonly used in Board governance research. We then discuss what is known about the performance and effectiveness of NFP Boards within those roles and responsibilities. Specifically, we identify essential Board characteristics and discuss how Boards establish and maintain a monitoring environment and then explore how Boards represent their organization to external constituencies. We conclude with a description of challenges and opportunities for future NFP Board governance research.

III. BOARD GOVERNANCE THEORIES

Boards of Directors in any organization are typically charged with establishing a monitoring environment over the major processes of the entity, a concept that stems from agency theory's premise of the conflicting interests that can exist between agents and principals (Jensen and Meckling 1976; Fama and Jensen 1983). The various types and sources of funding available to organizations, as well as the wide range of expectations that are held in different contexts, lead to additional behaviors and responsibilities of Boards that have been explained by resource dependence theory (Pfeffer and Salancik 1978; Provan 1980) and institutional theory (Meyer and Rowan 1977; DiMaggio and Powell 1983).

The size, age, and mission of each NFP organization must be considered to determine the appropriate relevance of each of these governance theories in a given context. Although there are limitations to consider when generalizing any of these theories or corresponding duties to a vast array of organizations with differing objectives, the discussion that follows is primarily meant to give an overview of how certain theories are *useful* in representing or explaining the roles and responsibilities of NFP Boards. The functions described here encompass widely accepted roles of Boards depicted in the literature (Harris 1989; Bowen 1994; Stone and Ostrower 2007), and they are organized into sections that categorize those roles according to the integrative theory-based perspective of NFP Board responsibilities suggested by Miller-Millesen (2003).

Agency Theory

The need for governance in general, and Boards of Directors in particular, is usually described through the lens of agency theory. Agency theorists have well established the notion that a primary function of any Board of Directors is to establish and maintain a monitoring environment within the organization (Jensen and Meckling 1976; Fama and Jensen 1983). The theory suggests that

[4] We did not attempt and do not claim to capture the entirety of this literature, rather, we caveat our inclusion criteria to the journals and articles that are relevant to an accounting researcher's review of NFP Board governance.

agents (e.g., owners and resource providers) need assurance that their resources are being used according to their intentions, so the Board has the responsibility of aligning management's incentives with those of the agents (Fama and Jensen 1983). It is possible for managers in any organization to abuse the trust placed in them by mismanaging funds or making decisions that are not in the best interests of the organization (Chan and Zhang 2021), so it is the responsibility of the Board (sometimes hand-in-hand with major donors, in the case of NFPs) to provide a monitoring function that reduces this likelihood (Fama and Jensen 1983).

When NFP Boards undergo the selection process for a new Chief Executive Officer or Executive Director (hereafter CEO/ED), they are tasked with not only finding the right fit in terms of experience but also locating an individual who is intrinsically motivated to fulfill the organization's mission despite the potential obstacles common to many NFPs (Hillman and Dalziel 2003), such as low pay (when compared with similar work in the for-profit sector), minimal access to resources (both human and financial), and lack of expertise across all levels of the organization, including the Board of Directors, who often serve on a volunteer basis (Heimovics, Herman, and Coughlin 1993; Stone and Ostrower 2007). Once past the hurdle of finding the right candidate, Boards must then face their next challenge: creating a compensation package that is both attractive to the job seeker and fair for the organization and its constituents. Using executive compensation as a tool to align management's objectives with those of stakeholders has long been a cornerstone of agency theory's duties for a Board (Jensen and Meckling 1976).

Agency theory also helps explain why Boards have good reason to provide financial information to owners and to engage independent auditors who can attest to the fairness and reliability of that financial information (Jensen and Meckling 1976). Research suggests that an alignment of stakeholder and management interests can be achieved in part through transparent disclosures and quality financial reporting (Healy, Hutton, and Palepu 1999; Bushman and Smith 2001), but there is no universal requirement for NFPs—which have donors rather than owners—to publicly disclose their financial statements. However, some NFPs must provide financial statements or obtain compliance audits, depending on state or industry regulations (e.g., hospitals in California) or thresholds of federal government funding (generally $750,000), and the resulting financial information is then typically available to interested parties (AICPA 2013).

NFP Boards are also expected to perform a stewardship role in the management of the organization's resources. Major decisions such as how to implement and enforce internal controls designed to safeguard assets, when to finance projects with cash or debt, and how to balance conflicting goals from competing interests usually require approval from an NFP's Board of Directors. Many of these decisions are a function of the organization's long- and short-term goals and strategies, and different entities may strike different balances in terms of how much these processes are defined by the Board versus the management of the organization.

Resource Dependence Theory

Resource dependence theory posits that the extent to which an organization is dependent on various external resource providers, and who those resource providers are, coupled with the complexity of the organization's environment will influence a Board's roles and responsibilities (Zald 1967; Pfeffer 1973; Pfeffer and Salancik 1978). This can lead to differences between NFPs in terms of how they recruit new members and secure access to needed resources, whether they be donations, supplies, or volunteers (Heimovics et al. 1993; Miller-Millesen 2003). Because of the underlying objective of mission fulfillment and the power dynamics at play when NFPs interact with external resource providers, proponents of this theory suggest that NFP Board members may be selected primarily based on their ability to maximize mutually beneficial relationships for the organization (Hillman and Dalziel 2003). Whether NFP Board members provide resources directly, bring strategic partnerships to the organization, take an active role in facilitating fundraisers and other opportunities to bring in funds or donated services, or function through some combination of the above, in many cases, they are expected to assume much of the responsibility for the financial well-being of the entity (Jegers 2021).

Also in accordance with resource dependence theory, NFP Boards tend to serve as a link between the community and the organization, and, as such, they can provide the CEO/ED with valuable information regarding stakeholders' views of how the organization is performing and being evaluated. Similarly, Boards can serve as representatives of the organization to its various constituents, as Board members can filter and relay information and evaluation criteria upon which the organization relies when making important decisions (Middleton 1987). According to Miller-Millesen (2003, 48), "A board composed of influential members from the organization's external environment performs a boundary-spanning function that absorbs uncertainty, reduces operational dependencies, exchanges information, represents the organization to external stakeholders, and enhances overall performance."

Institutional Theory

Institutional theory suggests that adherence to societal norms and expectations is a trait of organizations that wish to be deemed legitimate (DiMaggio and Powell 1983; Meyer and Rowan 1977; Zucker 1987). It focuses on the ways organizational structures and processes are affected by the norms, values, and beliefs of the governance mechanism—which, in the case of NFPs, is primarily the Board of Directors (Middleton 1987; Harris 1989).

According to institutional theory, there are many environmental pressures that shape organizations' governance systems and their strategic actions (Meyer and Rowan 1977; DiMaggio and Powell 1983). Setting and achieving strategic goals and initiatives is widely considered to be the domain of Boards of Directors, but the extent to which Boards guide management and assist in their efforts varies widely between organizations. Best practices are often adopted as a means of establishing legitimacy, making Boards of growing NFPs likely to imitate the policies and practices of similar or aspirational organizations (Zucker 1987).

Institutional theory holds that socially acceptable behaviors and practices eventually become norms, and in the case of Boards of Directors, institutionalization occurs when Boards begin to adopt similar processes and policies over time (e.g., hiring and compensation practices, committee structures, performance measures), reflected both within the organization itself and in the emergence of similar societal institutions (Meyer and Rowan 1977).

Decisions on how NFPs can best fulfill their mission while balancing the distribution of authority, the procurement and allocation of resources, and the adoption of societal norms and expectations are largely a matter of entity culture, and this culture can be influenced by a variety of factors, including donors, history, competition, technology, and political and economic outlooks. Although the aforementioned theories and related responsibilities contain many ideas that are useful for understanding the roles and behaviors of NFP Boards of Directors, as stand-alone concepts, none fully encapsulates a complete representation of responsibilities for those Boards. It is possible, however, to use an integrated approach when attempting to evaluate Board governance because a variety of factors can contribute to an NFP Board's effectiveness. In the following section, we discuss what is known about the performance and effectiveness of NFP Boards while suggesting avenues for future research.

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IV. PERFORMANCE AND EFFECTIVENESS

Board performance has been inextricably linked with organizational performance in prior literature (Zahra and Pearce 1989; Siciliano 1996; Hillman and Dalziel 2003). Aside from one study (O'Regan and Oster 2002) that directly surveyed executive directors in New York about the performance of their Boards, researchers have primarily been able to measure good governance in NFPs only by using indirect measures or those that are self-reported by the Board on Form 990 (An 2021; Harris, Petrovits, and Yetman 2015). Although it is possible for a "good" Board to oversee an organization that does not perform well, or for an organization to be successful even if it has a "poor" Board, organizational efficiency and financial performance are typically the starting points for measuring a Board's success (Baruch and Ramalho 2006; Herman and Renz 2008).

Most of the major decisions in any organization are approved, if not mandated, by its Board of Directors. Whether personnel decisions, fundraising campaigns, investment preferences, or the ethical tone set by the organization's top leadership, the Board exerts a great deal of influence on organizational direction and strategy. Because of both financial and societal implications, the results of certain decisions—good or bad—can be magnified in the NFP sector. This is largely due to a disparate range of constituent stakeholders and difficulty establishing mission-goal congruence.

The following discussion, although not intended to be an exhaustive compilation, contains a wide overview of what is presently known about the performance and effectiveness of NFP Boards of Directors as well as brief mentions of current gaps in understanding. Fortunately, many researchers have been able to use what is known from the for-profit literature as a sort of springboard for studies that can shed light on certain aspects of NFP Board performance, and some of those findings are mentioned in this section. It is natural for researchers to consider differences and similarities between NFP and corporate Boards, but in the words of Alexander and Weiner (1998, 239), it must be noted that, "The adoption of structures and practices from the for-profit sector is not a universal solution to the problems facing the not-for-profit sector." To properly anchor the subsequent sections and distinguish NFP Boards from their for-profit counterparts, we begin our exploration of this topic on the founding elements of essential NFP Board characteristics. This includes how new Board members are recruited, the effects of Board size, ethical considerations in Board formation, and assorted characteristics of NFP Boards.

Essential Board Characteristics

Ultimately, fulfillment of an NFP's mission should be the primary indicator of Board performance and effectiveness. In the for-profit sector, firms often have the benefit of market-wide performance indices, widely documented historical perspectives, and various measures of financial and social success that can help define whether the organization—and by extension the Board—is performing at, above, or below expectations (Cohen et al. 2004). Although organizational efficiency and financial performance are often starting points for measuring a for-profit Board's success (Baruch and Ramalho 2006), NFPs strive to fulfill a specific mission, and therefore their success is evaluated on a varying range of metrics.

It is evident that there is unlikely to be a "one-size-fits-all" set of goals or even best practices that can be applied to NFP Boards. However, a commitment of adherence to best practices and industry benchmarks can play a large part in not only setting the expectations for Boards of Directors but also defining practical ways to meet, or attempting to meet, the organization's objectives. Organizational effectiveness is widely thought to be related to Board effectiveness, but this is a dynamic that cannot be assessed with a single indicator (Herman and Renz 2008). Academic studies related to the assessment of organizational effectiveness have labeled the process both "complex" and "tortuous" in describing the challenges inherent in such an undertaking (Baruch and Ramalho 2006). Researchers have attempted to measure NFP organizational effectiveness using established assessment dimensions such as financial management, fundraising, human resource management, community collaboration, workload and output, and customer/benefactor satisfaction (Herman and Renz 2004; LeRoux and Wright 2010). Although these seem like logical areas within which NFPs can set goals by which to assess their performance, academic studies often rely on self-assessments by the NFPs' representatives rather than objective scientific measures to serve as proxies for gauging those dimensions.

Because NFPs are not uniformly required to disclose detailed and consistent financial data to the public,[5] such as audited financial statements that could serve as reliable indicators of performance, researchers and other interested parties often lack direct access to the comprehensive information needed to reach conclusions about whether an NFP is setting and achieving proper goals. Even when NFPs do make their financial information available, it has been conjectured that they might engage in earnings or disclosure management for a variety of reasons, including to protect the organization's reputation or that of its manager and/or directors; to mislead donors, watchdog agencies, and/or the public; to protect its tax-exempt status; or to procure more funding for the organization (which, in some instances, might then be at least partially directed toward compensation) (Hofmann and McSwain 2013; Parsons, Pryor, and Roberts 2017).

New Board Members

When recruiting potential new members, it can be tempting for the existing Board or CEO/ED to understate the commitment desired and expected for the position. This can be mitigated when organizations provide training or orientation for new members, a practice thought to be significantly related to Board performance (Herman 1989; Bradshaw, Murray, and Wolpin 1992; Holland 1998), but as many NFPs are small and have access to limited resources, providing this training is not a common practice. A recent trend with the AICPA and state CPA societies, such as those in Oklahoma, Virginia, California, and Texas, is to offer NFP Board member training for continuing professional education credit. Future research might consider the effects that this type of training can have on both the organizations in which those CPAs serve and the types of programs toward which individuals who receive the training gravitate. For practitioners, the development of educational resources and size- and industry-specific training programs could prove extremely beneficial to current and future NFP Boards.

Many NFPs have bylaws that restrict Board members' tenure to a certain period of time, with the average maximum being six years, commonly structured in the form of two three-year terms (BoardSource 2015). This is important for researchers to note because it gives organizations a chance to not only shift their composition in favorable ways but also set clear expectations for the newcomers who are often brought in to expand networks, create awareness, find new sources of revenue, or prevent stagnation within the organization (Baysinger and Butler 1985). Likewise, researchers have an opportunity to discover how the effects of new Board membership can affect future Board and organizational performance. Qualitative studies examining the motivations behind and process by which NFP Boards undertake the recruitment, selection, and training of new members may yield new insights as to ways in which these processes can be improved.

According to Herman and Renz (1998, 2004), Board members' prestige has some impact on funders' judgments of effectiveness. Provan (1980) finds that Boards comprised of influential

[5] The IRS does not require the detailed financial disclosures on Form 990 or 990EZ for organizations with <\$50,000 of contributions, certain faith-based organizations, and certain politically oriented organizations (IRS 2023).

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members of the community have influence over funding sources, and the effects are heightened for NFPs that are reliant on a powerful Board. An entity with growth as a major goal is likely to benefit more from a powerful Board than from one with resource maintenance as a primary objective.

Research suggests that Board members' emotional commitment is correlated with Board performance (Preston and Brown 2004), and the presence of interrelated (family or professional) Board members may be associated with higher financial reporting quality and contributions (Boland, Harris, and Neely 2022). Miller contends that an NFP Board's culture of commitment and service, coupled with its responsiveness to moral ownership, "is so pervasive that it anchors action in a way that is analogous to a corporate Board's responsibility to increase shareholder wealth" (Miller 2003, 20). A survey of NFP Board chairs and CEOs/EDs found that both groups believe that passion for the mission is the most important criterion for serving on a Board (BoardSource 2015). Moreover, the recruitment of Board members concurrently serving on another NFP Board, known as a "Board Interlock," can result in enhanced knowledge sharing among organizations and is correlated with stronger governance, increased contributions, and higher program spending (Bloch, Harris, and Peterson 2020).

A discussion of the assessment of an NFP Board's ability to set and achieve its goals would be incomplete without mention of the role of the governance committee. This committee is perhaps the most important group of individuals assembled within the Board, as they are typically responsible for the selection of new members, the nomination of future Board leadership, the recommendation of policies and standards applicable to Board operations, and the measurement of Board performance (BoardSource 2015). It is recommended that they conduct annual performance reviews of Board members and that they strive to implement processes designed to retain good members (BoardSource 2015). Defining desired outcomes at each of these levels for specific types of organizations, and then juxtaposing them with expected norms in their respective areas, is an area rife with opportunity for research in the NFP sector. In addition to understanding how Boards are formed, it is critical to understand how they grow and how their size may impact their performance and effectiveness.

Board Size

In for-profit settings, researchers find that the size of governing Boards is negatively related to performance and that CEOs tend to have higher compensation when governance is less effective (Core, Holthausen, and Larcker 1999). However, this does not always hold true in NFP settings. Provan (1980) argues that larger Boards would enhance an NFP's representation within its community and finds that Board size is associated with organizational performance. Other research shows that larger Boards, as well as those with longer average tenure, have greater increases in total revenues and gift income (Herman and Renz 1998; Olson 2000; Siciliano 2005). A survey of over 800 U.S.-based NFPs finds that the average Board size fell from 19 members in 1994 to 15 in 2015, with state Boards averaging 16 members, national Boards averaging 14.7, and international Boards averaging 13.3 (BoardSource 2015). Positive associations exist between NFP Board size and firm financial performance (Provan 1980) as well as donations (when controlling for firm size) (Siciliano 2005) and levels of Board member contributions (O'Regan and Oster 2005). Large Boards may not always be desirable, however, as O'Regan and Oster (2005) find a negative correlation between size and formal monitoring.

Regular attendance at Board meetings is negatively associated with the size of an NFP Board (O'Regan and Oster 2005), and it may be interesting for researchers to examine whether this could be attributable to either agency issues that increase with Board size or to behavioral constructs such as moral licensing, in-group/out-group tendencies, or the diffusion of responsibility.

Furthermore, investigations into the effects of group dynamics and decision-making may provide researchers with a better understanding of the effects of Board size on performance and effectiveness.

Regulatory and Ethical Considerations

In addition to their fiscal and social responsibilities, Boards of Directors also have legal and moral obligations to carry out certain governance functions. Although many of those functions are spelled out in individual organizations' bylaws, certain areas, such as digital transformation (e.g., artificial intelligence and blockchain), are only just beginning to have sector-specific best practices and standard protocols discussed (Cavicchi and Vagnoni 2023), whereas other areas have had regulations stipulated by federal, state, or local governments.

The Sarbanes-Oxley Act of 2002 (SOX), passed largely in response to corporate accounting and ethics failures that occurred during the late 1990s and early 2000s, mandated new governance and reporting requirements that were intended to restore confidence in the public sector (Neely 2011). Although most of the SOX governance provisions apply only to public companies, the law contains two sections—those on whistleblower protection and document destruction—that also pertain to NFPs. These respective sections make it a crime to punish anyone who reports suspected illegal activities taking place within the organization and to alter or destroy any documents to prevent their use in an official proceeding (e.g., by the government, the PCAOB, or a bankruptcy court).

Although most SOX requirements are explicitly for public companies, many of its policies relate to practices that take place in NFP organizations, such as having an independent audit committee, requiring the CEO and CFO to certify financial statements, and disclosing information regarding internal control issues and material changes to the company's operations or finances (BoardSource 2006). As such, many consider it beneficial for some NFPs to implement similar policies and practices where applicable. SOX established a requirement for public companies to disclose if they have a written code of ethics and, among other things, if changes have been made to their code or if any waivers of it have been issued for principal officers (Iyer and Watkins 2008). Although NFPs are not explicitly required to have an ethics policy, it has long been believed that effective Boards can play a key role in the formation of an organization's identity in large part through the establishment and enforcement of a code of ethics (Pearce and Zahra 1991). Whether an NFP Board has established such a code must be disclosed, as it is one of the 21 governance-related questions that appear on IRS Form 990 (IRS 2016). Additional ethics-related items on that form include information on whether those policies are enforced and disclosed to the public and if voting Board members are independent from the organization.

Vidaver-Cohen (1998) suggests that assessing an entity's norms surrounding goal setting, goal attainment, distributing rewards, and providing support for achieving goals can be an effective measure of an organization's moral climate; these items should be centered around the organization's stated mission. Of particular concern when assessing ethical considerations for NFP Boards is the topic of power. Most NFP Boards do not have voting members, and it is common practice for new Board members to be appointed by the Board itself (Mulligan 2007). This form of self-perpetuation could lead to an increased lack of accountability, despite regulated efforts to force firms to disclose information that may be relevant to stakeholders.

Despite the substantial risk of malfeasance, there is a surprisingly sparse amount of research on the topic of Board ethical obligations (Schwartz, Dunfee, and Kline 2005). Mulligan (2007) finds that from 1995 to 2001, officers and directors of major NFPs misappropriated at least \$1.28 billion from 152 different organizations, and a *Chronicle of Philanthropy* study suggests that this amount significantly underestimates the abuses taking place in the NFP sector (Wolverton 2003). Some say that directors are a sort of professional group and, as such, should be bound by a code of ethics specific to the nature of their profession (Schwartz et al. 2005). The underlying assumption is that it is in the best interests of the organization for directors to behave in an ethical manner, a notion that aligns with both agency theory and institutional theory, but one which might benefit from further examination in a research setting.

As evidenced by the passage of SOX-like proposals in various states, lawmakers and regulators are cognizant of the need to provide guidance and, in some cases, strict regulations for those serving on NFP Boards (Mulligan 2007; Neely 2011). Whether Board morality is an issue that can be solved with regulation or legislation remains to be seen, but the topic invites consideration by researchers not only in terms of how Boards respond to pending or new NFP regulations but also in terms of how Boards respond to instances of moral failings by top leaders and how such events relate to various aspects of the organization's operational performance.

Establish and Maintain a Monitoring Environment

Boards of Directors often have the power to shape the strategy and performance of their organizations; those that implement strategies designed to develop and strengthen sound management practices are thought to increase both actual and perceived effectiveness (Herman and Renz 1998). Unsurprisingly, Board members with a strong affective commitment to the organization are more likely to have good attendance at Board meetings and to have longer tenures on the Board (Preston and Brown 2004).[6] Holland and Jackson (1998) find a positive association between Board development activities and Board competence as well as between Board competency and both Board and firm performance. In this section, we begin with the relevant literature on Board leadership and structure, examine how a Board selects and retains managers, and conclude with a brief discussion of how the Board balances competing interests.

Board Leadership and Structure

Examining the leadership structure of an organization's Board of Directors is a logical next step for measuring a Board's effectiveness, as certain Board structures tend to lead to better (or worse) outcomes. If a Board is led by an opportunistic manager who is driven by his or her own financial or other interests, owners'—or in the case of NFPs, donors'—interests are likely to be given less of a priority in favor of appeasing the manager. Agency theorists, resource-dependency proponents, and organizational economists all hold that a Board is unlikely to be impartial if the CEO of the organization is also the Chairperson of the Board (this is known as "CEO Duality") (Williamson 1985; Pearce and Zahra 1991). By this way of thinking, a simple determination of a CEO's role within the Board could be one measure of Board effectiveness.

Indeed, prior research shows that public companies with an independent Chair of the Board consistently outperform those with CEOs who hold that dual role in terms of return on investment, return on equity, and profit margin (Pearce and Zahra 1991; Rechner and Dalton 1991). However, this relationship does not hold across all industries. Carty and Weiss (2012) find no link between CEO duality and bank failure during the Great Recession. Their study gives way to the possibility that either CEO/ED duality may have different effects on performance in various NFP settings or that economic conditions or ethical considerations may overshadow the effects of Board

[6] Affective commitment was operationalized by the employee's attachment to, identification with, and involvement in the organization. Those with a strong affective commitment are viewed to be emotionally connected to the organization and have a sincere desire to continue serving on the board (Preston and Brown 2004).

independence, both of which are research topics that remain unexamined thus far in the NFP accounting literature.

A study of NFP hospitals in Taiwan shows that CEO duality is negatively associated with earnings management (Huang and Liu 2011). However, similar inferences about NFP hospitals in the United States must be approached with caution because of differing cultural and regulatory environments.[7] U.S. NFP hospitals typically have fewer instances of CEO duality than public company Boards (Golden and Zajac 2001), and a study examining NFP hospitals in California found that CEO duality is not associated with financial performance (Pham 2015).

Although there are no regulations forbidding a CEO/ED from serving on an NFP Board, or even from being given the Chairperson of the Board title, not having CEO/ED duality tends to be a signal of good Board governance. Another signal of good governance tends to be the presence of various types of committees within the Board of Directors. Public corporations are required to have independent external auditors and independent audit committees.[8] Seeing as there are no universal requirements for NFPs regarding audit committees or their independence, it is possible that the influence of a CEO/ED serving as Chair of the Board would be stronger in an NFP setting. Provan (1980) found a positive association between duality and performance in complex NFP environments, but the age and small sample size (46) of this study warrant caution as to the generalizability of its results. Researchers interested in examining these and other effects of duality on NFP Boards might also consider the composition of and power wielded by the Board's executive committee, which can typically handle urgent matters that arise between scheduled meetings.

In corporate settings, the existence of specific types of Board committees—such as those tasked with nomination or remuneration—has been examined as a potential measure of Board effectiveness. Results have been inconclusive, with studies finding conflicting evidence as to the effect of these committees on the level and structure of top management compensation (Main and Johnston 1993; Conyon and Peck 1998; Daily, Johnson, Ellstrand, and Dalton 1998; Newman and Mozes 1999). A 2014 survey of NFPs reveals that 80 percent of respondents have finance committees, but only 24 percent have separate audit committees (BoardSource 2015).[9]

Although not mandated by the Securities and Exchange Commission in corporate settings until 1974, the role of audit committees in enhancing accountability has been widely addressed in the academic literature (Kalbers and Fogarty 1993; Klein 2002a, 2002b; Collier and Gregory 1999; DeZoort and Salterio 2001; Gendron, Bédard, and Gosselin 2004; Collier and Zaman 2005; Gendron and Bédard 2006; Turley and Zaman 2007). Insights gained from a qualitative study of public corporation audit committees point to the fact that topics such as the accuracy of financial statements, the appropriateness of wording in financial reports, and the effectiveness of internal controls are common points of emphasis during audit committee meetings (Gendron et al. 2004). Audit committees are not required in NFPs, so discussion of financial statements often falls to the Board at large or the committee to which it was assigned, without standard specifications of who in the organization is ultimately responsible for oversight of these areas. Whether the lack of regulation is ideal is a topic of ongoing debate among scholars, regulators, and practitioners.

7 Taiwan has a national healthcare system, and Taiwanese NFP hospitals traditionally perform well relative to other organizations in their country (Huang and Liu 2011).

8 Publicly traded companies are required to obtain a financial statement audit performed by an external, independent auditor as a result of the passage of the Securities Acts of 1933 and 1934. SOX established the requirement for an independent audit committee.

9 Survey invitations for the BoardSource report were initially sent to 26,962 nonprofit chief executives, and 846 responded. Ninety percent of respondents said that their organization obtains an annual external financial statement audit, and 63 percent said that they have annual budgets of $1 million or more.

Another relevant area of Board structure is the ratio of "insiders" to "outsiders" among Board members. Research in the public sector shows that financial performance is positively correlated with the number of *non*-executive directors on corporate Boards (Kaplan and Reishus 1990; Ferris, Jagannathan, and Pritchard 2003), whereas prior NFP literature points to insider orientation being associated with greater profitability (Vance 1978; Cochran, Wood, and Jones 1985). A more recent study does not find an association between the ratio of outsiders on the Board and measures of firm performance (Peng 2004). A study of NFP hospitals in California finds that the presence of physicians on the Board of Directors is not associated with financial performance (Pham 2015).

Attracting, Hiring, and Retaining Managers

One of the most visible roles of Boards of Directors relates to hiring and compensating managers. Any organization's performance is largely tied to the performance of its CEO/ED, and the Board must balance the need to adequately compensate and retain high-performing managers with the goal of stewarding the organization's funds in ways that best align with its objectives (Core et al. 1999; Daily, Dalton, and Cannella 2003). Research shows that executive pay is correlated with the size of the organization in both for-profit and NFP settings; this association is more pronounced in certain NFP segments, such as hospitals and social services organizations (Oster 1998).

Additionally, in sectors where managers tend to come from the professional labor market, including hospitals that are run by doctors and museums that are run by historians, more segmentation is seen in executive compensation structure than when examining the labor market for executives from nonprofessional backgrounds. However, Oster's study examined a relatively small sample (95) and was conducted before the 2008 revision of IRS Form 990. As data availability and the quality of that data (based on self-selection bias[10]) may be limiting factors, it remains to be seen if these results would hold today or if other governance issues (e.g., Board independence, size, and composition) might also be a factor. The same study finds that CEO/ED compensation tends to be lower when the organization's dependence on private donations is elevated. Similarly, private foundations that have a family representative on the Board tend to be associated with a lower annual CEO/ED salary by nearly $50,000 (Oster 1998). The author does not provide a conjecture as to why this may be the case, but future research may be able to indicate if such differences could mean that individual resource providers are more concerned than other types of funders (e.g., the government and corporations) about the diversion of resources away from the organization's mission or if perhaps those types of organizations tend to have less-experienced executives and/or more stringent compensation constraints.

In for-profit organizations, research shows that CEOs tend to have higher compensation when governance is less effective and that the firms themselves perform worse in such instances (Core et al. 1999). Research on executive compensation in NFPs tends to tell a different story. One study shows a positive correlation between CEO/ED pay and revenues generated by the organization's NFP activities (Carroll, Hughes, and Luksetich 2005), whereas another finds a favorable link between executive compensation and program expenses (Baber, Daniel, and Roberts 2002). This raises the question of whether higher-paid executives are simply better managers in that they raise more money or find ways to allocate more funds toward the organization's programs or if they are perhaps incentivized for meeting specific thresholds, which could lead to suspicions about misreporting targeted amounts. Research suggests that the use of incentive (performance) contracts for executives could be considered a violation of the IRS's nondistribution constraint, as NFPs are prohibited from distributing their earnings to those who oversee the organization, including the

[10] Heckman (1990).

CEO/ED, Board members, or other staff (Steinberg 1990). Additional research related to NFP executive compensation might include the combined impact of financial performance metrics (e.g., revenues, ratios, and investment returns), Board experience and/or expertise, and insider versus outsider Board appointments on executive pay and retention.

One of the questions in this area is whether NFPs should select insiders or outsiders when choosing successor CEOs/EDs. Research indicates that outsiders, in relation to their prior level of involvement with the organization, increase organizational funding more than insiders (Lauterbach, Vu, and Weisberg 1999). Although no conclusive determination has been made as to the level of involvement that a Board should target in a potential candidate, a 2001 study shows that most NFPs do not have a succession plan and that insiders are rarely promoted to an executive position (Santora and Sarros 2001). However, this study was limited to community-based organizations in the northeastern part of the United States, and the sample was very small, so the results may not generalize to all NFPs.

Top management turnover, or lack thereof, is another measure of effective Board governance (Brennan and Solomon 2008). Research shows that CEO/ED turnover is linked to poor performance in both for-profit and NFP organizations (Brickley and Van Horn 2002) . This should be an area of interest for researchers and practitioners alike because NFP executive leadership has been referred to as a “revolving door” (Sinclair 2001). Sinclair found that during the years spanning from 1994 to 2001, only one of 18 high-profile NFPs (such as the United Way, the American Red Cross, and Girl Scouts of America) retained its CEO/ED.

Balancing Competing Interests

Wellens and Jegers (2014) show that NFP Boards have a higher likelihood of being perceived as effective when they can balance the competing interests of various constituents. When an organization’s stakeholders have differing views of which priorities should take precedence, it can be difficult for Boards to balance all the demands placed on them by those stakeholders. For example, certain individual donors to a health services NFP might feel that all funds given to the organization should go toward healthcare for the poor, whereas corporate donors may have provided grant money that is attached to an expectation that some of the funding goes toward building upgrades, and still other fiscally conservative donors may wish for the organization to maintain or even cut current levels of spending and save or invest for the future. Direct beneficiaries of the healthcare services likely care most about getting their healthcare needs met in a timely manner, but indirect beneficiaries like community leaders may care most about the NFP providing services specifically to traditionally marginalized or vulnerable citizens. Although each of these options may be more ideal in one circumstance and less so in another, Board members must understand and weigh a variety of factors when making or approving spending decisions, including the mission of the NFP, the financial health of the organization, and the economic and perhaps political climate in which the organization operates.

At times, it may be prudent to reject donations that come with restrictive strings attached, as restrictions can put pressure on the Board to make decisions that might stray from its original intent and/or consider communicating different things to different constituents. The potential imbalance could lead to a divergence from fulfillment of the organization’s mission, which should be a primary concern of NFP Boards. Agency theory holds that the Board should act in the best interests of the principals, and although “principals” are a somewhat vague notion in an NFP setting, the theory implies that Boards of Directors should make decisions congruent with the organization’s stated mission because that was the primary reason for the entity’s establishment.

This tenuous role fulfilled by NFP Boards is akin to a balancing act, as directors must carefully navigate the ways in which they manage the competing and sometimes conflicting goals and desires of their various funders and beneficiaries. Boards often bear the responsibility for helping their organizations navigate the potential conflicts between present day opportunities and potential pitfalls—long-term or otherwise. For example, there are reputational and service-quality risks when hospitals have high turn-away rates, which is in direct conflict with the typical mission of an NFP hospital. Therefore, a desire for profits must be weighed against the cost of being unable to provide other services in exchange for the more profitable ones (Pfeffer 1973).

Represent the Organization to External Constituencies

"Success" in an NFP is dependent on several factors, including, but not limited, to economic conditions, corporate partnerships, government support, community expectations, and cultural and political concerns. NFP Boards are responsible for filtering these factors as well as other information from various stakeholders and evaluating the criteria deemed necessary for the organization to consider when making important decisions (Middleton 1987). Complexity of the organization and reliance on outside sources for funding affect these relationships in different types of NFPs (Daily and Schwenk 1996; Miller-Millesen 2003).

In this final section of discussing prior research on the effectiveness and performance of NFP Board governance, we bridge the prior sections into a more financially oriented frame and examine extant accounting literature on Board governance in relation to external constituencies.

Financial Stewardship

From a purely economic standpoint, one of the most impactful roles that a Board member can play is that of financial steward. As Forbes and Milliken (1999, 502) state in a call for research, "When directors are seen as stewards of organizational resources that impact, for better or worse, the whole of society, the importance of understanding and improving the way they discharge their responsibilities becomes readily apparent." Although part of this role can be fulfilled through quality financial reporting, as discussed in the previous section, Boards often play a part in protecting an NFP's resources by enforcing strong internal controls and fraud-related policies.

Although public companies are obligated to provide credible information to shareholders, creditors, analysts, employees, customers, and regulators (Cohen et al. 2004), NFP Boards do not always recognize to whom they are accountable. In fact, some believe that they are accountable to themselves (Green and Griesinger 1996). Public company governance is thought to be aided in part by the mechanism of institutional investors (Karpo, Malatesta, and Walkling 1996; Faccio and Lasfer 2000), and although there is not a perfect counterpart to these in the nonprofit sector, NFP rating agencies such as GuideStar, CharityWatch, and CharityNavigator are able to fulfill a similar watchdog function for interested (nonsophisticated) parties (BBB Wise Giving Alliance 2022; CharityWatch n.d.).

A recent study finds that NFP managers are less likely to manipulate their organization's financial information if they are monitored by these types of agencies (Parsons et al. 2017). This study focuses on individual manager characteristics rather than director attributes, so future research related to this area might further examine the impact that Board governance can have on pressures felt by NFP managers.

Earnings management is a concern that can lead to questions about fraudulent financial reporting, but perhaps the larger concern for NFP Boards is how to prevent the other, more frequent type of fraudulent behavior: misappropriation of assets.[11] This type of fraud is damaging for NFPs both

[11] Asset misappropriations account for approximately 95 percent of nonprofit fraud cases (Greenlee, Fischer, Gordon, and Keating 2007; Holtfreter 2008). According to the ACFE (2016), 83 percent of these occurrences involve the misappropriation of cash.

in terms of the actual loss and in relation to future fundraising efforts. Donations tend to decline upon the discovery and disclosure of such an occurrence, although this effect is mitigated when the organization is transparent about the situation, as judged by the related disclosures provided with Form 990 (Harris, Petrovits, and Yetman 2024). Other possible ramifications of a fraud disclosure include diminishment of the public trust, difficulties in recruiting qualified managers and directors, and endangerment of the organization's tax-exempt status (Bryce 2007; Bradley 2015). To our knowledge, there are no studies that have examined the effects on NFP Boards *after* a fraud disclosure.

Complexity and high growth rates lead to a higher likelihood of fraud in NFPs, which is likely due to the fact that complex organizations, as evidenced by their number of differing revenue streams, tend to experience more internal control problems (Petrovits, Shakespeare, and Shih 2011). Researchers suggest that Boards of Directors influence an organization's internal control function and can aid in efficiency through their efforts (Zald 1969; Pfeffer 1973). A 2010 study by the Association of Certified Fraud Examiners (ACFE) found that fraud prevention techniques, such as having an anonymous hotline for whistleblowers and providing fraud training, are associated with lower median losses from fraud than external audits or independent audit committees. Additional fraud prevention practices that have proved beneficial yet require little to no cost include mandatory job rotation and/or vacation, implementation of document retention policies, and enforcement of a Code of Conduct (Daugherty and Neely 2012).

Harris et al. (2024) find that improvements in governance are associated with less of a decline in donations following a fraud, which complements related findings that indicate that donors reward strong governance with more donations (Harris et al. 2015). In each of those studies, the authors use answers to the governance questions on Form 990 as proxies for good governance. Informative extensions of these studies might take place in settings where researchers have access to information before and after the implementation of such policies or where they can interview affected individuals to learn if and how those policies influenced the organization. These sorts of internal monitoring techniques are independent of how the organization stays accountable to external constituencies, which is the subject of our next section.

Financial Reporting

One of the primary goals of any Board of Directors' efforts in external accountability is ensuring the organization's quality of financial reporting. There are currently no Federal requirements in place that mandate a financial statement audit for every NFP, as there are for public companies, but there *are* some requirements for audits in certain types and sizes of NFPs. Those that receive substantial funding (generally $750,000 or more) from the Federal government must undergo an annual "single audit," which consists of an assessment of financial statements, internal controls, and compliance with laws and regulations related to the use of Federal funds (Keating, Fischer, Gordon, and Greenlee 2005; AICPA 2013). Since the passage of the Nonprofit Integrity Act of 2004, California NFPs that have gross revenues over $2 million are required to have an external financial audit (Neely 2011). New York, New Hampshire, Massachusetts, Connecticut, and Kansas have similar requirements with differing thresholds (Iyer and Watkins 2008; Kahn 2014).

Evidence from California indicates that NFPs that had not previously engaged an audit firm saw a greater improvement in financial reporting quality after obtaining the required audit than those organizations that were already being audited of their own accord before the passage of the Act (Neely 2011). According to Hamburger (1989), financial statement audits offer two distinct advantages: actual or potential exposure of failings can lead to improvement, and better systems or techniques might be adopted as a result of the consultative skills auditors can offer. The current consensus, as inferred from the lack of widespread rules and regulations in this area, is that the costs of NFP audits are not always proportional to the benefits derived by them, partly due to the relatively low availability of resources in NFPs and partly due to the lack of NFP specialization within accounting firms. To appease funders who seek some assurance regarding an entity's financial information without the financial outlay that a full audit entails, some NFPs opt for alternatives such as reviews or compilations, neither of which is required by law for all NFPs (Froelich, Knoepfle, and Pollak 2000).

Corporate transparency in the form of audits and voluntary disclosures has been widely addressed by accounting researchers (Forker 1992; Healy and Palepu 2001; Bushman and Smith 2001; Bushman, Piotroski, and Smith 2004; Cheng and Courtenay 2006; Hofmann and McSwain 2013). An assortment of variables has been used to predict the influence of transparency and disclosures on Board performance, and the effectiveness of an organization's system of internal controls is a primary indicator of quality (J. Solomon, A. Solomon, Norton, and Joseph 2000; Spira and Page 2003; Linsley and Shrives 2006).

Given the uneven availability of audited financial statements in the NFP sector, researchers commonly rely on information reported to the IRS on Form 990 to identify factors that can serve as a proxy for reliable Board governance (Froelich et al. 2000; Neely 2011; Yetman and Yetman 2012; Harris et al. 2017; Boland et al. 2020). Form 990 was significantly overhauled in 2008, resulting in the mandatory disclosure of multiple governance-related items, including a set of questions about policies that the organization must answer "yes" or "no" as to whether each has been adopted, although none of these policies is explicitly required by law (IRS 2016).

To examine different ways to control for good governance, Boland et al. (2020) analyze several composite measures based on answers to the questions about governance policies and practices asked on Form 990. Although they recommend a measure composed of the sum of five binary variables—having an audit committee, a majority-independent Board, a salary review, information available on the organization's website, and no outsourcing—the binary nature of the policy-related questions on Form 990 does not provide researchers with the information necessary to determine whether those policies have been implemented successfully or if they have resulted in positive outcomes for the organization. Form 990 governance questions do not account for the missions or objectives of an NFP, and they fall short of providing information that could lead to a better understanding of what comprises an effective Board.

Common Financial Metrics

Commonly used quantitative means of assessing the effectiveness of an NFP—and, by extension, its Board—include evaluating financial ratios and monitoring the charitable ratings issued by various organizations. The program ratio is perhaps the most well-known performance metric for NFPs, and it can be obtained from information disclosed on Form 990. It is the percentage of the organization's total expenses spent on "program" (mission-specific) activities and is viewed by many as a strong indicator of how efficiently the organization uses donors' money to fulfill its stated objectives. The BBB Wise Giving Alliance recommends that NFPs have a program ratio of at least 65 percent, which is the lowest threshold for a "good" rating by CharityWatch, where an "A" rating requires a program ratio of at least 80 percent.

NFPs that have higher program ratios are typically rewarded by donors (Callen 1994; Tinkelman 1999; Greenlee and Brown 1999; Parsons 2007). It appears that donors have become more knowledgeable with the passage of time, however, because M. Yetman and R. Yetman (2013) find that, beginning in 1999, donors significantly discounted the program ratios of NFPs that reported zero fundraising, an effect that was not observed before that time. The timing is no coincidence, as both the Taxpayer Bill of Rights 2 and GuideStar databases went into effect in 1997, indicating that accounting information seems to be a factor in donors' giving decisions.[12]

In addition to donors, rating agencies and even the media often track the program ratio, fundraising efficiency, and overhead ratio carefully, as these can serve as ways to hold NFPs accountable for efficiency and effectiveness (Parsons et al. 2017). NFP expenditures known as joint costs relate to multiple categories (e.g., costs for mailing educational materials that achieve the organization's mission and solicit donations can be allocated proportionally to programs and fundraising), and proper allocation of those costs can at times be very subjective. Studies examining the significance of joint cost disclosures have had inconsistent findings, with Tinkelman (1998) showing that sophisticated donors are *more* likely than nonsophisticated donors to discount joint cost disclosures and Khumawala, Parsons, and Gordon (2005) finding that expert donors are *less* likely to discount the same than novice donors. It is interesting to note that when asked about factors that affect giving decisions, potential donors rank the quality of an NFP's advertising nearly as high as charity finances (i.e., spending allocations) (BBB Wise Giving Alliance 2001).

It is believed that many NFPs both underspend and underreport their costs related to overhead, which includes both fundraising and administrative activities, leading to confusion among donors, NFP managers, and ratings agencies as to what those rates should be (Wing, Pollak, and Rooney 2004). A 2001 survey conducted by the BBB Wise Giving Alliance found that among potential donors, the overhead ratio and financial transparency are more important to giving decisions than the success of the organization's programs. Survey results indicated that more than half of Americans believe that NFPs should have overhead rates of less than 20 percent. In for-profit companies, which are held accountable for efficiencies by investors, creditors, and analysts, the average overhead rate hovers around 25 percent, but government contracts (from local, state, and federal sources) often restrict indirect expenses to 15 percent or less, and the average foundation allows only 10 to 15 percent of each grant to be allocated to overhead costs (Gregory and Howard 2009). This presents an interesting issue for researchers to consider, as studies examining these effects may have an impact on both the practices of NFPs and the guidelines issued by significant donors, including corporations, foundations, and all levels of government. The question remains as to whether these attitudes are due to economic, political, or perhaps even generational shifts and if they can be changed through the vehicles of increased education, oversight, or regulation. Callen, Klein, and Tinkelman (2003) find that the presence of major donors on an NFP Board's finance committee has a negative relationship with the percent of expenses allocated for administrative costs. A more recent study by Parsons et al. (2017) shows that although NFP managers confirm pressure to report favorable ratios, the evidence indicates that this pressure is not heightened by heavy dependence on a large number of individual donors. In fact, it tends to increase with the presence of government grants, regardless of size, due to the restrictions placed on those funds and the organizations that receive them. Their findings also suggest that managers are more likely to manage their ratios by adjusting spending decisions than by manipulating accounting outcomes when they feel pressure from donors, but there is no evidence that they reduce the reported amount of administrative spending when compiling accounting reports.

Additional findings from the Parsons et al. (2017) study indicate that, in contrast to prior studies that used organizational measures (Keating, Parsons, and Roberts 2008), characteristics of individual managers should serve as proxies for managerial sophistication when attempting to analyze

[12] The Taxpayer Bill of Rights 2 requires, among other things, that NFP organizations provide tax payment details and financial information upon request. Guidestar's databases collect financial information about many NFPs and were made available on the internet in 1997.

the likelihood of ratio management. If the effects of individual managers can be identified, perhaps the effects of individual Board members could be identified as well. Research examining this topic could delve into topics outside of earnings management, including the impact on contributions, compensation, and company culture stemming from educational and social networks or from serving on multiple Boards. The latter might be especially salient if it could be shown that success or failure in one organization could have an effect on performance in a completely separate organization.

Monitoring by charitable ratings agencies appears to be a factor that makes managers less likely to manipulate accounting information (Parsons et al. 2017), a finding that seems to contradict evidence from Ling and Neely (2013), who conclude that monitoring by watchdog agencies makes NFPs more likely to change their accounting estimates. However, the Parsons et al. (2017) sample was comprised of only 200 organizations, and the study was conducted in late 2008 and early 2009, amidst the fallout from the Great Recession when strict conservatism was demanded and charitable giving had plunged (Meer, Miller, and Wulfsberg 2016), so there is potential for further investigation of this topic, including analyses of whether attitudes and behaviors have shifted over time and whether this is associated with changes in personal wealth and/or shifting attitudes toward philanthropic endeavors or perhaps other factors that have yet to be identified in the literature. The perceived misreporting of ratios, whether real or contrived, brings into question the reliability of financial information provided by the (largely unregulated) NFP sector as a whole, and it presents both a challenge and an opportunity for researchers who seek to learn more about the effects of financial ratios and charitable ratings on both donor behavior and organizational effectiveness.

V. CONCLUSION

The purpose of this review is to synthesize what is currently known from the accounting and related literature about the theoretical and practical indicators of good, or effective, Board governance in NFP organizations. The large amount of funds flowing through NFPs, coupled with the variety of interests represented by donors and benefactors alike, point to the need for reliable oversight and accountability from (and of) NFP Boards of Directors. Understanding the ways in which agency theory, resource dependence theory, and institutional theory can be applied to different NFPs in various contexts can help researchers and practitioners alike identify and assess expectations for Boards based on the roles and responsibilities prescribed by each theory.

Ways in which NFP Boards can stipulate their essential characteristics, establish and maintain a monitoring environment, and represent their organization to external constituents were discussed in the preceding sections. Identifying objective measures of good governance by NFP Boards is a difficult task, one that is further complicated by the assorted stakeholders that Boards aim to satisfy and the variety of missions being pursued within the sector. Understanding the contextual elements that contribute to Board effectiveness can enhance familiarity with the governance dimensions that can be readily measured, and mission fulfillment must remain at the forefront of researchers' understanding of what leads to and results from an effective NFP Board.

Future research may be able to provide valuable insights regarding certain aspects of Board governance in NFPs if access can be gained to more executives who will directly assess the behaviors and performance of their Boards. Should such access become available, especially in tandem with a more granular way of tracking data for specific Board members, researchers may have many opportunities to provide insightful evidence of how personnel networks and the interconnectedness of Board members across and within organizations affect various performance benchmarks.

Building on the Board member interlock and network literature, future work may examine NFP Board members and their concurrent participation in for-profit corporate Boards. This work could include analyzing the knowledge transfer that takes place when moving between one type of affiliation to another, the temporal and/or order effects of participation in multiple Boards, and how the presence of social ties impacts common NFP organizational metrics such as financial reporting quality, contributions, asset diversions, and the like.

Additionally, because Board of Director recruitment and onboarding is currently without universal standards or protocols, there is great opportunity for research on how various methods of orientation or training can affect Board effectiveness and how the accounting function might support such training. Similarly, there are numerous opportunities for researchers to analyze how digital transformation is impacting the nonprofit sector and to examine the role played by Boards in establishing best practices and standard protocols in this area. As more data, and more avenues by which to collect data, become available to researchers, possibilities abound for expanding the breadth and depth of knowledge related to good governance, particularly that concerned with the performance and effectiveness of NFP Boards of Directors.

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APPENDIX A

Journals Included in the Review of the Literature on Not-For-Profit Boards of Directors

Top Six Accounting Journals:
Accounting, Organizations and Society
Contemporary Accounting Research
Journal of Accounting and Economics
Journal of Accounting Research
Review of Accounting Studies
The Accounting Review

American Accounting Association Journals (Nonpedagogical):
Accounting and the Public Interest
Accounting Historians Journal
Accounting Horizons
AUDITING: A Journal of Practice & Theory
Behavioral Research in Accounting
Current Issues in Auditing
Journal of the American Taxation Association
Journal of Emerging Technologies in Accounting
Journal of Financial Reporting
Journal of Forensic Accounting Research
Journal of Governmental & Nonprofit Accounting
Journal of Information Systems
Journal of International Accounting Research
Journal of Legal Tax Research
Journal of Management Accounting Research

Selected Journals Ranked "B" or Higher from the Australian Business Deans Council List:
Accounting, Auditing & Accountability Journal
Advances in Accounting
Advances in Accounting Behavioral Research
Advances in Management Accounting
British Accounting Review
Financial Accountability and Management
International Journal of Disclosure and Governance
Journal of Accounting and Public Policy
Journal of Accounting, Auditing & Finance
Journal of Accounting Literature
Journal of Business Finance & Accounting
Journal of Management Control
Journal of Public Budgeting, Accounting & Financial Management
Management Accounting Research
Review of Accounting and Finance
The European Accounting Review