Isomorphism, Capacity and Accountability:
An Analysis of Infrastructure in Nebraska Nonprofits

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EXECUTIVE SUMMARY

In the past 15 years, the nonprofit sector has faced increased scrutiny by funders, regulators and the general public in the management of its resources and its effectiveness in achieving its goals. The corporate accounting scandals of the late 1990s and early 2000s led to the passage of the Sarbanes-Oxley Act of 2002. While the legislation focused almost entirely on publicly-traded corporations, there were great implications for nonprofits through new restrictions on and requirements for conflicts of interest, whistleblowing, and document retention and destruction. Highly-visible scandals in the nonprofit sector also threatened the public trust and have thus pushed regulators and community leaders to encourage similar types of reforms in the sector to increase organizations' capacity for transparency, accountability, and professionalized management, operations and governance. The result of the increased scrutiny has been a call for greater operational standard adoption in nonprofit organizations. The sector remains largely self-regulated, however, and standards for organizational capacity and development vary in the literature.

Institutional isomorphism theory is a useful framework for understanding the types of pressures, processes and influences (coercive, normative and mimetic) that affect a nonprofit organization's adoption of operational standards, and Kearns' (1994) accountability framework is integral in understanding the array of stakeholders a nonprofit must satisfy and who also drive operating standard adoption. Bryan's (2011) framework for understanding organizational capacity places operating standards within the realm of *infrastructural capacity*.

This paper uses the Nonprofit Association of the Midlands' (NAM) *Guidelines and Principles Infrastructure Checklist,* a legal compliance and best practices guide to all areas of nonprofit management and operations to examine the relationships between certain organizational characteristics (annual budget size, number of full-time employees, strategic plan adoption, and NAM membership status) and overall level of operating standard adoption in 88 Nebraska and Western Iowa nonprofits to determine whether any of them could serve as predictor variables for an organization's infrastructure capacity.

The study finds that operating standard adoption is ideologically and culturally driven, rather than resource-driven. While strong correlations exist between annual budget size, number of full-time employees, strategic plan adoption and operating standard adoption, only strategic plan adoption serves as a strong predictor after controlling for all variables through multiple regression analysis, and NAM membership serves as a strong predictor for legal compliance.

Future studies could incorporate more independent variables, including those related to management and leadership, funding sources, or collaborative capacity to better understand what drives operating standard adoption. More importantly, further study is needed to examine the relationship between operating standard adoption and organizational efficiency and effectiveness, respectively, so organizational leaders might better understand the need to adopt or ignore certain infrastructure based on their needs and lifecycles, as opposed to adopting them as a result of isomorphic pressures.

Findings from this paper indicate that strategic planning by management and leadership is key to the professionalization of the sector, the development of which is a dynamic process achieved through normative pressures by professional institutions. The unique challenges nonprofits face in effecting their missions while remaining accountable to a diverse array of stakeholders indicates that policymakers should continue working with sector leaders to better understand how best to regulate nonprofits in order to uphold the public trust without causing undue administrative burden.

INTRODUCTION

The corporate accounting scandals of the late 1990s and early 2000s led to the passage of the Sarbanes-Oxley Act of 2002. While the legislation focused almost entirely on publicly-traded corporations, there were great implications for nonprofits through new restrictions on and requirements for conflicts of interest, whistleblowing, and document retention and destruction. Highly-visible scandals in the nonprofit sector also threatened the public trust and have thus pushed regulators and community leaders to encourage similar types of reforms in the sector to increase organizations' capacity for transparency, accountability, and professionalized management, operations and governance. The Great Recession of 2008 simultaneously decreased available funding for charitable organizations while increasing demand for their services; the need for efficient use of scarce resources to accomplish ambitious missions while upholding the public trust has driven the conversation around organizational capacity.

The sector remains largely self-regulated, however, and standards for organizational capacity and development vary in the literature. In June 2005, the Panel on the Nonprofit Sector, a committee organized by the organization Independent Sector, released a report to Congress entitled *Strengthening Transparency, Governance, and Accountability of Charitable Organizations* and in 2007 published *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations* which outlined documents, policies, procedures and clarified legal compliance and industry best practices in key areas of nonprofit management. Scholarship on organizational capacity ranges from this "infrastructural capacity" identified by the Panel to executive leadership traits, environmental awareness and adaptability, diversity and board composition, strict financial analysis, ability to replace government services or partner with government, and the strength of an organization's network and capacity for collaboration.

This paper will examine institutional isomorphism in the nonprofit sector, constructs of accountability and organizational capacity, and attempt to measure one aspect – infrastructural capacity as defined by the Nonprofit Association of the Midlands (NAM) in its *Guidelines and Principles for Nonprofit Excellence* and identified by Bryan (2011) – in Nebraska nonprofits. The measurement will draw upon infrastructural components identified as critical to an organization's capacity to operate transparently and examine correlations between an organization's infrastructure and other independent variables such as budget size, number of employees, strategic plan adoption and NAM membership status.

This paper cannot examine the relationship between an organization's infrastructure and its ability to meet its goals and deliver outcomes, but it will provide a deeper look at charitable organizations operating in Nebraska of all sizes and missions, a perspective usually afforded only for larger social services agencies which pass through rigorous accreditation processes and which often are part of a national network. Examining the infrastructure provides insight into an organization's internal operations and practices that cannot be ascertained by traditional methods such as the IRS Form 990 tax return, an organization's website and marketing materials, grant applications and reports, board meeting minutes, or nonprofit information services such as GuideStar. Furthermore, the examination of organizational infrastructure provides nonprofit administrators, regulators, philanthropic institutions and the general public a clearer picture of the homogeneity or diversity of the sector, and a complete picture of the depth and breadth of nonprofit management that can inform other discussions about how we fund nonprofit organizations, what is required for them to be effective, and what our expectations should or should not be for a sector designed to address society's greatest challenges.

ANALYTIC FRAMEWORK

<u>Institutional Isomorphism, Institutional Contradictions and Multiple Logics</u>

In the 20th century, organizations underwent a rational transformation caused by competition in the marketplace (among capitalists) and competition for power (among governments and state agencies) – a pressure across complex relational networks which resulted in highly bureaucratized institutions seeking greater efficiency in operations and precision in achieving goals. The resulting dynamic of structural and professional homogenization of organizations in a shared environment continues but is no longer driven by the same types of competition; rather, organizations continue to homogenize as a result of the professionalization of the workforce, the specialization of professional fields, and the need to rationalize ambiguous missions and outputs in order to gain legitimacy while competing for scarce resources. The result is a new type of isomorphism: "institutional isomorphism" (Dimaggio and Powell, 1983). "One of the central tenets of new institutional theory is that organizations in a field come to exhibit similar traits over time" (Barman and MacIndoe, 2012, p. 71). Central is the idea that, as the workforce becomes more educated by university and professional development programs espousing similar ethics, skills, and evidence-based practices and structures, so too will organizations become more alike in their structures and practices. This dynamic is further reinforced as professionals move from organization to organization, taking the practices and cultures of their previous environments into their new ones. (Dimaggio and Powell, 1983; Meyer and Rowan, 1977; Hwang, 2009). "The ubiquitous incorporation of experts into everyday organizational affairs has led to the rationalization of a wide array of domains," (Hwang, 2009, p. 269).

Critical of the trend, Meyer and Rowan (1977) contend that institutionalized rules and policies create "myths" of legitimacy and trustworthiness within professional spheres wholly removed from the actual practices, efficiency and effectiveness of the organizations who adopt them and which buffer organizations from the threats of external evaluation. This contradiction is described by Meyer and Rowan (1977) as a "decoupling" which allows an organization to adapt its practices out of necessity without losing the benefits of those institutional myths. Best practices are not adopted for efficiency but because of environmental sanction. Seo (2002) identifies three other contradictions (and a dialectical solution to them) which arise through isomorphism, including the loss of long-term adaptability after adaptation to institutional pressures; conformity to institutional arrangements which impedes conformity to institutional arrangements at another level or in another sector; and mutual conformity to institutional arrangements which conflicts with divergent interests. Other criticisms include diminished experimentation and, specific to the nonprofit sector, the replacement of passionate "amateur" approaches to solving problems and delivering services with formalized professionals who might displace an organization's mission in the name of prescription and rationalization in the form of financial audits, outcome measurement, strategic planning and evaluation.

More recent scholarship has focused on the benefits of professional standardization and its implications for organizational effectiveness, including "stability, predictability, and calculability" (Barman, 2012, p. 75), and "competent, purposive, and cohesive entities" (Evans and Rausch, 1999, p. 752), which "promote effective management" (Hwang, 2009, p. 272) and can serve as indicators of capacity for a variety of difficult actions such as outcome measurement or a propensity for transparency and accountability.

In an attempt to understand the forces which influence institutional isomorphism, DiMaggio and Powell (1983) propose three: (1) *coercive pressures*, "formal and informal pressures exerted on organizations by other organizations upon which they are dependent" (p. 150) such as funders or parent organizations, or by whom they are regulated such as policymakers or federal and state agencies; (2) *normative pressures*, cultural norms and professional *best practices* not mandated by law but studied, developed, sanctioned and perpetuated by institutional authority such as accrediting bodies, trade associations and higher education programs; and (3) *mimetic processes*, whereby an organization struggling with its own ambiguity and lack of development models itself after a similar organization deemed successful.

Modern organizational structures and arrangements pose a challenge to institutional isomorphism theory as cross-sector contracting and collaboration between government, corporate and nonprofit agencies infuses organizations with "multiple logics" which inform leadership, management and operating practices unique to those organizations. The result is a diversity of structures that de-typify and dissimilate organizations of a common field and render somewhat unpredictable the types of policies, procedures, practices and other infrastructure a nonprofit might employ. Altered systems of accountability, divergent interests, and complex arrangements create contradictions and tensions between formal systems and practice that often result in institutional change (Austin, 2000; Barman and MacIndoe, 2012; Seo, 2002).

Accountability

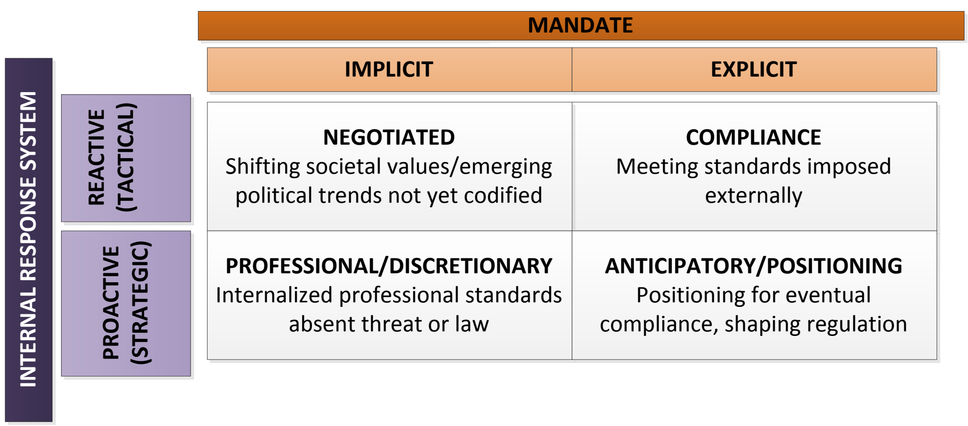
At play in questions of organizational legitimacy and motivation for institutional isomorphic change is the construct of accountability. The unique role and legal designation of nonprofits in American society mean the systems of accountability for private for-profit companies, publicly-traded firms, and government agencies are not entirely suitable for private tax-exempt organizations. In for-profit corporations, in addition to regulatory compliance, stockholder theory applies: executive leadership, directors and officers are agents of the stockholders and serve as fiduciaries to increase profits in the interest of those stockholders. By contrast, stakeholder theory (an appropriate framework for nonprofits) holds that officers have other moral and ethical considerations to make to ensure that all stakeholders are satisfied by the organization's actions, inclusive of but not bound by the financial interests of the stockholders. (Mulligan, 2007) Nonprofits are accountable to a variety of stakeholders without interest in financial gain due to their tax-exemption, funding mechanisms, social missions, clients, operating environments and communities, which complicate the notion of accountability and render it more ambiguous. Brody (2001) ascribes the complexity to nonprofits' special relationship to the public and the trust required for the continued arrangement: "this trust involves multiple – sometimes conflicting – demands from a variety of stakeholders." She identifies three fundamental questions which drive accountability -- (1) to whom, (2) for what, and (3) how? (p. 473) -- but in an attempt to answer all the questions with respect to nonprofits derives a diverse list of stakeholders with diverse expectations: government regulators, the nonprofit sector itself through peer regulation, the charity's constituents (donors, members, staff members, clients, contractors), and the general public. Brody constructed a very specific accountability framework which includes fiscal responsibility, good governance, adherence to mission, and program effectiveness.

Preceding Brody (2001), Kearns (1994) reviewed the available accountability literature which yielded few results relevant to the nonprofit sector:

> These definitions assume that the locus of higher authority is found in an organizational or inter-governmental chain of command, that standards of performance are clear and unambiguous, and that reporting mechanisms are limited to those specified in operational procedures for documentation and recordkeeping. Thus, these definitions may not be very useful to a nonprofit executive trying to explain to donors or to the media why administrative costs comprise a large percentage of the agency's budget – a case where the chain of authority is ambiguous, where standards for comparative assessment are either nonexistent or problematic, and where reporting mechanisms are variable. (pp. 186-187)

Compatible with DiMaggio and Powell's (1983) institutional isomorphism framework, Kearns (1994) offers a broad but valuable framework for understanding accountability by pitting the nature of the mandate against the nature of the organizational response to the mandate and accounting for the full spectrum of actors, agencies and stakeholders specific to the nonprofit sector:

Figure 1



Through these accountability frames we can begin to examine the current state of institutional practices in the nonprofit sector and their alignment with institutional isomorphism theory.

Compliance (Coercive Pressures)

Overall, nonprofits are regulated very little when compared to their counterparts in the for-profit sector. "Within broadly bounded charitable purposes, and subject only to a general prescription against insider self-dealing, no laws tell the entity or its managers how to 'do' charity" (Brody, 2006, p. 243). The state attorney general's office is commonly the overseer of charitable organizations and reserves the sole right to sue organizations for breach of fiduciary duty. "There is no existing, effective mechanism for supervision of nonprofits by nongovernmental agencies through the courts. Very few people have standing to sue nonprofit organizations" (Mulligan, 2007). The American Competitiveness and Corporate Accountability Act of 2002, otherwise known as Sarbanes-Oxley (SOX), targeted publicly-traded corporations as a result of unscrupulous accounting acts, but had two relatively minor implications for nonprofit organizations: protection for whistleblowers and requirements for document retention and destruction. While both provisions apply to nonprofits (in addition to restrictions on self-dealing as part of the duty of loyalty), organizations are not legally required to have explicit policies. The IRS Form 990 tax return for charitable organizations asks whether or not organizations have policies in place, but they are not required.

There are, however, wide ranging disclosure requirements for nonprofits, some federal and some which vary from state to state, including annual tax returns to the IRS which disclose information such as categorization of funds, expenditures for fundraising, lobbying, and administration, and executive compensation; annual registration before soliciting funds; annual or biennial reports to the state attorney general concerning an organization's assets; financial and activity reporting to directors and officers; and readily available documentation for the public including tax returns and IRS tax exemption letters. In Nebraska, aside from the disclosure requirements, nonprofits are required to have at least three board members, file payroll taxes quarterly, and are prohibited from making loans to board members and officers (Mulligan, 2007; NAM 2012).

Some scholars would like to see Sarbanes-Oxley-style reforms become law for nonprofits. Mead (2008) proposes requiring nonprofit officers to certify financial statements, mandating audits of nonprofits' financial statements, and imposing independent audit committees on nonprofit boards of directors. Long considered best practices, Mead and others argue they should be requirements if organizations are to be stewards of public and tax-exempt funds. In the wake of Sarbanes-Oxley and high-profile nonprofit scandals at Red Cross, United Way and The Nature Conservancy in the early 2000s, state legislatures in California, Massachusetts, Maine, New Hampshire, Kansas and Connecticut passed legislation to create new audit and audit committee, tax filing, and other financial reporting requirements (Guidestar, 2005).

Others are not convinced that regulation is the answer to nonprofit accountability. Mulligan (2007) argues that compliance with such reforms is expensive and, in addition to the costs, they fail to focus on nonprofit-specific issues such as mission creep and organizational effectiveness. Dworkin (2007) cites evidence that, because of the actual structure of the SOX whistleblower provisions, "virtually no whistleblower who has suffered retaliation and pursued remedies under SOX has been successful" (p. 1757). Budak (2005) says the implications of SOX are enough to start the necessary conversations and that the issues surrounding the provisions are "on the radar" of financial executives at nonprofits.

Ostrower (2007) found that 47 percent of respondents had created or revised their conflict of interest policy since the passage of SOX, 46 percent had created or revised whistleblower policies and 54 percent have a separate audit committee. "Even if the Sarbanes-Oxley Act *per se* is never formally extended to nonprofits, its provisions have altered expectations and standards about nonprofit governance, and the climate in which nonprofits operate. Scores of professional associations have issued guidelines to nonprofit members about 'compliance'" (p. 8).

Anticipatory/Positioning (Coercive and Normative Pressures)

Where scholarship is divided on the proper course for nonprofit accountability, all agree that the cause for debate is declining public trust in the nonprofit sector. Light (2004) and Mead (2008), citing research from Independent Sector and the Center for Public service, note that public support for organizations' missions is continually high (around 60-70% have at least a "fair amount" of confidence), but only 11 percent of Americans believe nonprofits spend money wisely, and only 41 percent of those with a "great deal" of confidence in nonprofits' "ability to help people" used money wisely. The implications are that the public believes in the nonprofit sector's priorities, but questions whether organizations have the right fiduciary systems in place.

At the request of the U.S. Senate Finance Committee in the wake of Sarbanes-Oxley and polls indicating declining public support, the national nonprofit organization Independent Sector convened the Panel on the Nonprofit Sector in October 2004, composed of 24 of the nation's most recognized nonprofit and philanthropic leaders to examine the sector's governance, financial management, ethics and accountability standards and provide recommendations on how to strengthen in them. After soliciting input from thousands of nonprofit workers, philanthropists, and members of the general public nationwide, the Panel published the report *Strengthening Transparency, Governance and Accountability of Charitable Organizations* which outlined eight overarching principles to guide its recommendations. The second principle, "The charitable sector's effectiveness depends on its independence"; seventh principle, "government regulation should deter abuse without discouraging legitimate charitable activities"; and eighth principle, "demonstrations of compliance with high standards of ethical conduct should be commensurate with the size, scale, and resources of the organization" all speak to the importance of self-regulation in what the Panel regards as a sector of diverse sizes, structures and resources operating in environments requiring creativity and flexibility in order to be effective, and which shape each organization's ability to comply with potentially complex and onerous one-size-fits-all regulation (Independent Sector, 2005). The Panel also cites the sector's special role in holding government itself accountable, and the rich history of innovation in the sector that has benefitted executives and managers in other sectors while promoting the common good.

Through the framework of the eight principles, the report provides government with recommendations for regulation of the sector. The recommendations include ways to reform the Form 990 tax return document and filing process, auditing requirements, audit committee requirements, financial statement standardization and board review, periodic review of tax-exempt status, disclosure of performance data, defining and regulating donor-advised funds, abusive tax shelters disguised as charities, regulation of non-cash contributions, board compensation, executive compensation and more. These recommendations are a prime example of Kearns' (1994) construct of *anticipatory/positioning* accountability, where the mandate from authority was *explicit* and leading professionals in the field attempt to influence regulation of that field in a thoughtful and *strategic* manner.

Professional/Discretionary (Normative Pressures)

In October 2007, the Panel turned its attention toward the sector itself by publishing *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*, consisting of four sections: (1) Legal Compliance and Public Disclosure, (2) Effective Governance, (3) Strong Financial Oversight, and (4) Responsible Fundraising. The document outlines legally required and strongly recommended best practices for nonprofits in the areas of governance, financial management, fundraising, and general public transparency. Serving on the Panel was the Executive Director of the Minnesota Council of Nonprofits and founding member of the National Council of Nonprofits, Jon Pratt, who in 1994 spearheaded (well before Sarbanes-Oxley) a state-specific project called *Principles and Practices for Nonprofit Excellence* which outlined legal compliance and best practices for nonprofits in Minnesota. The resource has been updated twice since its inception to include practices recommended by the Panel and adapted by counterpart associations for use in 20 states, including Nebraska. The Nonprofit Association of the Midlands (NAM) serves as the state association for nonprofits in Nebraska and western Iowa and has adapted Minnesota's resource and derivative works from other states to create the *Guidelines and Principles for Nonprofit Excellence*, outlining federal and state legal compliance and best practices in 12 areas of management: (1) communication, (2) evaluation, (3) financial management, (4) fundraising, (5) governance, (6) human resources, (7) information technology, (8) planning, (9) public policy and advocacy, (10) strategic alliances, (11) transparency and accountability, and (12) volunteer engagement (NAM, 2012). Many other nonprofit operating standards exist, some which involve accreditation, and are published by similar organizations to the state association network, including Independent Sector, Better Business Bureau, McKinsey & Company, the Wise Giving Alliance, and the Council on Foundations, to name a few (Geer et al., 2008). The goal of these resources is to increase the sector's accountability while building its capacity.

<u>Capacity</u>

There are many definitions of organizational "capacity" and "capacity development" in the literature. Both Frederickson and London (2000) and Mirabella (2001) look at various aspects of nonprofit capacity through the lens of government-nonprofit partnerships to deliver public services. Given the shift from the traditional conception of public management and accountability as "management of a hierarchy" to the more modern "hollow state" conception where public managers manage networks of contracted private sector service providers, the ability of organizations to manage resources and deliver services is a key consideration because "there may be few explicit standards of performance, matrix organizational structures, and unpredictable channels of compliance reporting" (Frederickson and London 2000, p. 231). Mirabella (2001) outlines trends in the literature calling for "capacity-based models of accountability" rather than the traditional compliance- or performance-based accountability (p. 9). Frederickson and London (1997; 2000) outline four elements of organizational capacity by which to measure community-based development organizations: (1) leadership and vision, (2) management and planning, (3) fiscal planning and practice, and (4) operational support.

The most comprehensive framework for understanding nonprofit capacity comes from Bryan (2011), who organizes the myriad approaches in the literature by their conceptualizations of *resources (*inputs into the organization), *capabilities* (absorb resources and produce an ability), and *competencies* (related to organizational effectiveness). She identifies organizational capacity broadly as "the ability of organizations to perform the tasks required to effectively achieve organizational goals." Beyond the conceptualizations identified in the literature, Bryan (2011) identifies four main types of organizational capacity (see Table 1).

Table 1

Infrastructure	Administrative and operational capacity, including human resource systems, financial management, information technology, property and other tangible goods
Management	Ability to effectively use the infrastructural capacity and available organizational resources to achieve organizational goals; includes leadership, strategic planning and action
Knowledge & Learning	Ability to learn to 'do things differently' and to embed those new policies and practices within existing organizational processes
Collaboration Capacity	Ability of organizations to promote effective collaboration that will sustain efforts and support enhanced organizational performance; includes indicators such as increased financial and nonfinancial resources and improved reputation

Within Knowledge and Learning are three subtypes of capacity: (1) adaptive capacity, an organization's willingness to learn and adapt to new systems, realities and environments; (2) *absorptive capacity*, knowledge acquisition and application to new organizational routines and processes; and (3) *organizational knowing practice*, capabilities enacted in everyday practice (p. 25).

The various operating standards outlined in the previous section fit comfortably in Bryan's conception of *Infrastructure*, including the basis for this study (NAM's Guidelines and Principles) and some address *Management.*

Relationship between Operating Standards, Capacity and Accountability

Barman and MacIndoe. (2012) argues that infrastructure and other forms of capacity should be included in the list of organizations' structural characteristics alongside size, financial measures, subsector type, etc. because capacity is "understood to mediate the effect of environmental dynamics on organizational outcomes" in addition to measuring "an organization's ability to implement externally generated expectations from their organizational field" (p. 73). Letts et al. (1999) agree, citing a dearth of appropriate information for understanding an orgnaziation in the face of ambiguous missions and outcomes, "the outside world tends to look at relatively simple efficiency criteria, with particular attention to what I have called the "pernicious parameter," the percentage of revenues allocated to overhead (or "administrative costs").

Causality has not been found between organizational characteristics and accountability, but various correlations have. Geer et al. (2008) studied the relationship between accountability, operating standards and leadership capacity in Pennsylvania nonprofits using the state association's model of operating standards and found that both the adoption of operating standards and a commitment to transformational leadership had strong correlations with accountability as constructed by Brody (2001), with leadership having a stronger correlation. Geer et al. (2008) did not examine the relationship between organizational characteristics and commitment to operating standards. Herman (2009) found that organizational size is positively related to board internal activities (e.g., financial oversight, planning) but negatively related to external activities (e.g., fundraising and community relations).

Ostrower (2007) found that “organizational size (measured as annual expenses) was a critical factor associated with variations in current levels of [SOX] compliance, typically rising among larger nonprofits. Yet variations also existed among nonprofits of the same size, indicating that other factors have an influence” (p. 9). Other strong correlations with compliance from the same study included reliance on federal funding, organizational age and “professionalization” (meaning the existence of certain other practices and policies). Weak correlations existed between subsector type and SOX compliance, but there was variation between specific SOX provisions and type.

METHODOLOGY

The literature review provides an analytic framework through which variables can be identified and measured in order to respond to the research question: to what extent do Nebraska nonprofits exhibit institutional isomorphism vis-à-vis their organizational infrastructure? A series of subquestions rooted in the literature create a clear path to understanding what nonprofits look like internally and how they compare to one another:

1. Are Nebraska nonprofits engaging in practices to ensure their legal compliance?
2. Have Nebraska nonprofits adopted Sarbanes-Oxley-style policies, procedures and practices as recommended by the Panel on the Nonprofit Sector?
3. Are Nebraska nonprofits going beyond legal compliance and Sarbanes-Oxley to embrace sector best practices?
4. *Which* organizations are engaged in which practices (i.e. is there a difference in the characteristics of organizations that adopt operating standards from those who do not?)
5. Does the adoption of operating standards covary with quantifiable characteristics such as organization budget size, years of establishment and number of employees?
6. Does the adoption of operating standards covary with the adoption of a strategic plan?

Hypotheses

H1: Nonprofits with greater budget size will exhibit a higher level of operating standard adoption.

H2: Nonprofits with more employees will exhibit a higher level of operating standard adoption.

H3: Nonprofits with a strategic plan will exhibit a higher level of operating standard adoption.

H4: Nonprofits who are NAM members will exhibit a higher level of operating standard adoption.

Data Collection

Data for this analysis will come from an existing data set proprietary to the Nonprofit Association of the Midlands (NAM). As the state association for nonprofits in Nebraska and Western Iowa, NAM has developed an Infrastructure Checklist as part of its *Guidelines and Principles for Nonprofit Excellence* program which seeks to increase the internal capacity of 501(c)(3) organizations. The checklist identifies 317 items across the 12 areas of management and operations (listed in the literature review). Items in each of the 12 areas are divided into three sections: (1) Legally required (state or federal), (2) Strongly Recommended and (3) Recommended.

Organizations are asked to respond on an extent scale to each item to indicate whether or not the organization has the item in place.

Example:

Strategic Plan:	Yes	No	In Progress	Not Sure	N/A

NAM offers the Infrastructure Checklist in an online survey platform at guidelinesandprinciples.org/assessment. Organizations register to participate and receive a unique 12-character token identifier. Data collected is not anonymous, but NAM maintains the privacy and confidentiality of the responses. At registration, organizations are asked for unique characteristics about the organization, including:

First Name
Last Name
Title
Email Address
Organization
City
State
Zip code

A registration email is sent to the participant with a link containing the unique token to begin the survey. Participants first answer a series of questions about the organization including:

Organization type
Annual budget size
full-time employees (FTE)
NAM membership (yes/no)

Following this introductory set, participants answer questions about the infrastructure of their organizations. Upon completion, organizations are sent a confirmation email with a new link to a customized action plan based on their responses. This action plan incentivizes participation and NAM collects the data to assess the training and resource needs of the sector in aggregate. The only information not present in the data set is *years of establishment* which will be acquired manually from organization's websites and IRS Form 990 tax returns.

This survey is free-of-charge and available to all nonprofits in Nebraska and Iowa. The tool and report has been promoted through NAM's social media and email communications, presented at their annual conference and to nonprofit communities across the state, and NAM offers a monthly in-person overview of the resource. The survey has been open since January 2014 and, thus far, the data has not been analyzed.

Defining Variables

The registration and introductory questions provide information to serve as independent variables against which we can examine the prevalence of infrastructure items; and, finally, we can determine whether organizations who answer yes to having a strategic plan in place are likely to exhibit higher levels of operating standard adoption.

For certain summary tables budget size will be ranged as:

< $50,000
$50,001 – $200,000
$200,001 - $500,000
$500,001 - $1,000,000
$1,000,001 – $5,000,000
>$5,000,000

The designations of *required*, *strongly recommended*, and *recommended* stratify the infrastructure items such that the extent to which an organization has responded to both coercive and normative pressures can be measured. Specific items related to Sarbanes-Oxley can be pulled from the list and examined together, namely:

- Whistleblower Protection Policy
- Document Retention/Destruction Policy
- Conflict of Interest Policy
- Independent Audit, Compilation or Review
- Board-approved budget

Level of operating standard adoption will be determined as a percentage in each of the 12 areas, overall, and by level of requirement/recommendation:

$$\text{Operating Standard Adoption (OSA)} = \frac{\#\ \textit{yes}\ \text{responses}}{(\text{Total possible responses - }\textit{Not Applicable}\text{ responses})}$$

Self-Selection Bias

Participation is voluntary, so self-selection bias is an issue because some organizational leaders who fear exposing their organization's weaknesses might refrain, where others with confidence might elect to participate exclusively. Conversely, organizations with greater levels of establishment and which might also be subject to accreditation processes could refrain from participation because the perceived value is not great enough to warrant the activity. NAM's incentives – the customized report/action plan and the possibility of becoming one of its “Best Practices Partners” might only appeal to smaller organizations needing guidance or seeking legitimacy.

Honesty

The report incentive does encourage honesty, as it will only be valuable if it is truly accurate. NAM discussed and eliminated any idea of a "score" for the assessments because this is not an effort which requires external validation – the point is to encourage organizations to build organizational infrastructure and spark dialogue among board and staff. The added purpose of informing NAM’s training offerings further incentivizes honesty. Furthermore, NAM promotes the tool as a capacity building tool as opposed to a due diligence tool for funders to ensure transparency and honesty.

Representation

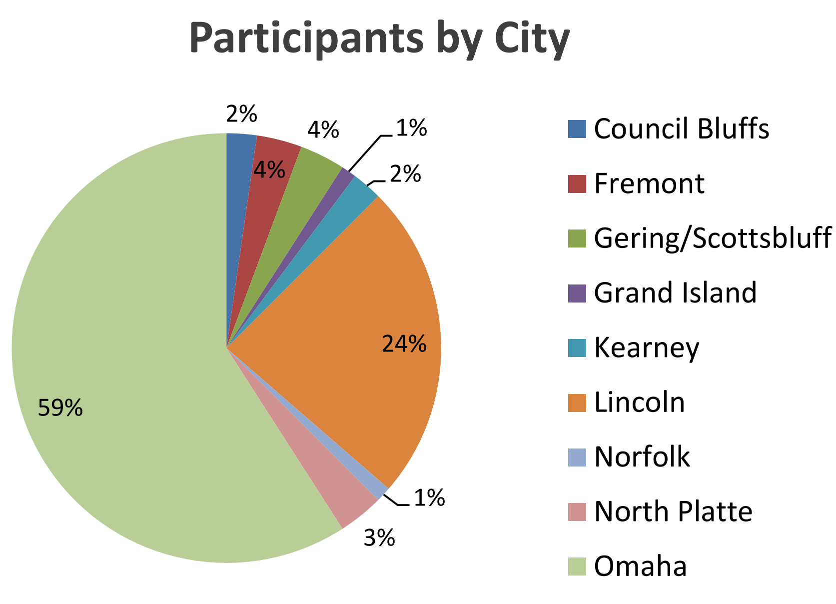
If other reports and surveys NAM has conducted, such as its Salary and Benefit Report are any indication, the sample might not be representative of the state’s nonprofit sector as a whole.

FINDINGS

Participation

The survey received 88 complete responses from nine cities in Nebraska and Western Iowa. The majority of participants (59%) are located in Omaha, 24% in Lincoln, and the remaining 17% scattered among other cities and towns. Most organizations (61%) are NAM members and most (65%) have a strategic plan. Annual budget size among participants was fairly well distributed, with the strongest representation from the $1M - $5M (23%) and $200k - $500k (28%) groups.

Figure 2



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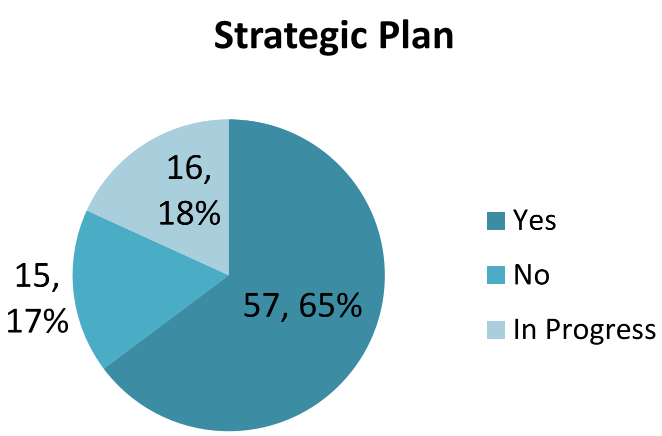

Figure 3

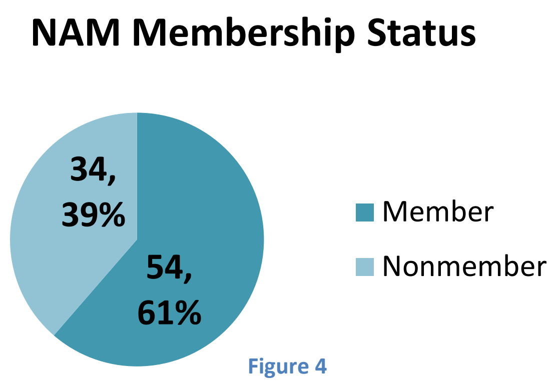

Figure 4

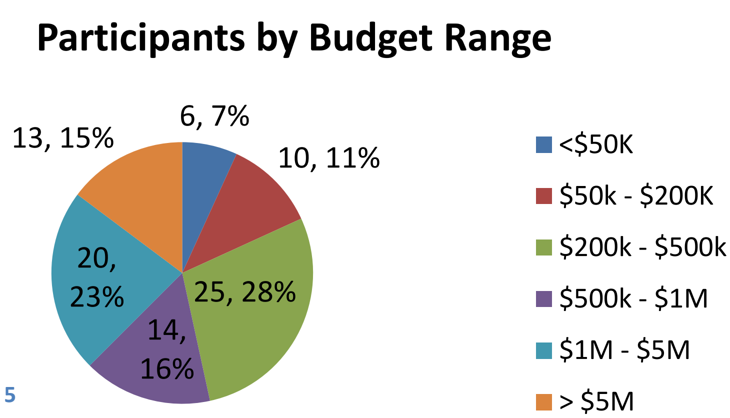

Figure 5

H1: Nonprofits with greater budget size will exhibit a higher level of operating standard adoption (OSA).

When grouped into budget ranges and operating standard adoption scores are averaged across organizations, it is clear that a strong positive correlation exists. As annual budget size increases, operating standard adoption tends to increase.

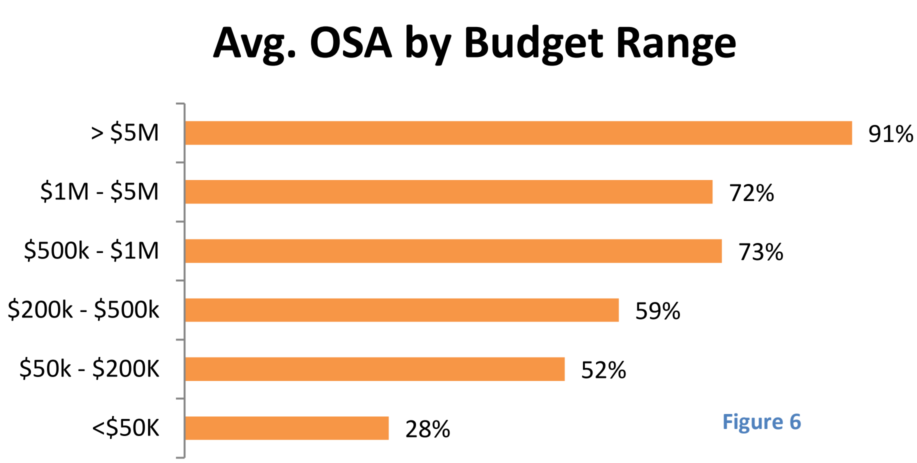

Figure 6

Ranked Correlation	
P-Value	**< 0.00001**
Effect Size (Spearman's rho)	0.618
Confidence Interval of Effect Size	0.469 to 0.733

Correlation	
P-Value	**0.00511**
Effect Size (Pearson's r)	0.296
Confidence Interval of Effect Size	0.092 to 0.476

Table 2

However, when controlling for other independent variables (NAM membership status, strategic plan, and number of full-time employees (FTEs)) in multiple regression analysis, annual budget size is not statistically significant and thus we cannot reject the null hypothesis. Annual budget size is not a predictor for operating standard adoption. Figure 7 shows a lack of clear linear progression.

Figure 7

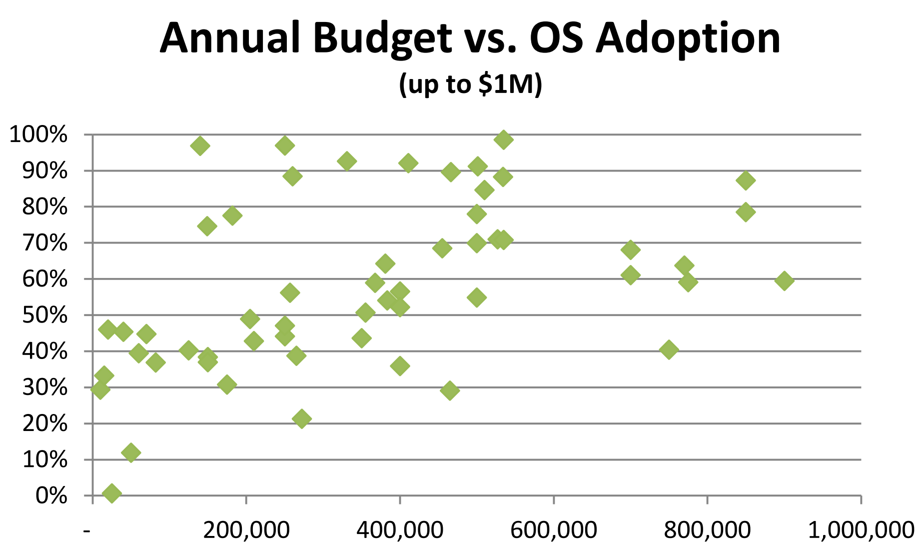

Table 3

Operating Standard Adoption (OSA) Multiple Regression Parameters					
Parameters	Coefficients	Lower 95.0% CI	Upper 95.0% CI	Standardized Coefficients	P-value
Intercept	0.462877	0.360406	0.565348	0	8.48E-19
Annual Budget Size	**9.92E-10**	**-3.7E-09**	**5.64E-09**	**0.055926**	**0.675624**

H2: Nonprofits with more employees will exhibit a higher level of operating standard adoption (OSA).

When grouped into FTE ranges and operating standard adoption scores are averaged across organizations, it is clear that a strong positive correlation exists. As number of full-time employees increases, operating standard adoption tends to increase. Figure 9 shows a mildly curvilinear progression.

Figure 8

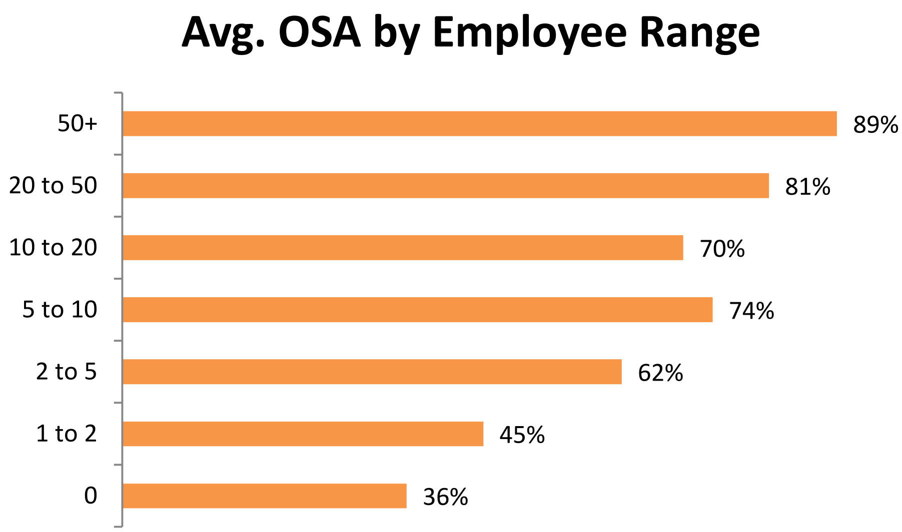

Figure 9

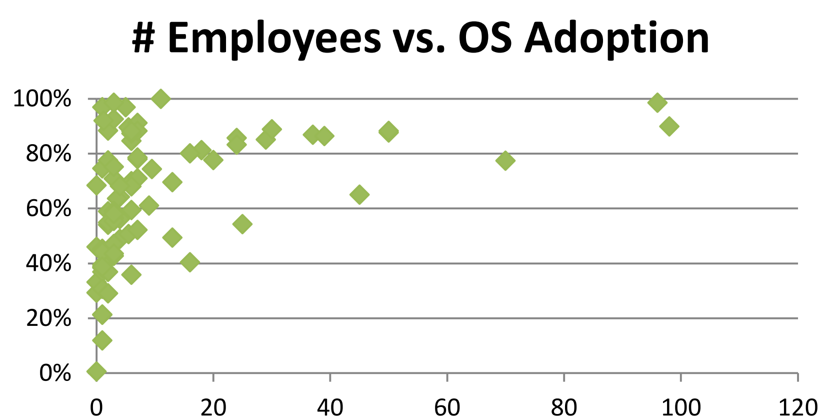

Table 4

Ranked Correlation

P-Value	**< 0.00001**
Effect Size (Spearman's rho)	0.613
Confidence Interval of Effect Size	0.463 to 0.729

Correlation

P-Value	**0.000903**
Effect Size (Pearson's r)	0.348
Confidence Interval of Effect Size	0.149 to 0.519

However, when controlling for other independent variables (NAM membership status, strategic plan, and annual budget size) in multiple regression analysis, number of employees is not statistically significant and thus we cannot reject the null hypothesis. Number of employees is not a predictor for operating standard adoption.

Table 5

Operating Standard Adoption (OSA) Multiple Regression Parameters					
Parameters	Coefficients	Lower 95.0% CI	Upper 95.0% CI	Standardized Coefficients	P-value
Intercept	0.462877	0.360406	0.565348	0	8.48E-19
Number of Full Time Employees (FTE)	**0.000751**	**-0.00021**	**0.001711**	**0.205044**	**0.125044**

H3: Nonprofits with a strategic plan will exhibit a higher level of operating standard adoption.

When comparing the existence of a strategic plan in an organization, it is clear that a strong positive correlation exists. As existence of a strategic plan increases, operating standard adoption tends to increase. Figure 11 shows a clear linear progression (0=No, 0.5=In Progress, 1=Yes).

Figure 30

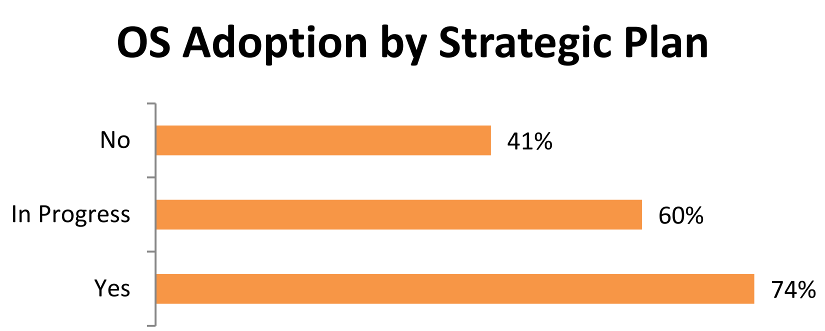

Figure 11

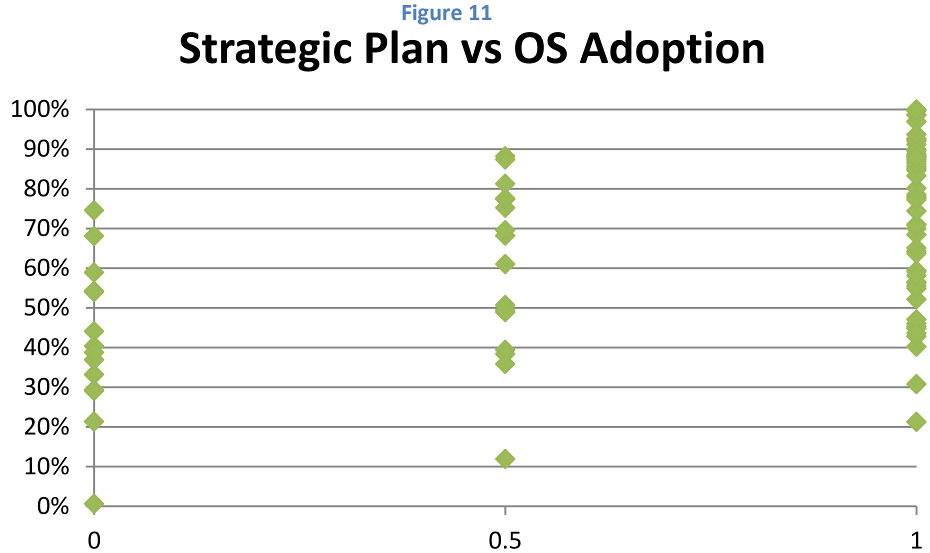

Table 6

Correlation

P-Value	< **0.00001**
Effect Size (Pearson's r)	0.525
Confidence Interval of Effect Size	0.355 to 0.662

When controlling for other independent variables (NAM membership status, annual budget size, and number of full-time employees) using multiple regression analysis, existence of a strategic plan is statistically significant and thus we can reject the null hypothesis. Existence of a strategic plan is a predictor for operating standard adoption.

Table 7

Operating Standard Adoption (OSA) Multiple Regression Parameters					
Parameters	Coefficients	Lower 95.0% CI	Upper 95.0% CI	Standardized Coefficients	P-value
Intercept	0.462877	0.360406	0.565348	0	8.48E-19
Strategic plan	**0.274864**	**0.163484**	**0.386244**	**0.453557**	**1.32E-06**

H4: Nonprofits who are NAM members will exhibit a higher level of operating standard adoption.

When comparing NAM membership status of an organization with its level of operating standard adoption, it is clear that no correlation exists. As membership status changes, operating standard adoption only changes slightly. Figure 12 shows only a minor difference is OS adoption and Figure 13 shows nearly identical OSA for members and nonmembers.

Figure 124

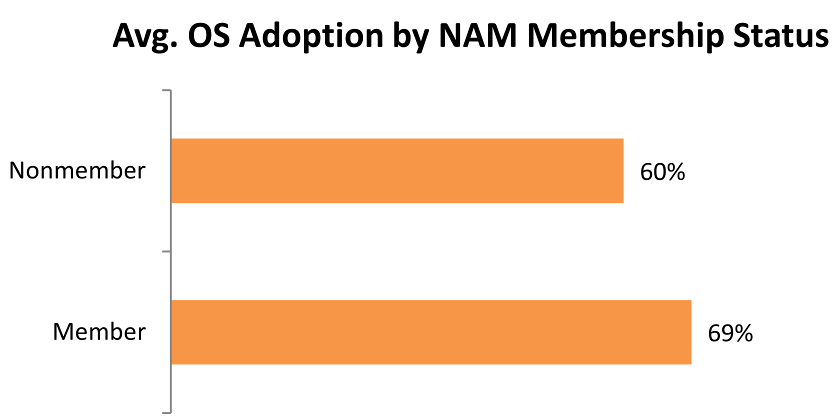

Figure 53

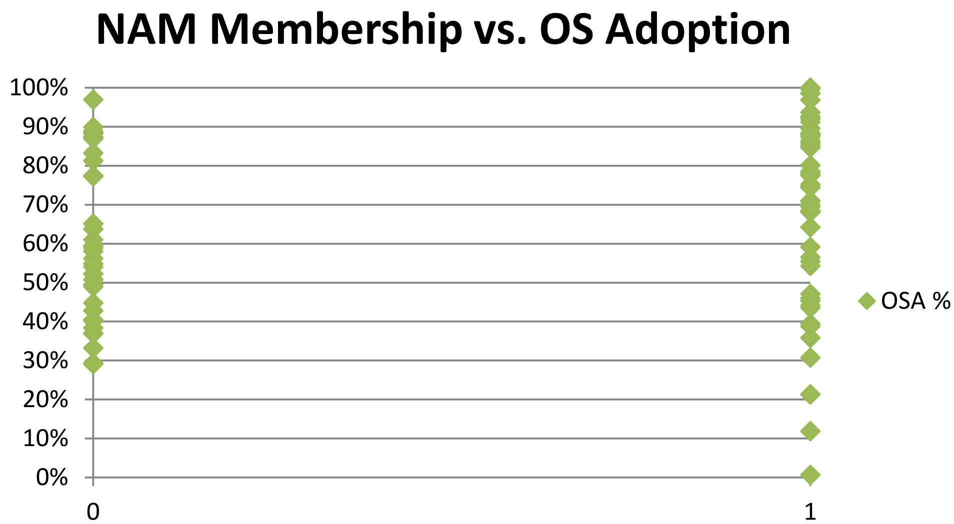

Table 8

T-Test

P-Value	**.0662**
Effect Size (Cohen's d)	0.395
Difference Between Averages (0-1)	-0.0903
Confidence Interval of Difference	-0.187 to 0.00618

When controlling for other independent variables (strategic plan, annual budget size, and number of full-time employees) using multiple regression analysis, NAM membership status is not statistically significant and thus we cannot reject the null hypothesis. NAM membership is not a good predictor for operating standard adoption.

Table 9

Operating Standard Adoption (OSA) Multiple Regression Parameters					
Parameters	Coefficients	Lower 95.0% CI	Upper 95.0% CI	Standardized Coefficients	P-value
Intercept	0.462877	0.360406	0.565348	0	8.48E-19
NAM Membership	**-0.05428**	**-0.14154**	**0.032982**	**-0.11352**	**0.222784**

Correlation Matrix of Independent Variables and Different Levels/Areas (Table 10)

Annual budget size, number of employees and existence of a strategic plan show the greatest levels of correlation with operating standard adoption at all levels, where NAM membership shows positive correlation with operating standard adoption in the specific areas of legal compliance, fundraising, public policy and advocacy, strategic alliances, and transparency/accountability.

Table 10

Strong Positive

Positive

	Annual Budget Size	#FTEs	NAM Membership	Strategic Plan
OSA % (Overall)				
Legally Required				
Strongly Recommended				
Recommended				
Communication				
Evaluation				
Financial Management				
Fundraising				
Governance				
Human Resources				
Information Technology				
Planning				
Public Policy & Advocacy				
Strategic Alliances				
Transparency & Accountability				
Volunteer Engagement				

Significance Matrix Using Multiple Regression Analysis (Table 11)

When controlling for all four independent variables, the statistical significance of their correlations changes dramatically, and strategic plan becomes the strongest predictor of operating standard adoption at all levels. NAM membership increases its significance over number of employees and annual budget size as a predictor of OSA.

Table 11

Significant
Somewhat Significant

	Annual Budget Size	Number of Full Time Employees (FTE)	NAM Membership	Strategic Plan
OSA % (Overall)				Significant
Legally Required		Significant	Significant	Significant
Strongly Recommended				Significant
Recommended				Significant
Communication				Significant
Evaluation		Significant		Significant
Financial Management				Significant
Fundraising			Significant	Significant
Governance				Significant
Human Resources				Significant
Information Technology				Significant
Planning				Significant
Public Policy & Advocacy			Significant	Significant
Strategic Alliances				Significant
Transparency & Accountability				Significant
Volunteer Engagement	Somewhat Significant			Significant

Have Nebraska nonprofits adopted Sarbanes-Oxley-style (SOX) policies, procedures and practices as recommended by the Panel on the Nonprofit Sector?

Nonprofits are not required by the federal government nor the Nebraska state government to explicitly create their own policies regarding Sarbanes-Oxley style reforms, but are still required to comply with certain laws, specifically document retention/destruction, whistleblower protection and conflict of interest/self-dealing. Surveyed nonprofits have largely adopted them. See Table 12.

Table 12

SOX-Style Policy	Yes	No	In Progress	Not Sure	N/A	Compliance
Audit, Financial Review or Compilation	74	4	9	1	0	84%
Bank reconciliations	82	0	3	3	0	93%
Board review & approval of budget	83	1	3	1	0	94%
Board review of tax filings and audits	73	7	5	2	1	84%
Board-approved, written financial management policies & procedures	58	14	10	6	0	66%
Conflict of Interest (G)	59	14	10	5	0	67%
Conflict of Interest (HR)	63	14	5	4	2	73%
Document Retention (FM)	61	10	6	11	0	69%
Document Retention (HR)	67	9	5	4	3	79%
Document Retention (IT)	62	12	6	8	0	70%
Document Retention (TA)	62	7	10	9	0	70%
Gift Acceptance Policy	55	14	9	9	1	63%
Grievance Policy (VE)	33	36	8	2	9	42%
Internal control procedures	73	7	5	3	0	83%
Whistleblower Protection (FM)	57	18	3	9	1	66%
Whistleblower Protection (HR)	55	14	5	9	5	66%
Whistleblower Protection (TA)	57	12	4	14	1	66%
Whistleblower Poster Protection (HR)	37	32	1	10	8	46%

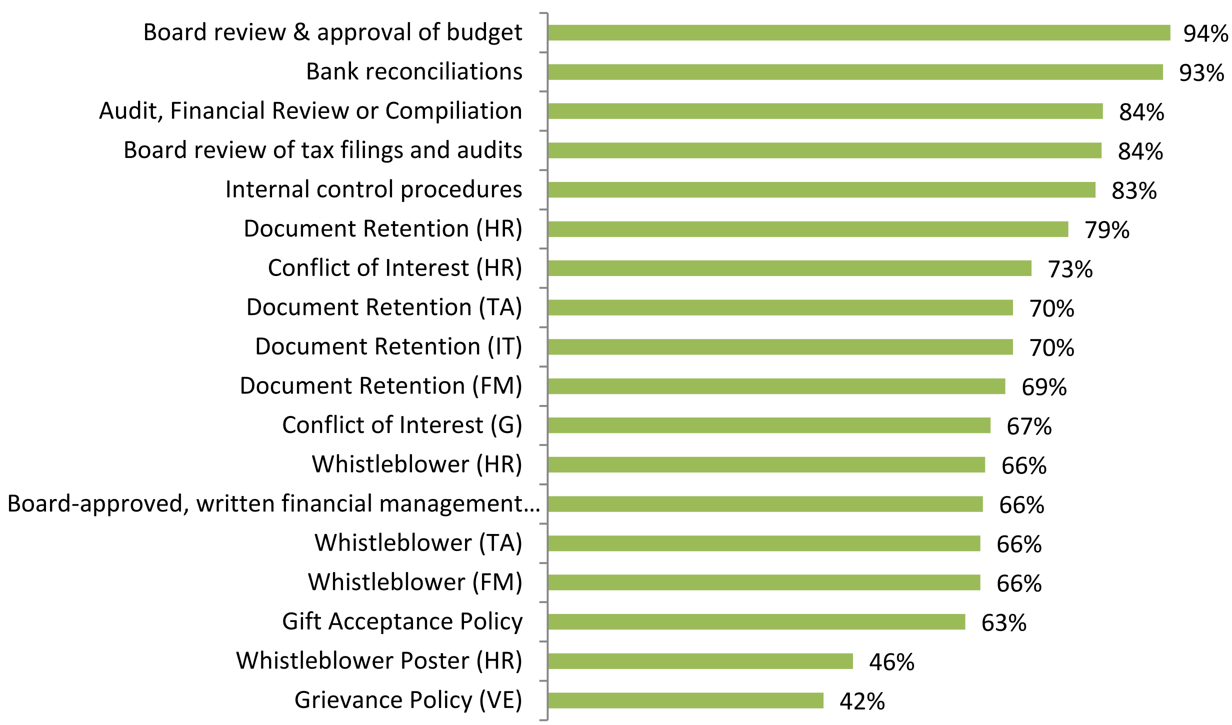

Figure 14

Are Nebraska nonprofits engaging in practices to ensure their legal compliance, and are they going beyond Sarbanes-Oxley and legal compliance to embrace sector best practices??

As a percentage of its category, surveyed nonprofits have adopted nearly as much of the strongly recommended category as they have the legal compliance requirement. Recommended items, as one might expect, have a lower rate of adoption.

Table 13

Legal Compliance	100 Items	77%
Strongly Recommended	73 Items	70%
Recommended	144 Items	59%

Conclusion

In the past 15 years, the nonprofit sector has faced increased scrutiny by funders, regulators and the general public in the management of its resources and its effectiveness in achieving its goals. Institutional isomorphism theory is a useful framework for understanding the types of pressures, processes and influences (coercive, normative and mimetic) that affect a nonprofit organization's adoption of operational standards, and Kearns' (1994) accountability framework is integral in understanding the array of stakeholders a nonprofit must satisfy and who also drive operating standard adoption. Bryan's (2011) framework for understanding organizational capacity places operating standards within the realm of *infrastructural capacity*.

The result of the increased scrutiny has been a call for greater infrastructural development in nonprofit organizations. This paper has examined the relationship between certain organizational characteristics and its overall level of operating standard adoption to determine whether any of them could serve as predictor variable for an organization's infrastructure capacity.

Correlation analysis (Table 8) of the data received by 88 nonprofits who completed the Nonprofit Association of the Midlands' (NAM) Infrastructure Checklist shows that strong relationships exist respectively between an organization's annual budget size, number of full-time employees, and adoption of a strategic plan and an organization's overall level of operating standard adoption. NAM membership had only weak correlation with operating standard adoption.

However, when controlling for each of the four variables using multiple regression analysis (Table 9), only strategic plan adoption showed a statistically significant relationship with operating standard adoption. NAM membership shows statistically significant relationships with infrastructure adoption related to legally required, fundraising, and public policy items. Number of full-time employees has a statistically significant relationship with infrastructure related to legally required and evaluation items. Annual budget size showed a somewhat significant relationship with infrastructure related to volunteer engagement.

In short, operating standard adoption is ideologically and culturally driven rather than resource-driven. While strong correlations exist between annual budget size, number of full-time employees, strategic plan adoption and operating standard adoption, only strategic plan adoption serves as a strong predictor for operating standard adoption, and NAM membership serves as a strong predictor for legal compliance.

The findings suggest that operating standard adoption is driven largely by organizational planning and management/leadership. The nature of the strategic plan means it is more than an infrastructural item as it requires the input and implementation efforts of the entire organization (board, executive leadership and staff), so its overwhelming relationship with operating standard adoption indicates the need for further study on the relationships between all aspects of an organization's capacity as identified by Bryan (2011) -- management/leadership, collaboration, knowledge/learning, and infrastructure.

Limitations to this study include sample size and demography; 88 organizations with large representation from Omaha might not serve as a representative sample for the entire state. A larger representation throughout the state would allow for analysis of geography and its relationship to operating standard adoption. A larger sample would also warrant the inclusion of more independent variables, such as years of establishment, years under current leadership, size of the board of directors, or any variety of other organizational characteristics.

Other limitations include the option to answer "Unsure", which is a valuable measure of an organizational leader's uncertainty about his/her own infrastructure, but which potentially skews the data. This methodology treated any "Unsure" responses as "No" responses, especially as concerns strategic plan adoption, because uncertainty of an item's existence is an indicator that it is probably not operationalized. Another shortcoming of the survey is that some infrastructure items are repeated from section to section because a single policy might have implications for multiple operational areas. Whereas *Document Retention/Destruction Policy* concerns human resources, information technology, and financial management separately and could serve as a separate infrastructure item for each area, an organization only needs a single *Whistleblower Protection Policy* to cover all areas despite being listed in multiple categories. When different responses are given by a single organization about the existence of a *Whistleblower Protection Policy* from area to area, this could have implications for the quality of the data.

This paper only coarsely looks at the adoption of Sarbanes-Oxley style reforms and finds that the majority of organizations are engaged with related infrastructure, but it does not examine *which* organizations specifically are using them, although both the correlation and multiple regression analyses give us some indication.

Most importantly, further study is also needed to examine the relationship between operating standard adoption and organizational efficiency and effectiveness, respectively, so organizations might better understand the need to adopt or ignore certain infrastructure based on their needs and lifecycles, as opposed to adopting them as a result of isomorphic pressures.

Findings from this paper indicate that strategic planning by management and leadership is key to the professionalization of the sector, the development of which is a dynamic process achieved through normative pressures by professional institutions. The unique challenges nonprofits face in effecting their missions while remaining accountable to a diverse array of stakeholders indicates that policymakers should continue working with sector leaders to better understand how best to regulate nonprofits in order to uphold the public trust without causing undue administrative burden. The fairly wide adoption of policies and procedures related to Sarbanes-Oxley indicates that nonprofit leaders are willing to explore operating standard adoption to increase legitimacy without explicit mandates. Initiatives such as the *Panel on the Nonprofit Sector* and the information brokering provided by education programs and trade associations are prime examples of how normative isomorphic pressures can shape the sector's practices in lieu of coercive regulatory pressures in order to maintain public trust.

~~What are some of your recommendations for policymakers?~~

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