

The Sarbanes-Oxley Act and German Non-Profit Organizations:
Empirical Research of Organizational Compliance

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ABSTRACT

Since passage of the Sarbanes-Oxley Act (SOA) in 2002 there has been significant debate in the US relating to the voluntary or mandatory adherence of non-profit organizations (NPO) to its main provisions. Considering the importance of US corporate governance regulation for the developments in other countries the question about potential compliance of German NPO with such provisions arises.

The subject of this research is the identification of an association of organizational characteristics of German non-profit organizations with the existence of Sarbanes-Oxley type corporate governance practices in the organizations.

The study included 232 German non-profit organizations. A mixed method research methodology was applied consisting of a mail questionnaire, structured interviews and a document review.

NPO decision makers gain from the practical application of the research findings mainly through their application as a benchmarking tool. Organization leaders can compare the readiness of their organization to that of similar entities and assess a necessity for improvement. The research results can also be used when working to further develop NPO corporate governance systems.

Use of the research findings for regulators and lawmakers is in assessing the impact of increased corporate governance regulation on certain groups of NPO relating to their already existing readiness.

Significant utility of the research results for NPO donors and sponsors was found to apply mainly in specific cases like professional sponsorship relationships.

Practical application of the research results was also identified for accountants and consultants providing services to non-profit organizations as well as for sector umbrella organizations.

DEDICATION

In memory of my late father Georg Heinrich Hasenpflug

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1. Introduction

1.1 Significance of the Study

This research is of significance in respect to the increasing importance of non-profit (NPO) or so-called Third Sector organizations and their corporate governance (Salamon and Anheier, 1997).

It is estimated that in Germany in 1995 between 4 and 5% of the work force were employed by NPO (Zimmer and Priller, 2004).

Yet, there has been a trend in recent years of decreasing public funding for the activities of NPO, which has led to an increased and still increasing need for private funding of the these organizations and a trend towards a partial commercialization of their activities for part of the NPO community (Anheier and Seibel, 1997; Zimmer and Priller, 2004; Doll, 2006).

At the same time significant concerns, fuelled by a number of events like the Enron and WorldCom scandals, about corporate governance in the commercial sector has led to the passing of a number of laws and regulations to ensure protection against misconduct (Hartmann, 2004; Bergen, 2005; Romano 2005) One of the most prominent of these measures is the US Sarbanes-Oxley Act of 2002 (SOA) (US Congress, 2002; Higgs, 2003; Smith, 2003).

These laws and codes have in common that they are largely aimed at the corporate, for-profit sector. As an increasing commercialization of NPO activities and a turning towards the private sector can be observed, there is a beginning realization that similar codes might be advisable or even necessary also for the Third Sector (AMA, 2003; California Attorney General, 2004; ABA, 2005; NCNA, 2006; Grunewald, 2007).

Research regarding this trend has so far been very limited in Germany, especially regarding this most recent legislation, even though the issues apply to the German NPO sector similarly as in the US and in other industrialized countries.

This research recognizes the Sarbanes-Oxley Act as a leading standard given the dominant size of the US economy. Based on that, the measurement of a correlation or association between an existing alignment or potential compliance of an NPO with the main provisions of SOA and that entity's organizational characteristics should lead to a meaningful contribution to the knowledge base.

The results would enable a prospective donor, stakeholder or other interested third party to derive an indication of the likely alignment of a given NPO with the provisions of SOA by reviewing these organizational characteristics rather than having to actually investigate the compliance.

Such information would also be valuable for governmental and public policy decision makers when contemplating new laws or regulations regarding the non-profit sector. As certain organizational characteristics indicate an existing potential compliance with the provisions of SOA, a larger or lesser impact of new regulations on certain groups of organizations could be expected.

For organizational leaders the research results can function as a benchmark or indicator whether organizations similar to their own show a greater or lesser degree of alignment. Out of that indication a need for change and improvement might be deducted by the organizational decision makers. Related to that, based on the results of this research, conclusions can be drawn regarding how organizations might have to change to better align themselves with the provisions of SOA.

1.2 Outline of the Thesis

Sarbanes-Oxley Provisions and Organizational Characteristics

Subject of the research is the relationship between the main provisions of the US Sarbanes-Oxley Act and the characteristics of German non-profit organizations, which are more or less aligned with the Act. These characteristics are to be identified and ranked relating to their property of indicating an existing stronger or lesser alignment or adherence of the organization with the corporate governance principles laid out in SOA.

Since passage of SOA in 2002 there has been significant debate in the US relating to voluntary or mandatory adherence of NPO to its provisions. At the core of the debate is the contention that NPO should be held at the very least to the same legal corporate governance standard than for-profit organizations. SOA is not formally linked to nor aimed at the non-profit sector. Nevertheless, the high publicity of the events that led to its passage, as well as the significant body of publications about its application in the for-profit sector since then has fuelled the discussion of its applicability for the non-profit sector.

This debate is already embodied in a number of research publications as well as surveys in the US (Heinz, 2003; Jones, 2003; American Management Association, 2003; BoardSource and Independent Sector, 2003; Budak, 2004; Baker, 2005; Oxholm, 2005; Broude, 2006; Ostrower and Bobowick, 2006). The acceptance of the general need for formal inclusion of the non-profit sector in the corporate governance oversight has in the meantime led to several states having already passed or are considering new laws that regulate corporate governance issues explicitly for the non-profit sector.

Looking at the international influence that US regulations in finance and business have on the developments in other industrialized countries in general and the influence of SOA in particular, scrutiny of the non-profit sector in light of the US developments can be expected also in other countries.

Recognition of the contribution and importance of the non-profit sector to the economy as a whole is already steadily progressing (Salamon, 1999; Salamon et al., 2000; Schauer et al., 1995; Weisbrod, 1998) and the adoption of tools and methods for transparency of the sector in the US are already being introduced in other countries (Voggensperger et al., 2004; DZI, 2007; GuideStar UK, 2007). Germany was selected as an example for the purpose of this study as being one of the largest economies in the world and also for being of particular interest to the researcher.

Research Results and Their Practical Applications

As well as in the US, the non-profit or third sector is an important part of the German economy (Anheier and Seibel, 2001; Zimmer and Priller, 2000). Any introduction of laws, regulations or even a substantial level of voluntary adoption of SOA principles by

NPO would be a very noticeable development. Assessing the readiness or even partially existing adherence to these principles and relating their degree to organizational characteristics should create useful information for anyone interested in the third sector.

The goal of the research is to identify those characteristics of German NPO that most strongly relate to an already existing alignment of the organization with the corporate governance provisions of SOA and rank them in their importance. The research results would then enable a prospective donor, stakeholder or other interested third party to derive an indication for the likely alignment of a given NPO with the provisions of SOA by observing these characteristics rather than having to actually investigate the compliance.

A further use of the research results as a benchmark for NPO decision makers is envisioned in the form of an indication about the degree of alignment of comparable organizations. An assessment of a need for change in the organization can be derived out of such a comparison with peer organizations.

Similarly, based on the research findings observations can be made on how an organization might have to change to further or facilitate a better alignment with the provisions of the Act, information which would assist NPO leaders and executives.

Research Methodology

In the course of the study a mail questionnaire was sent to NPO asking for information about a range of organizational characteristics as well as information about structures and policies in the area of corporate governance related to SOA provisions. The sample frame selected for the data collection encompasses organizations that have been awarded the 'Donation-Seal - Verified and Recommended' ("DZI Spenden-Siegel: Geprüft und Empfohlen") of the Deutsches Zentralinstitut für Soziale Fragen, Berlin (DZI).

Secondly, at a sub-sample of organizations structured interviews are to be conducted with representatives of the organizations. The results of the questionnaire are to be enriched and validated by this further method of data collection.

Further a document review of another sub-sample of organizations is to complement and verify the research. Here written policies, minutes, internal manuals, financial statements, articles of formation and other relevant documents are to be examined.

Looking at the sample frame, the award of the seal of the DZI is based on the annual submission to a registration and documentation process with the DZI and adherence to certain policies. The seal can then be used by the organizations for a certain period of time for public relations and communication purposes. Relating to this research it is recognized that these organizations represent already a high level of corporate governance awareness and actively communicate in this regard with their stakeholders. In this regard the results of this research are not expected to be representative of the German non-profit sector as a whole, but to relate most strongly to this particular segment of high profile organizations.

Chapter Overview

The thesis document is segmented into six main chapters:

This chapter 1 briefly refers to the significance of the research and provides the reader with an outline of the thesis document.

The Literature Review is contained in chapter 2, providing an overview of non-profit sector research, focusing on the sector in Germany. The chapter is further concerned with the US Sarbanes-Oxley Act, particularly its impact on the non-profit sector. The various strands of the literature are then synthesised and the Research Question, Aim and Objective are defined.

Chapter 3 addresses the Research Methodology, providing background on the research paradigm, the theoretical framework and on the data collection process. The research ethics underpinning the study are also stated in this chapter. The Research Methodology leads up to chapter 4, which provides a report on a Pilot Study testing the methodology.

Chapter 5 contains the detail data collection and analysis sub-sections. The chapter is segmented according to the three data collection methods employed, mail questionnaire,

structured interviews and document review. Each method is reported on and accompanied by a separate data analysis sub-section.

In chapter 6 the research results are summarised and the main conclusions are spelled out. Further the utility of the results is assessed, their practical application is considered and the contribution of this research to the knowledge base is emphasized. This chapter also states the limitations of the study and gives recommendations for future research.

2. Literature Review

2.1 The German Non-Profit Sector

Introduction

This section is to give an introduction to the literature concerned with the description and definition of the non-profit sector in general as part of the overall economy. Then the literature addressing the German non-profit sector in particular is covered. The focus here is on the sector's organizational development in the context of its historic evolution up to the current state.

Further in this section the literature examining the corporate governance of German non-profit organizations will be outlined. In this the various sources for corporate governance principles in Germany will be covered, focusing on categorizing them and identifying the area's most recent developments.

2.1.1 Definition of the Non-Profit Sector in General Based on Economic Theory

Introduction

To form a basis for this research various different definitions of the non-profit sector as part of the overall economy are being examined with the goal of arriving at such a definition best suited for this research.

Three Sectors of the Economy

In their work on defining the non-profit sector Salamon and Anheier state in regards to the definition of the non-profit sector:

“Definitions and classifications are hardly the stuff of high drama. Yet they are crucial to clear thinking and careful analysis. Particularly in a field as embryonic and lacking in basic information and conceptual

clarity as this one, such definitional development and improvement in the basic ‘technology and thinking’ is an absolute prerequisite to even the most rudimentary understanding” (Salamon and Anheier, 1997, page 7).

For application in the research of economic activity the literature has developed and by now broadly agrees on a differentiation of a national economy in three distinct sectors.

The private or market sector comprises the economic activities of individuals, corporations and all types of private, profit-oriented organizations. As state or public sector are defined the economic activities of the public administration, governmental agencies and associated organizations. The non-profit or third sector is the wide-ranging and heterogeneous field of organizations between the other two, “an intermediary zone between market and state” (Anheier and Seibel, 1990, page 9) or as Weisbrod puts it “a commonly overlooked middle ground” (Weisbrod, 1988, page 1).

Contours of the Non-Profit Sector

In comparison to the private and public economic activity, the research focusing on the non-profit sector has significantly developed only fairly recently (Hansmann, 1987; Weisbrod, 1998; Salamon and Anheier, 1992, 1997; Galaskiewicz and Bielefeld, 1998; Evers and Laville, 2004; Anheier and Ben-Ner, 2003; Anheier, 2005; Hopt, Hippel et al., 2005).

Whereas the definitions of private and public sectors are commonly agreed upon, the definition of the non-profit sector is still debated, interpreted and developed by researchers. Salamon and Anheier state in one of their works as part of the Johns Hopkins University Comparative Nonprofit Sector Project in reference to this situation:

“No such agreement prevails, however about the existence, let alone the precise contours, of a third complex of institutions, a definable ‘third sector’ occupying a distinctive social space outside of both the market and the state” (Salamon and Anheier, 1997, page 1).

Reviewing a number of descriptions and categorizations put forward by different researchers and examining the difficulties in defining the sector, Hare et al. (2006) go so far as to state:

“These earlier terms failed the universality test because they were unable to describe and connect the entire range of types of organisations and their activities that operate in the ill-defined area between the state and the private sector. Despite that, these terms continue to be used and their meaning(s) can be ‘an all things to all men’ view or belief” (Hare et al., 2006, page 4).

This absence of a common agreement among the researchers on definitions has led to a number of different attempts of definitions based on disparate approaches.

Hare et al. conclude their observations of the ‘social economy’ and search for a definition of sector organizations and activities with a reference to the definitions used for legal purposes:

“Instead, for practical purposes, what we are left with is the views of governments and the legal and tax systems. These allow for tax breaks and exemptions and the delineation of types of organisations, and activities, deemed to operate between the public and private sectors” (Hare et al., 2006, page 4).

This contrasts sharply with Bode and Evers, who put forward a very figurative definition of the entities of the non-profit sector:

“They are places in which ‘social capital’ is processed, with trust, voluntary commitment and social support being important ingredients of organizational action” (Bode and Evers, 2004, page 101).

But whereas this outline adds a measure towards describing the activities in the sector it does not address organizational issues.

In general Bode and Evers define the non-profit sector as an ‘intermediate sphere’ and in addressing the heterogeneous nature of the sector they summarize:

“From a social science perspective, it is obviously difficult to make sense of such a varied field, comprising, as it does, things such as choral singing and housing production, trade unionism, advocacy for environmental concerns and membership of mutuals” (Bode and Evers, 2004, page 102).

Whereas in the context of the research of Bode and Evers the stated information and formulated description of the non-profit sector is applicable, there seems to be a lack of focus which is needed in other research applications. Regarding the research at hand the subject of the non-profit activities or the particulars of the input are of a lesser priority. For the current research a definition more closely focusing on the organizational specifics of the non-profit sector is necessary.

Compared to Bode and Evers, Werther and Berman developed a different angle to look at the non-profit sector.

Whereas Bode and Evers’ definition related to their research focus of the contemporary changes the sector organizations are facing in Germany as institutions, Werther and Berman are concerned with management issues in the non-profit sector.

In this regard Werther and Berman offer an activities- or motivation-based definition of non-profit organizations in differentiating the sector:

“Society consists of the private sector, the public sector, and the nonprofit sector, sometimes referred to as the ‘third sector.’ Organizations in the third sector often pursue educational, health, cultural, religious, artistic, political, charitable, philanthropic, or other social goals. They seek to serve the public at large or the public good of a narrowly defined membership. Their aims often support the most noble features of society” (Werther and Berman, 2001, page 3).

In segregating the non-profit sector organizations from those in the private and the public sectors they state:

“They differ from business in that they do not seek to maximize profits. Their aims follow from their mission to serve the public good.[...] Nonprofits also differ from public organizations in that their activities are not subject to processes of democratic governance. Nonprofits often take over where inadequate political will exists, such as providing additional support for the arts or education that includes religious elements” (Werther and Berman, 2001, page 3).

Whereas this description serves well as a broad illustration of non-profit sector activity and motivation, it is not operational enough as basis for this research. It would be difficult to derive a clear-cut decision about the inclusion of a particular organization into the definition or definitely outside. At the same time it does not appear to be sufficient to define the non-profit sector just by excluding the activities of the other sectors.

Werther and Berman’s observations are comparatively recent (Werther and Berman, 2001). The work of Weisbrod by comparison is more than a decade older, but made a lasting impression on non-profit sector research.

Whereas Werther and Berman contribute with their writings to the general body of literature on the sector and particular non-profit management issues, Weisbrod offers a view that comes closer to the framework needed for the research at hand.

Weisbrod, in his analysis of the non-profit sector as part of a mixed economy made-up of three distinct sectors offers a descriptive definition of non-profit organizations:

“The term nonprofit has several meanings. The one I emphasize is the restriction on what an organization may do with any surplus (“profit”) it generates. The essence of this form of institution is that a nonprofit organization may not lawfully pay its profit to owners or, indeed, to anyone associated with the organization” (Weisbrod, 1988, page 1).

As will be shown below, this definition is at its heart based on earlier work by Hansmann (1980).

Based upon this definition Weisbrod then examines the non-profit sector regarding its role in an industrialized society, particularly focusing on comparing and contrasting the behaviour of non-profit organizations to for-profit enterprises. His research is concerned with the situation in the United States and he concludes by stating:

“The nonprofit sector of the economy is large overall, massive in the service area, and growing. Far from isolated from the mainstream of the economy, nonprofit organizations interact vigorously with the private and governmental sectors, both competing with them and supplementing their activities” (Weisbrod, 1988, page 160).

The goal of Weisbrod’s reasoning is finally to derive certain public policy recommendations out of his analysis. Observing that, “it is startling how little is known about this large and growing segment of the economy”, one of these recommendations is a significantly increased statistical data collection about the non-profit sector, “its size, composition, outputs, fund-raising activities, and interaction with the private market economy” (Weisbrod, 1988, page 167).

Whereas the above named researchers have all contributed considerably towards the debate about the non-profit sector it is necessary to select as basis for this research such a definition that has shown a lasting effect on the development of the debate. At the same time the definition needs to offer a certain utility towards the goals of this particular research.

Considering these issues the following further literature sources offer significant assistance towards creating a solid basis for further work in the organizational dimension of the non-profit sector. They are defining and describing the non-profit sector of the economy and its entities in a way that has been adopted by later researchers and is also particularly applicable to this research.

The 'Nondistribution Constraint' as Distinctive Feature of Non-Profit Organizations

The work of Hansmann, produced early in the current body of non-profit research, became one of the foundations of later non-profit research (Hansmann, 1980, 1987). In setting the stage for his arguments he provided a general overview, description and definition of the non-profit organization as such, which has since become an important point of reference and to this day the basis for further work of researchers in the non-profit field (Weisbrod, 1988; Steinberg and Gray, 1993; Rose-Ackerman, 1996; Löwe 2003; Hopt and Hippel et al., 2005; Valentinov, 2008).

Hansmann concerns most of his work of 1980 with a discussion of the reason for the existence of non-profit organizations in the capitalist market system. He identifies this reason in a market failure regarding the production of certain goods and services. He argues convincingly how non-profit entities are better suited to provide such goods and services compared to for-profit entities and to address the market failure.

“Nonprofits are particularly likely to arise in just those situations in which the impersonal mechanisms of the market are unable to provide adequate protection for the consumer” (Hansmann, 1980).

In his ground breaking analysis of the non-profit sector Hansmann states in defining the nature of the non-profit organization:

“A nonprofit organization is, in essence, an organization that is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees” (Hansmann, 1980).

In this way he establishes the so-called “nondistribution constraint” as a characteristic of singular importance in identifying non-profit organizations.

Much of his research is concerned with the mentioned market failure that gives in his opinion rise to the existence of the non-profit sector, here in particular the examination of advantages of non-profit entities in providing public goods and their functioning in markets not addressed by for-profit firms. But pointing out the attribute of non-profits

of not accruing surpluses to owners, the nondistribution constraint, is what made his observations such a lasting contribution to non-profit research.

Not only does Hansmann provide the non-profit research with the stated insights, as far back as 1980 he already predicted:

“As a result, the importance of nonprofit enterprise should continue to grow in the years to come” (Hansmann, 1980).

The contribution offered by Hansmann in establishing the nondistribution constraint is also of defining importance for this research on a broad basis.

The ‘Structural / Operational’ Definition as a Criterion for Non-Profit Organizations

Incorporating part of Hansmann’s approach Salamon and Anheier further developed the understanding of the non-profit sector and its entities.

Salamon and Anheier discuss a number of alternative definitions for the non-profit sector before recommending a ‘structural/operational’ definition:

“The most useful definition is the ‘structural/operational’ one, which includes in the non-profit sector organizations that share five basic characteristics. These are: formal [organized], private, non-profit-distributing, self-governing and voluntary” (Salamon and Anheier, 1992).

Whereas Salamon and Anheier concede that “some organizations may qualify more easily on one criterion than another”, all five of these criteria ought to apply in principle for a classification of the organization.

Also Anheier in his later work points out shortcomings of the structural/operational definition himself by stating that it has significant utility in regards to international comparative research, but an application in a national research setting might suffer from a different local understanding of the non-profit sector. In this way the definition would serve to identify organizations across national boundaries fitting the criteria, but there

might be limitations in identifying the non-profit sector as such in each country (Anheier, 1995).

The research of Salamon and Anheier has since been the basis for a body of further studies on the non-profit sector relying on their perspective and definitions and proven its utility (Schauer et al., 1995; Zimmer and Priller, 2000; Hopt and Hippel et al., 2005; Siebart, 2006; Wolfbauer, 2006).

After examining the above approaches and particularly the numerous applications of the structural/operational definition by Salamon and Anheier, especially in the most recent research, its utility for the research at hand is apparent. Particularly its focus on organizational characteristics as the delineating attributes of the non-profit sector fits very well with the thrust of this research.

Summary

Examining the different approaches to defining the non-profit sector by these researchers the conclusion is reached that for purposes of this study the focused and proven definition of Salamon and Anheier and their ‘structural/operational’ approach would be best suited.

Whereas other definitions relate to the non-profit sector from an angle fitting other research subjects, the focus on organizational characteristics shows the greatest utility regarding the research subject at hand.

2.1.2 The Historic Organizational Development of the German Non-Profit Sector and Its Current State

Whereas the preceding section has dealt with the definition of the non-profit sector in general, this section is now to focus more closely on the sector in Germany.

“Definitions and concepts about the institutions located in the area between the state agency and the market firm typically reflect distinct

national histories, styles of organizing and institutional cultures”
(Anheier and Seibel, 2001, page 9).

Based on this assessment it becomes necessary to look at the German non-profit sector more specifically to define and describe the research subject.

Significant descriptive sources for information about the non-profit sector are the works contributed to the Johns Hopkins University Comparative Non-Profit Sector Project. In its publications regarding the German non-profit sector Anheier and Seibel point out:

“With close to 5 per cent of total employment, the economic weight of the German nonprofit sector is close to that of the transport and communication industry, and slightly larger than that of the chemicals and printing industries combined” (Anheier and Seibel, 2001, page 1).

Early Beginnings of the Organizational Development of the German Non-Profit Sector

This current prominent state of the German non-profit sector is the product of a centuries-long development.

The literature traces this process back as far as the reshaping of the German administrative and political structure after the end of the Thirty-Years-War in 1648 (Anheier and Seibel, 2001). The deep divisions within the German nobility and between nobility and crown needed to be bridged to provide for the continuation and reestablishment of a functioning political process and administration. The result was a distinction between and coexistence of state administration and local self-administration, a concept crucial as basis for the further development of the public as well as what was to become the non-profit sector (Ellwein, 1994; Maurer, 1997).

Impact of the French Occupation

The French revolution in 1789 and the upheaval the changes in France brought also to Germany during the French occupation became the background and driving force of a new dynamic in the development of the non-profit sector. The dramatic events as well as the already noticeable ascent of the bourgeoisie as a new force in society led to a

wave of reforms during this period (Blackbourn and Eley, 1984). Among them was the Prussian General Code ('Preußische Allgemeine Landrecht') of 1794 which established 'private societies' (associations) as legal bodies (Koselleck, 1981).

Even after the liberation and the defeat of Napoleon in 1815 which started the period of Restoration where parts of the reforms were rolled back, the further expansion of the sector continued. As Anheier and Seibel put it:

“By the end of the century associational life had become a stabilizing factor. [...] The growing number of associations reflected the institutional response of a self-organizing and mobile society that had gradually replaced the segmented society of birth-related estates” (Anheier and Seibel, 2001, page 41).

One group of associations were founded for the purpose of organizing political activities and became the earliest form of political parties. But others were established to address the growing needs of the urban poor during the early period of industrialization in Germany. A system of private voluntary initiatives, as well as state- and church-run efforts was developed to integrate efforts on local, regional as well as national levels (Sachße and Tennstedt, 1998).

Further Changes in the Late 1800s and after the First World War

The foundation of the German Empire in 1871 led to a significant centralization of power and administrative decision making. This was accompanied in the non-profit sector by the establishment of national umbrella organizations and an integration of the existing localized organizations into nationwide structures (Winkler, 1972).

After Germany's defeat in the First World War, the demise of the monarchy and the subsequent establishment of a parliamentary democracy in 1918 – 1919 further supported the development of the sector. The Weimar Constitution of 1919 provided room for the activities of non-profit organizations and legislation was enacted containing specific provisions for their relationship and cooperation with governmental agencies. In this way the institutionalization and the permanent state of the organizations was significantly enhanced (Sachße and Tennstedt, 1988).

Organizations were now active in fields like youth welfare, health care, housing, veterans' welfare, labour policy, support of the unemployed and others. Article 5 of the RFV ('Reichsverordnung über die Fürsorgepflicht', national decree concerning welfare) stated that no public service should be created as long as private charitable services are available (Anheier and Seibel, 2001). This provided a significant boost to independent organizations in their activities and in their relationship to public agencies leading to a degree of mutual dependency.

The Non-Profit Sector Under the Dictatorship

The Nazi period 1933 – 1945 saw great changes to the organizational structures in the German non-profit sector. Under the dictatorship large segments of the sector, first and foremost the welfare associations, but also trade organizations, interest groups and other types of organizations, were forcibly integrated into the Nazi party apparatus.

On the one hand the regime encouraged the growth of the non-profit sector as part of the overall economy. Full-time employment in the sector, as well as voluntary membership and participation soared. Also the range and scope of its activities increased, particularly in all areas of the welfare sector. Here non-profit organizations supplemented, extended and even replaced the activities of state agencies (Anheier and Seibel, 2001).

But on the other hand the independence of the existing organizations was severely diminished or even ended in practice. A large number of organizations were absorbed into regime controlled units and ceased to exist as entities (Anheier and Seibel, 1993).

Growth of the Non-Profit Sector in West Germany

After the Second World War the development of the non-profit sector continued in West Germany. On the basis of the economic growth of the 1950s and 1960s particularly the extension of the welfare state in the 1960s and 1970s led to renewed and sustained development of the organizations in the sector (Zimmer, 1999).

Beyond the welfare sector and the other traditional fields of activities this period also saw the establishment of a significant number of new organizations in new areas,

among others environmental protection, foreign aid and international poverty alleviation. These became new drivers of growth and participation in the sector, as well as stimulants of organizational development now also with an international aspect (Salamon and Anheier, 1997; Zimmer and Priller, 2004).

Current Size of the German Non-Profit Sector

Not only has the non-profit sector now reached the threshold of 5% of the entire employment of the German economy, it is in comparison to the commercial and the public sectors the only part of the economy that has produced continuous increases in employment from 1960 through 1995. Its share of the Gross Domestic Product had reached 3.9% by that time (Zimmer and Priller, 2004).

Anheier and Seibel conclude:

“Thus, the German Nonprofit sector, already a significant economic force, will continue to grow in the future as demand of health and social services reaches ever-higher levels owing to demographic and economic factors as well as social change” (Anheier and Seibel, 2001, page 6).

2.1.3 Corporate Governance in the German Non-Profit Sector

This section is to give a brief overview describing the framework that determines the dimensions of corporate governance for the non-profit sector in Germany.

Not meant to be a comprehensive analysis, this section is to serve as an introduction to the various sources and the basic structure determining different aspects of corporate governance in the German non-profit sector. Of importance in regards to the research at hand are particularly those areas affecting the organizational structure and characteristics of the sector entities.

In focusing on these areas, this section is mainly based on the seminal works of Anheier and Seibel as well as Zimmer and Priller which have proved to be of significant utility

to the subsequent work of other researchers (Anheier and Seibel, 1990; 1993; 2001; Zimmer and Priller, 2000; 2004).

2.1.3.1 Sources of Non-Profit Corporate Governance Principles

Corporate governance principles applicable to the non-profit sector in Germany are set down in a number of different laws and codes, but there is also a multitude of guidelines, recommendations or codes of conduct published for the sector.

The corporate governance principles can thus be divided into statutory legal requirements and third party guidelines. Whereas legal requirements are obviously mandatory for the organizations, third party guidelines can be further divided into binding and non-binding.

Legal Requirements

There is no single body of law in Germany dealing with the non-profit sector corporate governance specifically and comprehensively. Rather, there are sections in a number of laws and codes addressing various aspects of non-profit governance (Anheier and Seibel, 1990).

For example basic requirements regarding registration and representation of associations are spelled out in the civil code ('Bürgerliches Gesetzbuch'). As Walz points out, regulation specific to non-profit financial accounting are almost completely missing. Here requirements set down for the corporate sector are interpreted as applicable for the non-profit sector as well (Walz, 2004). Yet other financial aspects are regulated in various sections of the tax code.

This fragmented basis for non-profit corporate governance is resulting in part out of the long and winding historical development of the sector in Germany, as well as the particularly heterogeneous nature of the organizations (Anheier and Seibel, 1990; 2001; Bode and Evers, 2004; Kraus and Stegarescu, 2005).

Binding Third Party Guidelines

Binding third party guidelines are those that might arise out of organizational relationships, for example a code of conduct issued by a national umbrella organization for its local or regional member organizations to which those have to subscribe (Deutsches Rotes Kreuz e.V., 1995; Diakonisches Werk der EKD, 2005). Non-conformity might lead to organizational sanctions for the non-compliant member organization.

A significant portion of non-profit sector organizations provide goods and most often services to state or municipal agencies or other governmental organizations which have outsourced to them the production of particular services. Most important is here the welfare sector and examples are non-profit social service providers or non-profit housing organizations working on contract for a municipality.

The state agencies or other organizations contracting these services from non-profit sector entities often mandate a wide range of rules and guidelines affecting the service provider. Examples are transparency of decision making, document retention or other procedures. Non-compliance with the guidelines can lead to ineligibility for future contracts or other measures (Landeswohlfahrtsverband Hessen, 2007).

Other examples are guidelines issued by government agencies adherence to which is made mandatory for organizations receiving certain types of aid or subsidies (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, 2006).

Non-Binding Third Party Guidelines

Apart from the formal legal environment of the non-profit sector and the binding guidelines a significant body of voluntary codes or best practice recommendations concerning the non-profit sector has developed in Germany with a particularly pronounced dynamic in recent years (Brown, 2002; Hamel, 2003; Evers, 2004; Neumann, 2005; Bachert, 2006; Dawson and Dunn, 2006; Doll, 2006).

In this particular area the recent influence of international developments in non-profit corporate governance can be felt (Vogelsang and Buttkus, 2006; Deutsches

Zentralinstitut für soziale Fragen, 2007b). New practices that have proven to be effective in other countries are introduced in the German non-profit sector. An example are efforts in data collection about sector organizations and a drive towards greater transparency of organizational information that is being introduced modelled on similar activities in the US and UK (Buttkus, 2007).

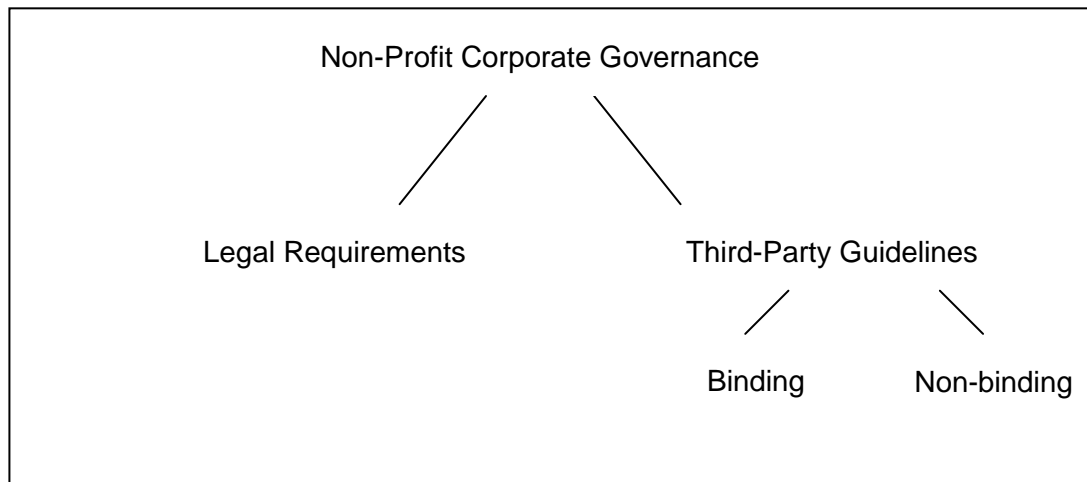


Figure 2.1. Sources for Non-Profit Corporate Governance Principles

Summary

This sub-section provided a brief overview of the sources of the corporate governance principles applicable to German non-profit organizations. Whereas the subject is made particularly complex by a significant fragmentation of the legal environment of the sector, also the further binding and non-binding guidelines concerning the sector organizations have to be taken in account.

Regarding these guidelines, and here specifically the non-binding recommendations, a particularly active dynamic can be observed in recent years. The spreading of concepts and procedures considered best practices on an international level is now more and more affecting the corporate governance of German non-profit organizations, as shown for example in the research of Vogelsang and Buttkus (Vogelsang and Buttkus, 2006; Buttkus 2007).

2.1.3.2 Legal Types of Entities

The historically long and diverse evolution of the German non-profit sector has led to a significant diversity of different legal types of non-profit organizations, often defined and regulated by different sections of the associational and corporate law and the tax code (Salamon and Anheier, 1997; Zimmer and Priller, 2004).

Anheier and Seibel defined a typology differentiated by the organizations being member-based or not being member-based:

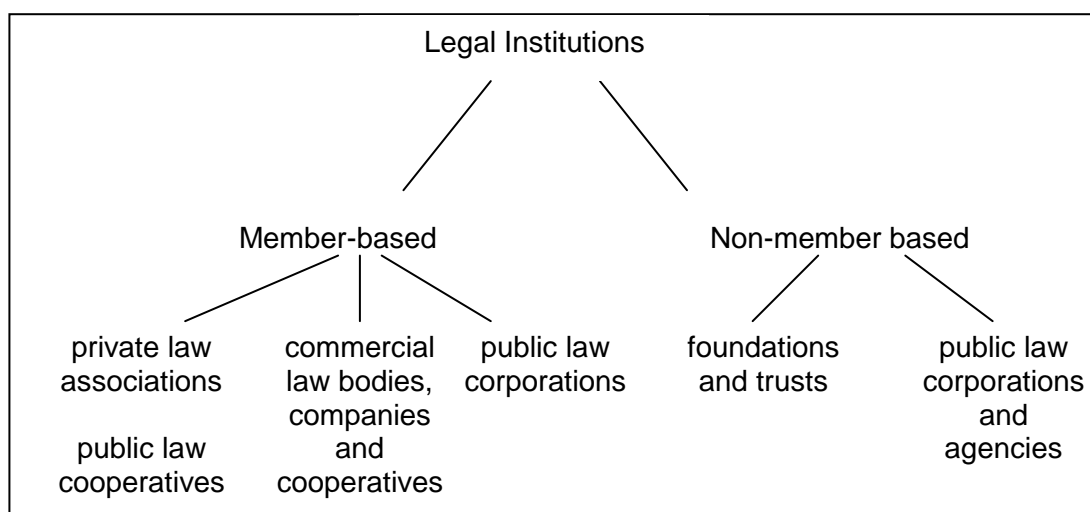


Figure 2.2. Major Types of Legal Institutions in the German Non-Profit Sector

Source: Anheier and Seibel (1993)

For example the most numerous type is the ‘eingetragener Verein’ (registered association), a member-based organization, defined in the civil code. Others are ‘eingetragene Genossenschaften’ (registered public law cooperatives), active for example in local banking or housing and also based on its membership.

Examples for Non-member-based organizations are ‘Stiftungen’ (foundations or trusts) often used for charitable endowments, or ‘Anstalten des öffentlichen Rechts’ (public law corporations), for example the public broadcasting services (Salamon and Anheier, 1997).

The individual regulations concerning the definitions of the different types of entities also often address the minimum level of statutory corporate governance systems applicable to the organizations.

This link between the type of legal entity and which laws and regulations are applicable to a given non-profit organization make the above categorization particularly meaningful for this research.

Here, by selecting which type of entity to use, a first significant choice is made about basic corporate governance matters. For illustration, is the type of entity the member-based registered association, the annual members' assembly is the ultimate decision making body. In the case of the foundation this would be the meeting of the trustees. The two bodies, one with numerous participants meeting infrequently, the other with few participants meeting more often are likely to have significantly different ways of decision making, whereas both organizations might be of similar economic size and active in the same field.

This sub-section gave an overview of the framework in which the dimensions of corporate governance for non-profit organizations in Germany are determined. Their sources were categorized into legal requirements, binding and non-binding guidelines. The choice of legal type of entity as of particular importance for the corporate governance regime applicable to an individual organization was examined.

2.1.4 Summary

In this section the literature on the non-profit sector as part of the overall economy divided into a private or market sector, a public or state sector and the non-profit or third sector was discussed. Emphasis was given to stating a definition for the non-profit sector that is of the most utility for the research at hand, arriving at the 'structural/operational' approach by Salamon and Anheier as the most suitable.

Further the literature on the eventful and century-long development of the non-profit sector and its entities in Germany was examined. Focus here was the organizational development and its current state.

The corporate governance of non-profit sector entities was analysed by the categorization of the sources of corporate governance principles, by identifying the

choice of legal type of entity as an important determinant for corporate governance structures and by outlining recent developments particularly the application of internationally accepted guidelines to the German non-profit sector.

2.2 The Sarbanes-Oxley Act and Its Impact on the Non-Profit Sector

As stated above, in 2002 the United States Congress passed the ‘Public Company Accounting Reform and Investor Protection Act’, short-titled as the ‘Sarbanes-Oxley Act of 2002’ (SOA) to ‘protect investors by improving the accuracy and reliability of corporate disclosures’ (US Congress, 2002).

Since then the various provisions of the Act have had a profound impact on corporations implementing the new regulations. It turned out to not only affect publicly traded entities, but subjected most companies to increased reporting and auditing efforts relating to increased scrutiny by external auditors and others (Budak, 2004; Schuerman, 2004; Romano, 2005; Zhang, 2005; Iliev, 2007).

Moreover, this increased attention also had an effect on foreign companies publicly listed in the US or operating subsidiaries there, as well as the overseas subsidiaries of US-based corporations, thus adding an international dimension to the impact of the new law (Von der Crone and Roth, 2003; Iliev, 2007; Litvak, 2007; Menden and Kralisch, 2008; Piotroski and Srinivansan, 2008).

Shirley summarizes in this regard:

“Although U.S. legislators were responding to domestic corporate corruption when they enacted SOX [The Sarbanes-Oxley Act], its impact is global” (Shirley, 2004, page 511).

Whereas SOA was specifically aimed only at the for-profit sector, its passage immediately set off a debate whether non-profit entities should not be held accountable in similar fashion and certain provisions should not also be mandated for the non-profit sector (Heinz, 2003; Jones, 2003; American Management Association, 2003;

BoardSource and Independent Sector, 2003; Budak, 2004; Baker, 2005; Oxholm, 2005; Broude, 2006).

This debate has caused on the one hand the drafting of a significant body of non-binding best practice recommendations for non-profit corporate governance improvement (BoardSource and Independent Sector, 2003; Silk, 2004; ABA Coordinating Committee on Non-Profit Governance, 2005; Oxholm, 2005). On the other hand it has led to a drive for regulation mandating practices set down in SOA also specifically for the non-profit sector (National Council of Nonprofit Associations, 2006).

The first actual embodiment of this debate is the California Non-Profit Integrity Act of 2004 specifically applying certain SOA provisions to non-profit entities (California Attorney General, 2004; Moerschbaecher, 2004; Ljung, 2005; Silk, 2005).

Considering now the impact SOA has had internationally on the corporate sector and the new developments regarding SOA and the US non-profit sector the Act can also be expected to have an effect on other industrialized countries, among them Germany with its large and dynamic third sector.

2.2.1 Reasons for Passage of the Act and Its Main Components

This sub-section is to give a brief overview of the ongoing debate in the literature concerning the main thrust of the Sarbanes-Oxley Act, as well as different angles on its effect on the corporate sector in the US and whether the issues that it is meant to remedy are in fact being addressed.

Reasons for Passage of the Act

Driver for the passage of the Sarbanes-Oxley Act of 2002 was the desire to address issues of insufficient corporate governance processes in the US corporate sector, which had been brought to light shortly before by the corporate scandals involving companies such as Enron, WorldCom, Arthur Andersen and others.

Bergen describes the situation at the time:

“In the wake of the 2001-2002 Arthur Andersen accounting scandal and collapse of Enron and WorldCom, the government, the investors and the American public demanded corporate reforms to prevent similar future occurrences. Viewed to be largely a result of failed or poor governance, insufficient disclosure practices, and a lack of satisfactory internal controls, in 2002 Congress passed the Sarbanes-Oxley Act seeking to set standards and guarantee the accuracy of financial reports” (Bergen, 2005, page 3).

In looking at the process of the law’s drafting and passage critics of the Act find their first instances of inadequacy. Romano states:

“SOX was enacted in a flurry of congressional activity in the run-up to the midterm 2002 congressional elections after the spectacular failures of the once highly regarded firms Enron and WorldCom” (Romano, 2005, page 1523).

In her examination of the Act and the proceedings leading up to its passage Romano is particularly critical of some of the law’s components, as well as its make-up as a whole.

An example for Romano’s criticism is her opinion of section 301 of SOA that requires all listed companies to have audit committees composed entirely of independent directors:

“There are fewer studies of the relation between audit committee composition and firm performance (four in total). None of these studies have found any relation between audit committee independence and performance, using a variety of performance measures including both accounting and market measures as well as measures of investment strategies and productivity of long-term assets” (Romano, 2005, page 1530).

Other writers are less inclined to seek the faults of SOA, but laud its provisions as well as its intent as a contribution towards addressing the existing problems.

One proponent of this school of thought is Bumgardner who states regarding the very same provision 301:

“The audit committee of the board of directors at any public company gains new power and responsibilities, and there are more safeguards to ensure that audit committee members are not controlled by top management” (Bumgardner, 2003).

In evaluating the Act in terms of it preventing future scandals Ribstein broadly dismisses its utility and would rather see an unimpeded response by the market itself in addressing the problems:

“Markets are capable of responding more quickly and precisely than regulation to corporate fraud, as long as regulation does not impede or mislead them” (Ribstein, 2002, page 69).

In contrast Hartmann sees the Act very much as the appropriate response to the corporate scandals:

“For company researchers, Sarbanes-Oxley is the silver lining in the bubble-bursting blitz of corporate scandals that hit U.S. markets in 2001 and 2002. In late 2001, Enron collapsed into bankruptcy, taking Arthur Andersen down with it. between then and mid-2002, Xerox, Adelphia, WorldCom, and Tyco were among the companies in the headlines for executive misconduct and multi-billion dollar restatements” (Hartmann, 2004, page 1).

Her observations conclude in the statement:

“The accounting scandals of 2001 and 2002 seriously wounded investors' faith in the timeliness and accuracy of information available about U.S. public companies. Not since the Securities Act of 1933 and the Securities Exchange Act of 1934 has Congress acted so strongly to restore investor

confidence in the transparency of U.S. markets” (Hartmann, 2004, page 1).

With the benefit of more time having passed Farrell praises the Act and the effect it has had in his view on the economy as a whole:

“In response, Congress passed the Sarbanes-Oxley Act on July 30, 2002. The law forced public companies to spend much more money having their books thoroughly audited, and it increased the penalties for executives who defrauded investors. Since the bill's passage and implementation, nervous investors who had yanked trillions of dollars from the market have returned” (Farrell, 2007).

Further commentators and researchers focus on the added burden of compliance that the provisions of SOA have caused for companies subjected to it. This has had an effect both on the companies in terms of fees and other costs, as well as subsequently to the shareholders.

Zhang states in regards to compliance with particular provisions:

“Regression results are consistent with the hypothesis that shareholders consider both the restriction of nonaudit services and the provisions to enhance corporate governance costly to business. The results also show that Section 404 of SOX, which mandates an internal control test, imposes significant costs on firms” (Zhang, 2005, page 2).

This and similar findings lead him to conclude:

“The results show that these firms do not benefit from enhanced governance as commonly expected, but actually loose more as a result of SOX” (Zhang, 2005, page 2).

Likewise the research of Iliev results in his statement:

“Section 404 compliance leads to a significant increase in costs and lower discretionary earnings for both domestic and foreign firms” (Iliev, 2007, page 32).

The research of Litvak focused particularly on the economic consequences for foreign companies publicly listed in the US (Litvak, 2007). She summarizes the results of her study as:

“This evidence is consistent with the view that investors expected the Sarbanes-Oxley Act to have a net negative effect on cross-listed foreign companies” (Litvak, 2007).

But also in this debate regarding cost and economic benefits of the Act there are significant dissenting views. Doidge et al. come to the opposite conclusions in their study of the same subject:

“Our evidence is consistent with the theory that an exchange listing in New York has unique governance benefits for foreign firms. These benefits have not been seriously eroded by SOX and cannot be replicated through a London listing” (Doidge et al., 2007).

The literature base offers the above debate and the dissenting, even conflicting views. Whereas the sources are of similar academic merit, the various results and conclusions can not as yet be reconciled. In this regard and in order to review the sources, it is important to be aware that SOA is still of comparatively recent date, a number of its provisions not having taken effect well after the date of signing the Act into law in 2002.

In this regard, diverse research results can not be completely unexpected and the lively debate and contrasting points of view appear to fit well with the status of the development of the research on the subject.

The Main Components of the Act

In contrast to the differences in opinion on the quality of the individual provisions or the Act as a whole there is common agreement in the literature in identifying the most important components of SOA (Ribstein, 2002; Sheridan, 2003; Bumgardner, 2003; Donaldson, 2003; Zameeruddin, 2003; Hartmann, 2004; Oxholm, 2005).

Hartmann summarizes the main thrust of the legislation as:

“The Sarbanes-Oxley Act seeks to strengthen accountability by auditors, executives, and boards of directors and to improve communication of companies' activities and financial condition to investors” (Hartmann, 2004, page 1).

Broadly the Act's provisions address the following issues:

- Creation of the Public Company Accounting Oversight Board (PCAOB); Sec. 101 through 109
- Auditor independence, including prohibitions on certain types of work and a need for pre-certification by the company's audit committee of all other non-audit work; Sec. 201 and 202
- Mandatory rotation of responsible audit partner or audit firm; Sec. 203 and 207
- Requirement that a company's board audit committee members are independent directors; Sec. 301
- Requirement regarding a financial expert to be member of the audit committee; Sec. 407
- Certification of financial reports and other documents by the chief executive officer and the chief financial officer; Sec. 302, 906, 1001
- Increased disclosure requirements regarding certain transactions; Sec. 401, 403, 409
- Ban on personal loans to any executive officer or director; Sec. 402
- Annual disclosures regarding internal control structure and procedures for financial reporting; Sec. 404
- Disclosures regarding the company's code of ethics; Sec. 406

- Analysts' conflicts of interest; Sec 502
- Enhanced record keeping requirements and associated penalties; Sec. 802 and 1102
- Prohibition of adverse employment actions against an employee who provides incriminating information about its employer, 'whistleblower protection'; Sec. 806 and 1107
- Increases and establishment of criminal and other penalties for various financial and reporting related offences; Sec. 304, 305, 306, 308, 602, 802, 804, 807, 903, 904, 1103, 1105, 1106

Further the Act contains various provisions addressing instructions to and funding of the US Securities and Exchange Commission and other financial sector agencies.

Summary

The quality of the Act in terms of it addressing the problems in corporate sector governance that led to its passage and its overall effect on companies are debated with various different points of view in the literature. Also whether the cost of compliance is outweighed by its benefits is likely to continue to be subject of study and lively discussion.

Whereas evidence for each of the individual angles can be presented, as yet the literature does not offer a consensus on the benefit or detriment of the Act to the various concerned parties. Owing to the comparatively recent date of the Act it can be expected that some time will still pass until a balanced view on these questions has been reached.

Never the less, for the research at hand the literature does already offer a good overview of the issues that are being debated and a useful basis for identifying the most important components of SOA.

2.2.2 Research on the Impact of the Sarbanes-Oxley Act on the US Non-Profit Sector

The above mentioned scandals applied exclusively to the corporate, for-profit sector. None of the events leading up to the passage of the Sarbanes-Oxley Act was related to the non-profit sector or its entities. Subsequently none of the provisions was designed to address non-profit organizations.

And yet even before its signing into law the Act has caused a significant and still ongoing dynamic regarding the application of its provisions to the non-profit sector.

“While nearly all of the provisions of the bill apply only to publicly traded corporations, the passage of this bill should serve as a wake-up call to the entire nonprofit community” (BoardSource and Independent, Sector 2003, page 2).

2.2.2.1 Applicability of the Act to Non-Profit Entities

Legal Link between the Act and the Non-Profit Sector

Most provisions of the Act are addressed to the SEC and other financial market related agencies or to the companies that are subject to financial market regulation. There are two exceptions; provisions which apply also to individuals in non-profit organizations (Budak, 2003; Hamel, 2003; Silk, 2004; Ostrower and Bobowick, 2006).

First, there are sections 802 and 1102 of the Act that contain changes and amendments to sections of the existing United States Code which are also applicable to non-profit organizations and are concerned with record keeping.

Secondly, sections 806 and 1107 of the Act deal with the protection of individuals who provide incriminating information about their employer to the regulatory agencies. These items are also framed in a way that they are applicable to non-profit entities and are commonly known as “whistleblower protection”.

Provided a non-profit organization fits the criteria of applicability of the existing United States Code, these two changes brought on by SOA affect them directly.

Indirect Link between the Act and the Non-Profit Sector

Whereas SOA for the most part addresses corporate, for-profit entities, ever since passage of the law a debate about its significance for non-profit organizations has been on-going (Heinz, 2003; American Management Association, 2003; Budak, 2003; ABA Coordinating Committee on Non-Profit Governance, 2005; Oxholm, 2005; Grunewald, 2007).

Researchers identify here for example a ‘spill-over effect’ from the corporate sector into the non-profit sector (Heinz, 2003). Others attribute an influence of SOA not as a law but ‘as an idea’ (Schmalbeck and Owens, 2006).

As early as 2003 Budak noted:

“It is likely that the Act's other provisions will indirectly affect nonprofit organizations. Therefore, management of nonprofit organizations should start thinking about the Act's effects on the expectations of the board members, regulators, and donors who will be evaluating their organizations” (Budak, 2003, page 2).

In introducing their ground breaking study on non-profit governance and the Sarbanes-Oxley Act Ostrower and Bobowick describe a situation of on-going debate:

“Only two of these provisions applied to nonprofits. Its [the Act's] passage nonetheless quickly sparked discussions about nonprofit accountability and on whether nonprofits should adhere to certain provisions of the Act, either on a voluntary or mandatory basis” (Ostrower and Bobowick, 2006, page 1).

Ostrower goes so far as to declare:

“One of the most important developments to shape thinking about nonprofit governance today was the passage of the Sarbanes-Oxley Act, legislation intended to deter fraud in the corporate sector” (Ostrower, 2007, page 1).

Elson et al. cite a certain feeling in the non-profit environment regarding the Act:

“Although SOX does not apply to non-profit organizations, there is an expectation in the market place for non-for-profit organizations to adopt some of its requirements” (Elson et al., 2007, page 2).

Grunewald puts it in clear terms:

“The corporate reforms brought about by Sarbanes-Oxley will inevitably spread to non-profit Organizations” (Grunewald, 2007, page 3).

He is also singularly optimistic in his opinion on the prospect of SOA leading to improvements for the non-profit sector:

“The likely resulting increase in public trust in the integrity of our non-profit organizations and of their boards of trustees will benefit all concerned” (Grunewald, 2007, page 3).

After citing a number of scandals and instances of wrong-doing in the non-profit sector Gustafson concludes:

“It [SOA] imposed new obligations and penalties on corporate officers and directors of publicly traded companies and mandated increased disclosure by corporations to the Securities and Exchange Commission. Perhaps that same formula and some new provisions would help achieve new metrics of nonprofit accountability and transparency in the nonprofit sector” (Gustafson, 2006).

Based on their recent study Iyer and Watkins confidently declare:

“Regardless whether specific measures of SOX are implemented for nonprofit organizations, it can be expected that nonprofit organizations will be held to a higher degree of accountability in the future” (Iyer and Watkins, 2008, page 276).

Yet, there are dissenting views in the literature base. Nezhina and Brudney studied the implementation of ‘SOX-related policies’ in US non-profit organizations, controlling the data for implementation before and after the passage of the Act (Nezhina and Brudney, 2009).

They state as part of their findings:

“According to the survey respondents, the level of the pre-existing condition was generally high. [That] shows that the great majority of responding organizations (about 70%) had adopted SOX-like policies and practices prior to the passage of SOX” (Nezhina and Brudney, 2009, page 16).

Their research led them to further conclude:

“Correspondingly, post-SOX adoption is considerably lower than would be expected given popular and academic attention and literature” (Nezhina and Brudney, 2009, page 15).

Whereas Nezhina and Brudney’s analysis leads them to accord a somewhat diminished role to SOA as a driver of non-profit corporate governance development, the importance of the examined practices for sector organizations is actually further supported by their findings.

Mulligan, while recognizing the need for development of non-profit sector oversight, is critical of the application of for-profit sector regulation. Regarding the Sarbanes-Oxley Act he identifies a basic problem in its adoption for the non-profit sector:

“Because nonprofit organizations have no stockholders to protect, the Sarbanes-Oxley-like nonprofit reforms are mislaid” (Mulligan, 2007, page 2002).

While Mulligan, based on this and other observations, critically questions the effectiveness of the introduction of SOA type practices in the non-profit sector, his research re-emphasized the existence of the impact of the SOA-induced changes on the sector. He concludes:

“An increased appreciation of the problems of nonprofit board governance, which the Sarbanes-Oxley-like nonprofit reforms embody, is a positive step away from the traditional neglect of the nonprofit community by public and private supervisory institutions” (Mulligan, 2007, page 2009).

Reviewing the various above outlined reasons cited by different researchers it can be summarized that the literature has indeed established clear link, be it through the actual legal application or indirectly through the ongoing debate, between the Act and its provisions and the non-profit sector.

2.2.2.2 Best Practice Recommendations Based on the Act

Recognizing the link of SOA to the non-profit sector, the literature has started to develop what changes in the sector are now expected or necessary.

Basis for Best Practice Recommendations

Alongside the actual laws there have been numerous best practice recommendations by academics as well as industry groups for NPO decision makers to voluntarily adopt the corporate governance principles laid-out in SOA also for non-profit entities (Jones, 2003; Independent Sector, 2003; Everson, 2004; ABA Coordinating Committee on Nonprofit Governance, 2005; Jackson and Fogarty, 2006a; 2006b).

Ostrower describes the abundance of such recommendations:

“Scores of professional associations have issued guidelines to nonprofit members about ‘compliance’” (Ostrower, 2007, page 3).

As a reason for such recommendations Silk points out issues possibly just as dangerous for non-profit organizations resulting out of poor corporate governance that are beyond the purely legal implications.

“The likelihood of enforcement of federal and state laws regulating charitable organizations will continue to be less of a practical deterrent against improper conduct than the risk of reputational harm that may result from adverse media publicity targeting the nonprofit corporation, its directors and officers” (Silk, 2004, page 2).

Ostrower, in her study of the impact of the Sarbanes-Oxley Act on the non-profit sector, describes her conclusions that the non-profit sector does not exist in isolation of the other sectors of the economy. In particular she identifies links to the corporate sector that are among the drivers of non-profit governance development:

“Developments in the corporate sector not only shape wider expectations about governance that influence nonprofits, but as our findings show, board members that sit on both corporate and nonprofit boards serve as a channel through which corporate practices are brought into the nonprofit world” (Ostrower, 2007, page 1).

Looking at the broader environment Seaman observed:

“By its terms the US Sarbanes Oxley Act of 2002 applies only to publicly traded companies. But the act's goals - reliability, transparency, and accountability - are equally important in other organizational settings, including the nonprofit sector. For that reason, Sarbanes-Oxley has garnered the attention of nonpublic corporations, not-for-profit entities, and professional associations, as well as the government agencies that interact with these groups” (Seaman, 2006).

In his study on the impact of SOA on the US non-profit sector Mead identifies a very specific motivation for organizations to pro-actively implement reforms. After chronicling various non-profit sector instances of wrong-doing he states:

“Meanwhile, several states considered or adopted their own reforms. The nonprofit community simultaneously suggested voluntary reforms, in part to stave off more stringent, mandatory regulation” (Mead, 2008, page 886).

Based on these and similar views expressed since the passage of the Act a significant body of recommendations for non-profit organizations has been published that suggests the introduction of principles laid-out in the Act as best practices for NPO.

Best Practice Recommendations

The recommendations can be classified as such that are published by industry groups or consultancies addressing the non-profit sector and such that are developed in academic research.

Best Practice Recommendations Based on Academic Research

Regarding the latter there are a number of individual researchers providing guidance for the non-profit sector for which particular improvements to corporate governance practices are deemed necessary (Hamel, 2003; Heinz, 2003; Budak, 2003; Marenakos, 2005).

Budak describes her guidance to non-profits thoroughly in terms of a specific to-do list:

- “- A nonprofit organization should consider increasing the number of independent members of its governing board.
- A nonprofit organization that does not have an audit committee should establish one, and an organization that has an audit committee should review it to see if it operates within the guidelines in the Sarbanes-Oxley Act.

- A nonprofit organization should minimize loans to executives and board members, particularly loans with provisions that forgive all or a portion of the loan principal.
- A nonprofit organization that does not have a code of ethics policy should implement one, and an organization that has a policy should review it to see whether it needs to be updated or expanded.
- A nonprofit organization should assess whether its internal-control systems are operating at a level that will deter and detect fraud and whether the organizational culture promotes honesty and ethical behavior.
- A nonprofit organization should evaluate the financial savvy of its program directors and staff and, if necessary, conduct training on using financial statements and on being accountable during the budgeting and financial management processes.
- The lead audit partner and the reviewing partner should rotate off of the audit every five years.
- The CEO, Controller, CFO, Chief Accounting Officer, or any person in an equivalent position should not have been employed by the organization's audit firm during the one-year period preceding the audit unless the audit committee is directly involved in the audit.
- The audit committee should establish procedures for the receipt, documentation, and resolution of complaints regarding accounting, internal controls, and auditing, and ensure that employees are granted 'whistleblower protection', which would prohibit the organization from taking certain punitive actions against employees who disclose information to the audit committee.
- A nonprofit organization should develop a written policy for records retention” (Budak, 2003, page 1).

In her analysis she further clearly identifies the two provisions of the Act which directly apply to non-profit entities:

- “- It is a federal crime for anyone to ‘knowingly, with the intent to retaliate, take any action harmful to any person [...] for providing to a law

enforcement officer any truthful information relating to the commission of a federal offence.’

- It is a federal crime to alter, cover up, falsify, or destroy any document or make a false entry in accounting records with the intent of obstructing a federal investigation” (Budak, 2003, page 2).

Budak’s recommendations and comprehensive advice to non-profit leaders stems from looking at the Act from an accounting, rather than legal or liabilities point of view. She sees a priority in non-profit organizations having to be able to continue to meet standards in corporate governance for comparable for-profit entities, even though these standards have just been raised by SOA.

Budak frames this as:

“In other words, nonprofit management and governing boards are determining how they should respond when asked, ‘Why should nonprofit organizations be held to lesser standards of transparency and accountability?’” (Budak, 2003, page 1)

Ostrower, in setting out on her examination of non-profit governance summarizes the applicable SOA provisions as:

- Having an external audit
- Having an independent audit committee
- Rotating audit firms and/or lead partners every five years
- Having a written conflict of interest policy
- Having formal process for employees to report complaints without retaliation (whistleblower policy)
- Having a document destruction and retention policy (Ostrower, 2007)

Elson et al. looking at the most current trends in local church accounting and administrative procedure cite the following list of issues to be addressed relating to SOA:

“The changes were affected in such areas as

- establishing conflict-of-interest policies,
- developing procedures for internal financial controls and record retention,
- drafting code of ethics and audit committee charters,
- and in codifying protection for whistle-blowers” (Elson et al., 2007, page 2).

The issues Elson et al. focus on are communication and donor relations and they see the Act as a challenge and an opportunity for non-profit organizations, in this case religious organizations, to improve in this area:

“Donors are increasingly looking to nonprofit organizations to provide transparency in their operations. The Sarbanes-Oxley Act of 2002 (SOX) is one legislation that might provide a starting point” (Elson et al., 2007, page 2).

Hamel sees the Act predominantly in terms of its legal ramifications and focuses on those sections that apply directly to non-profit organizations.

“This article focuses on two of the new criminal provisions that apply to all organizations - obstruction of justice by document destruction and retaliation against informants - and their combined effect to vastly increase the scope of potential criminal liability for a variety of conduct” (Hamel, 2003, page 1).

With lesser emphasis he then also identifies the following items as recommended for voluntary compliance:

- Independent directors
- Committee protections
- Code of ethics
- Financial Disclosures (Hamel, 2003)

Heinz sees the dissemination of SOA requirements into the non-profit sector as being furthered by accountants accustomed to its provisions from their work in the corporate market. He then takes a comprehensive approach to the benefits of voluntary compliance benefiting a number of different organizational stakeholders:

“Accountants, acting with heightened awareness of the risks and liabilities associated with any improper financial reporting, are now increasingly urging their private and nonprofit clients to act within the spirit of the law and adopt practices that protect the interests of all – auditors, directors and executives, regulators, donors and constituents” (Heinz, 2003, page 1).

Heinz then classifies his recommendations as:

- Auditor Role and Limitations
- Audit Committee Functions
- CEO/CFO Accountability for Internal Controls
- Real-Time Financial Disclosure
- Document Destruction
- Whistleblower Protection (Heinz, 2003)

Marenakos, citing as her main concern also the preservation of a good relationship with donors and government funders broadly lists these areas important for non-profit entities:

- Establishing an audit committee
- Ensuring auditor communications with the board
- Defining organizational policies and monitoring compliance
- Reporting finances
- Establishing internal controls
- Providing for whistleblowers
- Public disclosure (Marenakos, 2005)

Best Practice Recommendations of Industry Groups and Others

A number of recommendations are also published by industry groups or consultancies addressing non-profit decision makers directly (Independent Sector, 2003; ABA Coordinating Committee on Nonprofit Governance, 2005).

The American Bar Association in examining SOA with a priority on the legal and liability issues developed a list of ‘Corporate Governance Principles of the Sarbanes-Oxley Reform for Consideration by Nonprofit Organizations’:

- Principle 1 Role of the Board
- Principle 2 Importance of Independent Directors
- Principle 3 Audit Committee
- Principle 4 Governance and Nominating Committee
- Principle 5 Compensation Committee
- Principle 6 Disclosure and Integrity of Institutional Information
- Principle 7 Ethics and Business Conduct Codes
- Principle 8 Executive and Director Compensation
- Principle 9 Monitoring Compliance and Investigating Complaints
- Principle 10 Document Destruction and Retention (ABA Coordinating Committee on Nonprofit Governance, 2005)

The Independent Sector forum provides with an emphasis on ‘Learning from Sarbanes-Oxley’ a detailed list of recommended activities which are classified as:

1. Insider Transactions and Conflicts of Interest
2. Independent and Competent Audit Committee
3. Responsibilities of Auditors
4. Certified Financial Statements
5. Disclosure
6. Whistle-Blower Protection
7. Document Destruction (Independent Sector, 2003)

Evaluating the Best Practice Recommendations

In surveying the existing recommendations in preparing her study of the impact of SOA on the nonprofit sector Ostrower summarizes:

“Among other guidelines, the principles call on all nonprofits to adopt written conflict of interest, document retention, and whistleblower policies, and, for nonprofits that have an audit, to consider establishing an independent audit committee – all provisions of Sarbanes-Oxley” (Ostrower, 2007, page 3).

Her observations lead Ostrower to the conclusion that:

“These ongoing elements testify to a growing recognition that nonprofits are under greater scrutiny and must demonstrate their public accountability” (Ostrower, 2007, page 3).

Reviewing this large number of recommendations and different sources, it is apparent that each set was developed from a different research angle and with a different clientele in mind. The particular emphasis on individual issues and the degree of detail varies accordingly.

Yet, there does not appear to be disagreement among the sources in the actual substance of the individual issues. Whereas phrasing and prioritisation vary, the application of the legislative intent of the main provisions of the Act, as laid-out above, has been identified similarly in the different literature sources.

While the issues appear in different guises and although the different sources put emphasis on selected points in their recommendations, the literature of best practice recommendations can still be well summarized. There also does not exist significant disagreement in the literature base. The main issues having been derived out of SOA can be identified well and will be useful for this research.

2.2.2.3 Summary

This sub-section gave a brief overview of the research on the impact of the Sarbanes-Oxley Act on the US non-profit sector.

The literature identified two main categories of impact on the sector. There is on the one hand the statutory effect of the sections of the Act involving document retention and whistleblower protection which are directly applicable also to non-profit entities.

On the other hand an impact of the Act on the non-profit sector is felt through the publication of a significant body of best practice recommendations. These recommendations are based on further sections of the legislation and deemed by the researchers as appropriate or even necessary improvements to the current state of corporate governance in the sector.

The various individual subjects addressed by the Act's numerous sections, as well as the different research angles have led to a variety in emphasis and priority that individual researchers accord to the individual provisions in developing their recommendations.

Never the less, there is no significant debate in the literature in identifying the areas of the Act which are of note for the sector. Nor is the overall thrust of the Act in increasing accountability and transparency and the significance of this goal for the non-profit sector in dispute among the literature sources.

Based on this consensus the identified issues can become part of the research at hand.

2.2.3 The California Non-Profit Integrity Act of 2004 as the First Embodiment of Sarbanes-Oxley Principles Established as Regulations for the Non-Profit Sector

As developed above, the passage of the Sarbanes-Oxley Act had a significant, if mostly indirect, effect on the non-profit sector and its corporate governance practices in the US. Further, the need to increase transparency and accountability not only in the for-profit, but also in the non-profit sector has been clearly identified by researchers early on.

This need has soon developed into a legislative intent to apply specifically provisions of SOA to the non-profit sector in mandatory form. One of the earliest and still most prominent examples of this trend is the California Non-Profit Integrity Act of 2004 (NIA).

Reasons for Passage of the California Non-Profit Integrity Act and Its Main Components

As early as 2003 BoardSource and Independent Sector reported:

“Indeed, several state legislatures have already passed or are considering legislation containing elements of the Sarbanes-Oxley Act to be applied to nonprofit organizations.” (BoardSource and Independent Sector, 2003, page 2).

This discussion soon developed as far as to create a clear legislative intention to also regulate NPO activity more along the lines of the new for-profit corporate governance law (National Council of Nonprofit Associations, 2006).

By 2005 Baker had already identified the states of California, Massachusetts, New Hampshire and Connecticut as having passed or considering new laws addressing non-profit corporate governance (Baker, 2005). He concludes:

“In the wake of Sarbanes-Oxley, some state governments are holding nonprofits to higher accounting standards. More states are addressing

these issues, and a federal act regulating nonprofits is possible” (Baker, 2005).

The first actual manifestation of this drive was the California Non-Profit Integrity Act of 2004 (NIA) (California Attorney General, 2004).

In introducing his analysis of the effect of NIA Ljung described the developments that had led to its passage:

“You could see it coming - more transparent financial reporting, the restructuring of corporate governance - if it was good for public companies, it wouldn't be long until someone decided it also would be good for private companies and nonprofits” (Ljung, 2005, page 1).

He further identifies regulation regarding the following issues as the main components of NIA:

- Audits and Audit Committees
- Executive Compensation
- Fundraising (Ljung, 2005)

Silk and Fei, in their review of NIA, first broadly separate two distinct subjects addressed by the new law; non-profit corporate governance and fundraising activities (Silk and Fei, 2004).

Looking at the sections addressing corporate governance they then list the main components as:

- Financial Audits
- Public Disclosure of Audited Statements
- Audit Committees
- Compensation Review (Silk and Fei, 2004)

The State of California itself issued an overview of the law's main provisions at the time of signing. This summary identifies the main subjects, other than those addressing fundraising, as:

1. Charitable organizations have 30 days, instead of six months to register and file articles of incorporation with the Attorney General's Registry of Charitable Trusts
2. Independent audit of annual financial statements now required for charities with gross revenues of \$2 million or more
3. Charities with gross revenues of \$2 million or more must establish and maintain an audit committee
4. Executive compensation by charitable corporations, unincorporated associations and charitable trusts must be review and approved (California Registry of Charitable Trusts, 2004)

Bearing in mind that NIA is a comparatively recent legislation, looking at the literature sources, there is common agreement in identifying the main components and importantly also in tying NIA and its main components to the Sarbanes-Oxley Act.

The literature recognizes NIA and similar legislation as part of a trend towards greater mandated accountability and transparency in non-profit corporate governance.

Summary

In the literature on the passage of the California Non-Profit Integrity Act, specifically modelled on the Sarbanes-Oxley Act, the clear trend of increased mandatory transparency and accountability for the non-profit sector can be clearly observed.

“The days of legislative ambivalence regarding nonprofit governance and accountability are over” (Ljung, 2005, page 4).

Recognizing this trend in the US and its documentation in the literature base it can now be made part of the basis of this research.

2.2.4 The Importance of the Sarbanes-Oxley Act for the German Non-Profit Sector

In the preceding sections the literature on the Sarbanes-Oxley Act has been reviewed in terms of its impact first on the US corporate sector, related to which researchers have also identified an international dimension and further its still developing effect on the US non-profit sector.

Recognizing the importance of the Act outside of the US, this section is now to give an overview of the literature applying the developments in the US to the international environment, particularly in Germany.

Regulatory Developments

The events and subsequent discussions that led to the passage of the Sarbanes-Oxley Act in the US have led to similar debates in other industrialized countries.

“Many governments reacted to the possibility of similar cases of massive corporate fraud in their countries by re-examining their corporate governance rules and oversight of their auditing profession” (Peek et al., 2004, page 1).

Especially in Western Europe this had an impact on corporate governance regulation and recommendations for best practices for the for-profit sector there (Higgs, 2003; Smith, 2003; Tyson, 2003; Jones, I. and Pollitt, 2003; Von der Crone and Roth, 2003; Iliev, 2007; Menden and Kralisch, 2008).

Braiotta, as well as Menden and Kralisch are examining the still pending revision of the 8th EU Directive on Company Law and its particular relationship with the Sarbanes-Oxley Act (Braiotta, 2005; Menden and Kralisch, 2008).

“There are many similarities between Sarbanes-Oxley and the 8th Directive, including the mandate for independent audit committees with at least one financial expert; external reporting on internal controls; a public registry of external auditors, including investigative and

disciplinary systems; auditors' independence, including the refusal of any nonaudit services; and audit partner rotation (at five years)” (Braiotta, 2005).

Further, von Hein, in his in-depth analysis of the international influence of US corporate law identifies an explicit legislative intent to “harmonize” EU regulations with those of the US (von Hein, 2008).

The subsequent efforts in transferring EU legislation into national regulation in Germany have already progressed.

Among other items a governmental draft document (“Transparenz-Umsetzungsgesetz – TUG”) relating to the implementation of the EU legislation calls for the mandate of an “accounting oath” (‘Bilanzeid’) (Bundesrat, 2006). This mandate would require corporate leaders to personally sign-off on the accuracy of company financial information and is explicitly modelled on SOA section 302 (Wiedeking, 2007, von Hein, 2008).

“The TUG will introduce an obligation for the entire management board to certify under oath that their accounting is accurate, similar to the US Sarbanes-Oxley Act” (Wiedeking, 2007, page 5).

Fleischer, in his critique of the new legislation based on SOA, refers to the process of the adaptation of foreign laws as ‘legal transplants’ (Fleischer, 2007).

The efforts have already led to considerable debate regarding their ramifications and effectiveness (Heldt and Ziemann, 2006; von Rosen, 2006; Wiedeking, 2007; Rodewald, 2007).

Among other complaints about ‘overregulation’ (Noack, 2007) as well as about redundancies and conflicts regarding already existing laws (Wiedeking, 2007) are voiced in the literature.

Yet, while this debate about perceived benefits and burdens is going on, the progress of the legislative efforts relating to SOA in Europe and in Germany is evident.

Developments in Best Practices

In the countries of Western Europe the non-profit sector of the economy is often of at least of similar importance to the economy as a whole as in the US (Anheiner et al., 1997; Anheier and Seibel, 2001; Schmalbeck and Owens, 2006).

Given the influential role of US practices to the development of regulations and best practices in corporate governance in all economic sectors in the countries of the industrialized world, it is not unreasonable to expect developing practices relating to the non-profit sector in the US to then become of importance for that sector in those countries as well (Bode, 2003; Vagueur, 2004).

The expectations about the impact of SOA on the non-profit sector in these countries then have to be considered in light of the described influence it has had on the sector in the US.

A number of researchers conclude that this is also and perhaps especially true for Germany.

Bode in citing Gibelmann (1998) puts it:

“As in the United States, the environment in which nonprofits function has become more turbulent” (Bode, 2003, page 205).

In this regard Bode and Evers register ‘searching for best practices’ among the challenges currently facing the sector in Germany more than ever before.

“The whole sector has entered an age of insecurity, in which political and cultural evolution create a climate of continuous change in the environment of TSO [Third Sector Organizations]” (Bode and Evers, 2004, page 102).

By defining an ‘entrepreneurial mobility’ applicable to the non-profit sector they identify a competitive process interlinking ‘civil society, the state and the market’ also

in Germany. This process has become a driver for, among others, the adoption of practices and behaviours from the for-profit in the non-profit sector.

Priller and Zimmer as well as Anheier and Schröder point to the trend towards globalization and its influence on the economy as a whole also having an impact on the non-profit sector organizations and their activities (Priller and Zimmer, 2000; Anheier and Schröder, 2008). Whereas these researchers trace the results of this influence mainly in participation and support by individuals of sector activities, the ongoing process of globalization and internationalization has also a manifestation in structural and organizational aspects of the sector. Increasingly external, in this case international, expectations can be felt, which also extend to the area of corporate governance.

Evers, in looking at recent changes and challenges still facing the non-profit sector in Germany, identifies a particular trend to and need for network and control concepts to be interlinked and interchanged between the economic sectors (Evers, 2004). His support of such control mechanisms, which he calls 'systems of mixed governance', draws attention to current developments in the corporate sector being meaningful for the non-profit sector.

In referring to the advance of the principles and concepts of the liberal market economy Evers states:

“They are now to be made the blueprint for all societal sectors” (Evers and Laville, 2004).

Evers identifies this trend as having significant importance for the future development of the non-profit sector.

Walz refers to specific differences in the current state of non-profit accounting between the practices in the US and in Germany. In doing so he identifies a trend that in recent times new developments in non-profit accounting, as has been observed elsewhere for accounting in the commercial sector, are often introduced with an eye on similar developments in the US (Walz, 2004).

Going one step further Walz notes that some of these differences in procedures between the US and countries that have already adopted US systems on the one side and still existing procedures in Germany on the other side amount to a detrimental effect for organizations. He points out specifically the case of internationally active or related organizations that might find it disadvantageous to be based in Germany and having to adhere to accounting systems which do not incorporate the latest developments (Walz, 2004).

Given the close relationship between those corporate governance aspects that deal with the internal mechanisms of an organization, specifically those features of SOA that address financial matters, and the accounting system of the organization, the observations of Walz have significant weight in establishing the importance of SOA for the German non-profit sector.

The passage of the Sarbanes-Oxley Act with its further impact internationally and on the US non-profit sector is being related also to Germany and its non-profit sector by a number of researchers. They point out new legislation in the EU that will bring SOA principles directly into the laws of member states and have already reached the German legislative process.

Based on a general trend of a closer relationship between practices in the corporate and in the non-profit sector the literature identifies an immanent impact of these new practices and the non-profit sector entities. Going further, researchers even call such changes and improvements in transparency and accountability necessary for the continued development of a non-profit sector as dynamic as in Germany.

2.2.5 Summary

In this section the literature regarding the Sarbanes-Oxley Act was reviewed with the particular focus on its impact on the non-profit sector.

Whereas based on the events that led to its passage the Act was specifically intended only to address corporate governance issues in US publicly traded companies, it was soon apparent and so acknowledged in the literature that its impact would go further.

Researchers identified quickly international aspects in the Act's passage having consequences for corporate governance practices elsewhere. They point out the impact on dual-listed foreign corporations, internationally active companies and the legislative implementation of mandates similar to SOA provisions in other jurisdictions. Whether these consequences are beneficial or detrimental to the companies and their stakeholders is still lively debated, but their existence is undisputed.

Further, the literature base contains numerous references to the effect of SOA on the non-profit sector in the US. For one the researchers identify sections of the Act which directly apply legally to non-profit entities, but also a large body of recommendations for improvement of corporate governance practices based on SOA was developed for voluntary compliance.

The recognition of the importance of SOA principles for increased accountability and transparency in the non-profit sector has in the meantime led to further legislation in the US on the state level specifically mandating these principles for non-profit organizations, an example being the California Non-Profit Integrity Act of 2004.

Recognizing these trends of the application of SOA principles internationally and in the non-profit sector in the US, the case for an impact of SOA on the non-profit sector in other countries can be made. Here particularly the economies of Western Europe are of interest with their large and well developed non-profit sectors.

The research at hand focuses on the impact on the German non-profit sector, for which the literature base contains particular references on the recent developments in corporate governance practices based on international trends in general, as well as an anticipation of further modernization in the non-profit sector practices in particular.

2.3 Synthesis

The preceding sections have reviewed the current literature base pertaining on the one hand to the significance and the dynamic of the non-profit sector in Germany and on the

other hand to the importance of the Sarbanes-Oxley Act for the non-profit sector and the Act's international aspects.

Recognizing both factors and anticipating the as yet still evolving influence of SOA on the German non-profit sector this section is to synthesize these strands of the literature. This will become the basis for the development of the research question of the research at hand to assess which kind of German non-profit organization might be better prepared in dealing with the anticipated trends.

2.3.1 Research Gap Regarding the Readiness of the German Non-Profit Sector for Sarbanes-Oxley Type Corporate Governance Practices

The preceding sections have covered the literature on two main research subjects. The literature on the German non-profit sector has provided the groundwork for establishing the importance of the sector for the German economy as a whole and for describing its governance structures.

It is also evident out of the literature base that the German non-profit sector remains dynamic and is still further evolving in a domestic as well as an international context.

Identification of the Research Gap Regarding the Readiness of the German Non-Profit Sector for Sarbanes-Oxley Type Corporate Governance Practices

In their analysis of the research literature on the German non-profit sector and in identifying and evaluating the various current strands and trends Anheier and Schröer emphasize an increasing internationalization as a driving force in the development of the non-profit sector (Anheier and Schröer, 2008).

Whereas Anheier and Schröer do not identify the Sarbanes-Oxley Act in particular, but focus on the European level as significant for further developments, the international and integrated approach towards future research is clearly visible.

Not only in the very recent analysis of Anheier and Schröer but also in general the literature base on the German non-profit sector has identified various recent trends and

developments (Schuhen, 2002; Evers, 2004; Doll, 2006; Buttkus, 2007; Deutsches Zentralinstitut für soziale Fragen, 2007b). The Sarbanes-Oxley Act and its effect both internationally and on the non-profit sector fits very well with the other drivers for these trends and developments cited by the individual researchers.

Yet, so far there has been no empirical or exploratory investigation to assess the preparedness of the sector organizations in Germany to the specific changes and improvements necessary for compliance to the applicable provisions of SOA. Whereas such an assessment was first produced for the US non-profit sector by Ostrower and Bobowick there is no research on the German non-profit sector that would be comparable (Ostrower and Stone, 2005; Ostrower and Bobowick, 2006; Ostrower, 2007).

Having identified this research gap the research at hand is aiming to provide results in this regard and to work towards filling this gap.

2.3.2 Definition of the Sarbanes-Oxley Provisions for Examination

As discussed above the Sarbanes-Oxley Act was intended for the for-profit sector addressing particular corporate governance shortcomings.

Only two of its provisions apply directly to the non-profit sector. As shown, further prescriptions of the Act have in the meantime been cast into new laws governing non-profit entities, still further features are numerously recommended to be adhered to voluntarily by non-profit organizations.

For the purpose of this research the provisions of the Act which are of note to non-profit sector entities will be laid out again specifically in this section.

Identification of the Prescribed and Recommended Provisions

As discussed above researchers agree that there are two provisions of the Sarbanes-Oxley Act which apply also in the case of non-profit organizations (Budak, 2003; Hamel, 2003; Silk, 2004; Ostrower and Bobowick, 2006).

One addresses record keeping, specifically document retention and destruction which are covered in sections 802 and 1102 of the Act.

Further, sections 806 and 1107 of the Act address the protection of individuals who provide incriminating information about their employer to the regulatory agencies. This is commonly referred to as “whistleblower protection”.

Taking these into account and summarizing further the above analysed recommendations, the following list of Sarbanes-Oxley provisions as basis for the research at hand can be drawn up:

- 1 Preparation and publication of financial statements
- 2 Existence of a board financial audit committee
- 3 Board financial audit committee members to have formal financial training
- 4 Commissioning of an annual external financial audit
- 5 Rotation of external financial auditor or lead audit partner at least every five years
- 6 Existence of a formal conflict of interest policy covering the organization’s directors and executives
- 7 Existence of a formal process to handle employee complaints
- 8 Existence of a formal document retention / destruction policy
- 9 Prohibition of loans out of the organization’s fund to its board members

2.3.3 Definition of the Set of Organizational Characteristics for Investigation

Following other research on organizations and particularly non-profit organizations the entities to be investigated will be classified by a set of descriptive organizational characteristics. Those characteristics are then to be investigated concerning their association with the prevalence of the above defined SOA type practices in the organizations.

Sets of Organizational Characteristics in Non-Profit Sector Research

Most prominent in the research in the non-profit sector are such characteristics which define the organization as being part of this sector of the economy as opposed to the private or governmental sectors.

One of the most important sources of information in this regard are the works associated with the Johns Hopkins University Comparative Nonprofit Sector Project. Looking at the work of Salamon and Anheier (1997) in defining the non-profit sector they state as characteristics for entities belonging to this classification the following characteristics:

- organized
- private
- non-profit-distributing
- self-governing
- voluntary

Whereas these characteristics work well for the purpose of defining the non-profit sector entities as such, this general approach is unsuitable for the research at hand. As defined above all entities subject to this investigation are part of the non-profit sector and the offered attributes do not allow for significant segregation and comparison between different sub-sets of the overall group.

A more specific and differentiating set of characteristics will be necessary.

Bies (2003) in her examination of nongovernmental accountability in Poland identified a brief set of organizational characteristics to highlight specific differences between organizations.

- size (number of staff and volunteers)
- geographic location
- scope (geographic reach)
- mission
- structure
- experience with accountability

Whereas the overview given in Bies' study is brief regarding this subject, it clearly shows how the selection is adapted fit the researcher's purpose.

Wolfbauer (2006) in her study of the corporate governance function of non-profit organizations in the Austrian health services industry developed the following list of organizational characteristics:

- size, expressed by the organization's income
- legal type of entity, as prescribed by Austrian law and next to identical to the situation in Germany
- ownership, differentiating between public, meaning state owned, entities and private entities
- sources of income
- types of goods produced, differentiating here between public and private goods based on economic theory
- beneficiaries; categorizing in members, specific third parties or the general public
- personnel; staff, volunteers or both
- mode of organizational decision making; democratic or hierarchic

These characteristics selected by Wolfbauer are peripheral to her research, as she uses them only to describe the non-profit sector in general, but not to relate them with certain research findings. This gives this selection a theoretical quality and prevents a direct application for the research at hand.

Never the less, as in this case the research subject, corporate governance in the non-profit sector, and the locality of the study are very closely related to the research at hand, the insights provided by Wolfbauer need to be closely considered in the further development of this research.

Another example of the application of characteristics in the research of the non-profit sector is a study by Nah (2006).

Nah identifies:

- age and locality
- type of organization, which is defined as the organizations' field of activity
- internal human resources, under which he subsumes board of directors and staff
- external human resources, under which Nah subsumes members and volunteers
- financial resources

His study then evaluates these characteristics as determinants of the organization's use of modern communication methods.

Nah's study is of particular interest relating to this research as it is of very recent date and in examining media publicity and website use it is concerned with very recent and in specific ways unprecedented changes affecting non-profit organizations which represents a certain comparability to the subject of this study.

Yet, in application for this study it is lacking an international dimension in its examination.

Crittenden and Crittenden (2000) use a specific selection of 13 organizational characteristics on their study of the strategic planning process in non-profit organizations, as follows:

- paid administration
- organizational membership
- gender
- member age
- organizational maturity
- board of directors
- expressive youth
- funding
- instrumental

- dues funded
- education
- foundation funded
- bureaucratic size

In describing this wide and differing selection Crittenden and Crittenden state:

“Each of the factors is supported by prior theory, managerial usefulness, and statistical criteria” (Crittenden and Crittenden, 2000, page 5).

The preparation of their analysis provides very useful information not only regarding the particular set of characteristics employed, but also regarding the selection process the researchers went through. In this regard they state:

“Regarding context and process, previous studies have indicated that organizational characteristics exert influence in the use of strategic planning methods in nonprofit organizations. [...] Several researchers have examined organizational variables such as size (staff and membership), age, budget/resources, degree of staff professionalism, and member participation as they relate to the strategic planning process” (Crittenden and Crittenden, 2000, page 2).

In this way they are basing their research into the context of previous example and apply the insights of others in working on their own specific research question.

Furthermore Crittenden and Crittenden employ a questionnaire survey in their study in a very similar way to the research at hand, which lends particular consideration also for their choices of organizational characteristics as well as their reasoning for this selection.

Nezhina and Brudney (2009), in their study of the implementation of SOA type practices at US non-profit organizations define the following list of characteristics, not only looking at the organization, but also at the survey respondent as a person:

Respondent characteristics:

- Chief executive officers
- Chief financial officers
- Managers
- Years in current position
- Membership in associations
- Level of formal education

Organizational Characteristics:

- Number of paid staff
- Age of organizations
- Budget size of organizations
- Policy area [primary field of activity]

Not only is their research subject very closely related to the research at hand, Nezhina and Brudney also applied a questionnaire survey and interviews in their study. Both factors make their research, first presented as a conference paper for the 2007 Association for Research on Nonprofit Organizations and Voluntary Action annual meeting, particularly important for the design of this study.

Ostrower and Bobowick (2006) for their study on non-profit governance and the Sarbanes-Oxley Act also assembled a particular set of organizational characteristics. Their research, administered in the US, was lauded as:

“Conducted in 2005, it is the first national, representative survey of nonprofit governance. The study gathered responses from 5,115 nonprofits of varied size, type and location” (Ostrower and Bobowick, 2006, page 1).

This comprehensive survey focused, among others, on the question of the relationship between the Act and non-profit entities:

“[The survey] examines the current extent of nonprofit’s adherence to some major Sarbanes-Oxley provisions and nonprofit leaders’ perceptions about the ease or difficulty of compliance were similar

provisions to become mandatory for nonprofits” (Ostrower and Bobowick, 2006, page 1).

Based on the thrust of the Ostrower and Bobowick study being so closely comparable to this research, their employed set of organizational characteristics and the process of its selection are of particular importance in assembling the characteristics for this study in Germany.

In that research, the full results were published in 2007, the set of characteristics was defined as:

- Board size
- CEO voting board member
- Corporate board members
- Have paid CEO
- Organization members elect one or more board members
- Percent minority members of the board
- Percent female members of the board
- Age [of the organization]
- Organization size (as measured by annual expenditure)
- Field of activity
- Sources of funding (Ostrower, 2007)

Whereas part of the focus of the survey of Ostrower is the board of the organization, its size and composition, there are insightful choices about the descriptive and substantive characteristics of the organization itself, which are then related to the specific findings about what she calls “Sarbanes-Oxley type practices”.

This relationship to the Act in particular and the applicability of most of the organizational characteristics to the German non-profit environment makes this study a very important source for the design of the research at hand.

Organizational Characteristics for Use in this Study

Based upon the reviewed examples in the literature base, the various choices made by other researchers and especially the way they have adapted a set of characteristics for their purposes the organizational characteristics for use in this study can now be identified:

1. Annual revenue, as a measure of organizational size, categorized as:
 - less than TEUR 100 'very small'
 - less than TEUR 500 'small'
 - less than TEUR 5,000 'intermediate'
 - less than TEUR 15,000 'big'
 - more than TEUR 15,000 'very big'

2. Do any board members have a professional background in any of the following fields:
 - the organization's field of activity
 - management
 - law
 - accounting
 - other finance (e.g. banking, insurance, investment etc.)

3. Is the organization part of an international network in any way?

4. Age of the organization

5. What is the geographical scope of the activities of the organization:
 - local
 - regional
 - national
 - international
 - other

6. What portion of your organization's funding is based on donations?
7. Are members of the board of directors (BOD) active in responsible positions in the corporate sector?

The literature provides good examples of how researchers have developed their own sets of characteristics most fitting to their particular study. Rather than merely reusing pre-established definitions, researchers have adapted a selection based on the needs of their research focus observing the differences in locality, legal framework or state of technology and most importantly the applicability of certain characteristics to the specific research question.

In this way the literature does not only provide the basis for the above selection of the set of characteristics in terms of showing the different characteristics that can be used for the investigation, but also the literature provides the insights on how to make the selection for the specific research application.

2.3.4 Summary

The literature sources examined in this and the previous sections provide the basis for a two-pronged research approach.

On the one hand the literature on the German non-profit sector was reviewed, which provided insights concerning its dynamic and evolving nature as well as its importance as part of the overall economy.

Further the literature on the US Sarbanes-Oxley Act was discussed with particular focus on its international impact and on the most recent developments concerning its impact on the non-profit sector.

Based on this analysis a relationship can be established between the Act's importance internationally as well as to the non-profit sector and that sector in Germany.

The literature base provides a number of sources regarding current research trends on the German non-profit sector, as well as the research on aspects of SOA (Anheier and Schröer, 2008).

Yet, so far no structured research has been done concerning an assessment of the preparedness of sector organization for any further development towards the introduction of SOA type practices in Germany. Based on the literature review this has been identified as a gap in the research.

Looking at this research gap, related work concerning non-profit organizations has already been produced on the US non-profit sector itself, which provides particular insights towards a similar application in other countries (Ostrower and Bobowick, 2006).

Based on these insights and on the review of related literature the foundation for the research at hand has been laid by defining the particular Sarbanes-Oxley provisions which the literature has identified as applicable to the non-profit sector. Further organizational characteristics have been defined, which have been used in other research on the non-profit sector to describe and classify sector organizations.

In connecting these strands of discussion in the literature, the identification of the research gap, as well as the definition and identification of the variables the basis has now been established for formulating the research question, aims and objectives.

2.4 Defining Research Question, Aim and Objectives

Having established the review of the literature base and the synthesis of the identified research strands in the preceding chapters a research gap has been identified regarding an assessment of the preparedness of German non-profit organizations for potential compliance with corporate governance practices based on the provisions of the US Sarbanes-Oxley Act.

This section is now concerned with defining the research question, aim and objectives of this research as basis for a study to work towards filling this research gap by relating

a measure of the preparedness or potential compliance with the above identified SOA provisions to the defined organizational characteristics.

Defining Research Question, Aim and Objectives

In spelling out the future impact of the Sarbanes-Oxley Act on the non-profit sector Budak observed:

“It is likely that the Act's other provisions will indirectly affect nonprofit organizations. Therefore, management of nonprofit organizations should start thinking about the Act's effects on the expectations of the board members, regulators, and donors who will be evaluating their organizations” (Budak, 2003, page 2).

This need for preparation by non-profit leaders for the changes brought on by the Act recognized by Budak provides an important driver for the design and structure of the research at hand.

Ostrower in referring to her own study on preparedness for the corporate governance practices related to Sarbanes-Oxley provisions among US non-profit organizations also describes this pressure:

“These ongoing elements testify to a growing recognition that nonprofits are under greater scrutiny and must demonstrate their public accountability” (Ostrower, 2007, page 3).

Specifically it will be important for this research to measure the level of preparedness in terms of corporate governance practices comparable to prescriptions of the US Sarbanes-Oxley Act already having been established in an organization.

Further this preparedness or a potential compliance with SOA type provisions should then be related to that entity's organizational characteristics as defined above.

Based on this analysis a result in the form of identifying which characteristics are most influential in determining potential compliance with the provisions of the Act will be a goal of the study.

Looking at the use of such a measure of influence a further objective of the research will be to show how the actual benefit of the measure is perceived by the addressees, “board members, regulators, and donors” (Budak, 2003, page 2).

Based on this research thrust the Research Question can then be worded specifically as:

- What organizational characteristics of German non-profit organizations are most influential in determining potential compliance with the US Sarbanes-Oxley Act?

This Research Question can be defined as the Aim of this research as:

- To examine the organizational characteristics of German non-profit organizations that are most influential in determining potential compliance with the Sarbanes-Oxley Act.

In further breaking down the Research Question and Research Aim the specific Research Objectives can be defined as:

- To identify the most significant organisational characteristics.
- To rank the most significant organisational characteristics in terms of relative importance in determining potential compliance.
- To evaluate the use of the ranking by stakeholders to determine potential compliance.
- To evaluate the extent to which the most significant organizational characteristics could be used to increase potential compliance.

Summary

Underscoring the pressures felt by non-profit leaders to consider the changes and developments brought on by the Sarbanes-Oxley Act identified in the literature base it is important to assess in what degree non-profit organizations are already prepared to comply with practices modelled on the provisions of the Act.

Further an evaluation of this preparedness for compliance is to be related to the organizations' characteristics to identify those that are most influential.

Such knowledge can then be used by organizational stakeholders in relation to matters of compliance.

In this section this research thrust has been specified into the research question, aim and objectives for this study.

3. Research Methodology

3.1 Introduction

The preceding chapter has addressed the literature regarding the Sarbanes-Oxley Act and its bearing on the non-profit sector of the economy. A research gap has been identified concerning the preparedness of German non-profit organizations for SOA type practices and further the research question, aim and objectives were defined for this research in respect to this research gap.

This chapter is now to set out the research methodology necessary for addressing the stated research question, aim and objectives, drawing on literature examples and proven practices in similar or related research.

3.2 Research Methodology

The Research Methodology contains three individual approaches. There are a mail questionnaire of German non-profit organizations addressing the stated objectives, further structured interviews with leaders of non-profit organizations, as well as a review of related organizational documents.

Other researchers focusing on the non-profit sector have already used a similar three-pronged methodology, sometimes applied in a step-by-step process (Gaid, 2007; Mellor, 2007; Pugh, 2007; Converse, 2008).

This combined, mixed method approach is also subject of theoretical works on quantitative and qualitative research (Miles and Huberman, 1994; Easterby-Smith et al., 2002; Patton, 2002; Creswell and Plano Clark, 2007).

Mail Questionnaire

The study is centred on a mail survey of German NPO gathering information about their individual organizational characteristics and their alignment with the defined provisions of the US Sarbanes-Oxley Act.

The design of the mail survey component is partly based on a recent study sponsored by the US Urban Institute gathering data, among others, of the compliance of US non-profits and the organizational characteristics of those entities (Ostrower and Bobowick, 2006).

For this research the questionnaire collects data regarding the SOA provisions and the organizational characteristics defined in the above Literature Review.

The mail questionnaire of this research follows the ‘Tailored Design Method’ as developed by Dillman (Dillman, 1991; Salant and Dillman, 1994; Dillman, 2007). This method also calls for the mail questionnaire to be pilot tested before the main data collection to ensure proper design.

Structured Interviews

The survey is to be augmented and supported by structured interviews with a sub-sample of the organizations.

A similar mixed method approach involving a mail questionnaire and follow-up structured interviews has been used by Bies in her study on the non-profit sector in Poland (Bies, 2002; 2003). LaShaw (2007) conducted her recent work on non-profit accountability in the US also employing both methods. Gaid (2007) as well used interviews on her study of non-profit leadership; the same applies to Carman (2005).

Generally the application of the methods follows the work of Atteslander (2006) on research in the social science, Kromrey (2006) on empirical research, as well as Easterby-Smith et al. (2002) The addition of structured interviews to this study was further informed by Johnson and Onwuegbuzie (2004) and their particular endorsement of mixed method research.

In general the interviews focus more than the questionnaire on valuation or judgements, open questions and such also addressing points-of-view.

The structured interviews are intended to increase the validity and generalizability of the findings of the mail survey. At the same time the results are to be further enriched by the more phenomenological data collected with this tool.

Document Review

Further a document review of another sub-sample of the NPO is to be done. Here documents of the organizations are reviewed such as financial statements, articles of formation, by-laws, resolutions, publications, policies and manuals, if existing the organization's code of ethics, programme materials, promotional materials for members or donors, field reports or other documents relevant to the research question.

The addition of such a document review has been successfully used in previous non-profit sector research. For example Mellor (2007) augmented her study on nominating committees by a review of organizational documents.

Other researchers used the analysis of organizational documents in combination with interviews of the non-profit organizations' leaders, for example Gaid (2007) in her research involving an international poverty relief organization.

The particular combination of survey, interviews and documentary review can be found for example in the research of Converse (2007) on communication among non-profit leaders and Pugh's (2008) study on non-profit governance.

In citing Creswell in evaluating the use of a document review in her study Mellor points out:

“To corroborate data collected from observations and interviews, organization documents relating to the nominating committee process were examined. Document analysis is a cost-effective and unobtrusive means of adding to the understanding of an event being studied. (Creswell, 1998) Drawbacks of this method include that it may be time-consuming. It may also be difficult to define the unit of analysis” (Mellor, 2007).

Miles and Huberman (1994) cite attention to organizational documents in their work on qualitative data analysis, as well as Creswell and Plano Clark (2007). Matching documentary data with interviews is emphasised by Patton as ‘bringing together multiple perspectives’ and thus enabling triangulation (Patton, 2002).

Thus, this further method of data collection is meant to triangulate the findings and ensure validity and reliability of the results.

3.3 Sample Design and Details of the Data Collection Process

As sample population for the study the current holders of the seal of approval of the Deutsches Zentralinstitut für soziale Fragen (DZI) were selected. The DZI is a public trust first established in 1893 and today supported by the Senate of the City of Berlin, the Federal Ministry for Family, Senior Citizens, Women and Youth, the German Association of Chambers of Commerce, as well as by a number of non-profit sector umbrella organizations.

For the reporting period 2006/2007 232 organizations were registered with the DZI and had received the award ‘Donation-Seal - Verified and Recommended’. The DZI is the main and most highly regarded accreditation body for donation soliciting organizations in Germany (Vallant, 2003).

Mail Questionnaire

For the purpose of the mail survey the entire population of all registered organizations are included in the sample frame.

The mail survey is pilot tested with a sub-sample of the population before application of the main study.

Structured Interviews

For the second method of data collection, the structured interviews, a sub-sample of the respondents of the survey is selected. More than in the questionnaire the focus of the

interviews in general is on questions of valuation or judgements, and open questions and in this way also an addressing judgements and points-of-view. Here in particular the research objectives concerning evaluation of utility are to be addressed beyond of what can be derived out of the analysis of the mail questionnaire.

The purpose of the structured interviews will also be to test validity and reliability of the results of the mail survey and to enrich the research findings.

Document Review

The third part of the data collection is the document review of a further sub-sample of these organizations. Similar to the structured interviews the purpose of this data collection tool is to test the validity and generalizability of the results and also to enrich the findings from a qualitative research angle.

Additional to the above cited specific references this particular choice of research methodology encompassing these three tools of data collection is set-up based on similar methodologies used by other researchers for comparable research (Baguley, 2004; Bies, 2003; Espirito Santo, 2001; American Management Association, 2003; Broude, 2006; Doll, 2006; Schaefer, 2004; Heinz, 2003).

Whereas it is expected that the mail survey will lead to positivist results, the additional structured interviews and document review are intended to lead to supporting phenomenological results, enriching and triangulating the research.

3.4 The Research Paradigm and Theoretical Framework

The Research Paradigm is largely positivist, with additional phenomenological features.

The research is oriented towards a quantitative investigation, yielding objective results. As laid-out in the research question, aim and objectives, the research is intended to be highly structured to ensure objective results are produced.

The research is based on an empirical investigation of the subject, collecting field data to address the research question.

Data Collection and Analysis

The backbone of the study is the analysis of a mail questionnaire yielding mostly quantitative data. The data is used in an investigation based on the statistical analysis of the association between two variables, the organizational characteristics and the existence of SOA corporate governance features.

In the statistical analysis the chi-square function is used to test the significance of the association between the variables.

To enrich and triangulate the quantitative and positivist orientation of the research also phenomenological tools are applied, yielding qualitative data. To this end the initial positivist data collection by the mail questionnaire is augmented by structured interviews with a sub-sample of organizations. Along the same line of thought a document review relating to a further sub-sample of organizations as a tool for collecting qualitative data is applied.

In this way the research question is to be addressed by a three-way mixed method approach of a positivist main data collection method and subsequently two further methods adding a phenomenological view.

There has been research concerning a relationship of the Sarbanes-Oxley Act and the non-profit sector in the US (AMA, 2003; BoardSource and Independent Sector, 2003; Ostrower and Bobowick, 2006). But given the very recent development of the subject there has been no doctoral level research to the applicability of provisions of SOA to German NPO. In this regard the research is designed to be of exploratory nature and intended to produce indicative rather than definitive results.

The research question is addressed by a largely positivist research design. Yet, also phenomenological research tools are applied to enrich and triangulate the research results, leading to a mixed method research approach. The research results are expected to be indicative.

3.5 Research Ethics

Issues of research ethics were of importance for this study and were addressed as part of the research methodology and its implementation, especially in light of this study involving sensitive information collected about and from the research subjects.

Ethical issues were adhered to at every stage of the research process. Every effort was undertaken to ensure the research was conducted at the highest ethical standards.

Bias in collecting, processing and analysing the research data was avoided and all collected evidence was included. Any perceived shortcomings are made known to the reader of the research.

Regarding the data collection element of the research, the goals and objectives of the study were clearly communicated to the participants. Participation in the study was voluntary, which was made explicit in written materials and verbal communication.

To ensure confidentiality, completed questionnaires, research notes, interview transcripts and collected documents were accessible only to the researcher and the university.

The right to privacy, confidentiality and anonymity of the research subjects was respected at all stages of the research. The research subjects had the opportunity to comment on and, if they wished, to withdraw easily and without penalty from the study.

It is not expected that this research will negatively affect the collective interest of the research subjects.

The researcher acted honestly and professionally at all times conducting the research and the produced data and results were used fairly and responsibly.

3.6 Summary

This chapter detailed the Research Methodology for this study. The methodology combines three approaches, a mail questionnaire, structured interviews and a document review.

The mail questionnaire addresses the Research Question from a positivist, quantitative angle. The data gathered with this method are analysed with the chi-square test, examining the association between two variables, the organizational characteristics and the existence of the defined SOA features.

Structured interviews with a sub-group of the respondents provide a further, phenomenological, qualitative approach to the data collection and analysis. Adding this method to the overall methodology further enhances validity and reliability of the results.

The same purpose serves the further document review relating to a further sub-group of organizations. Documents such as financial statements, articles of formation, by-laws and others are used to gather qualitative data and to enrich the findings of the other methods.

The different combined methods are to triangulate the research results and to ensure reliability and validity of the results. In this way generalizability, as well as replicability of the results can be assured. In this mixed method approach quantitative as well as qualitative data can be derived for the analysis providing for positivist as well as phenomenological results.

The combination of different methods has been extensively used in non-profit sector research and the methodology is based on the cited successful examples of other researchers as well as the theoretical literature concerning research in the social science.

Recognizing that there has been so far no doctoral level research on the readiness of German NPO for the provisions of the Sarbanes-Oxley Act this research is of exploratory nature and to produce indicative results.

Research design and procedures will be implemented in ways so that any concerns regarding ethical standards are being addressed.

Having defined the methodology in this way the basis has now been established for the data collection and subsequent analysis.

4. Report of a Pilot Study

4.1 Introduction

To test the above defined Research Methodology prior to its application in the main study a Pilot Study was conducted with a sub-sample of 15 organizations of the population.

In preparing the Pilot Study information from the existing literature and from the example of other research in this field was used (Salant and Dillman, 1994; Bourque and Fielder, 1995; Kennedy and Vargus, 2001; Smith, 1997; Hager et al., 2003; Brown and Iverson, 2004; Baguley, 2004; Bies, 2003; Espirito Santo, 2001).

The questionnaire design intended for the main study was then put to test and the intended succession and intervals of mailings based on the 'Tailored Design Method' were tried out (Salant and Dillman, 1994; Dillman, 2007).

After the return of the questionnaires telephone interviews with a number of respondents were held regarding the technical aspects as well as the subject matter of the questionnaires.

Through the returned questionnaires themselves, as well as the interviews, suggestions for certain changes and confirmation regarding specific aspects of the approach were gathered.

4.2 Goals of the Pilot Study

Based upon literature review and adaptation to this specific case the following goals were laid out for the Pilot Study:

- Is each question of the mail questionnaire getting the information it is intended to get?
- Are all the words understood?
- Are the questions interpreted the same way by all respondents?

- Do all close-ended questions have an answer that applies to each respondent?
- Does the questionnaire create a positive impression that motivates people to respond?
- Are the questions answered correctly and in a way that can be understood?
- Does any part of the questionnaire suggest bias on part of the researcher?

(Salant and Dillman 1994)

- Are the instructions clear?
- Is the order of the questions appropriate?
- Are the objectives of the study clearly understood by both the surveyor and the respondents?

(Bourque and Fielder 1995)

4.3 Selection of the Pilot Study Sample

Following specific recommendation out of the literature (Salant and Dillman, 1994; Bourque and Fielder, 1995; Czaja and Blair, 2005) a selected sample, rather than a random sample of the population was chosen:

“It is important that the diversity of the population be represented among those who pre-test the questionnaire, especially with respect to characteristics that are expected to affect the way people answer” (Salant and Dillman, 1994).

Based upon that advise, the annual revenue of the organizations as the likely most important variable regarding the alignment of the organization with the principles of the Sarbanes-Oxley Act was chosen as guide for the selection of the sample organizations.

Certain statistical data about the whole population is available in summarized form in the register of the Deutsches Zentralinstitut für Soziale Fragen (DZI). In the register the data is also related to a categorization of the organizations based on their annual revenue. The portion of organizations in each category is given by the DZI as:

Annual Income:

less than EUR 100,000	‘very small’	15%
EUR 100,000 to 500,000	‘small’	25%
EUR 500,000 to 5,000,000	‘intermediate’	35%
EUR 5,000,000 to 15,000,000	‘big’	10%
more than EUR 15,000,000	‘very big’	15%

Out of the total population of 232 organizations 15 organizations were to be part of the Pilot Study. Based on the above percentages this number of sample organizations was distributed amongst the income groups as follows:

less than EUR 100,000	‘very small’	2
EUR 100,000 to 500,000	‘small’	4
EUR 500,000 to 5,000,000	‘intermediate’	5
EUR 5,000,000 to 15,000,000	‘big’	2
more than EUR 15,000,000	‘very big’	2

As the annual revenue is one of the organizational characteristics available for each organizations published in the DZI register the selection of the organizations for the Pilot Study based on that criterion could then be done without further investigation.

4.4 Application of the Pilot Study

4.4.1 Mailings

Adopting the ‘Total Design Method’ as recommended by Salant and Dillman (1994) three consecutive mailings were sent out.

The Pilot Study questionnaire packages contained a cover letter, a letter of support from Edinburgh Business School, the questionnaire and a postage paid return envelop.

The packages addressed to the organizations’ ‘Public Relations Department’ were sent out to all 15 sample organizations on January 25, 2008.

Following the ‘Total Design Method’, one week later, on February 2, 2008 reminder postcards were sent out to those organizations from which responses had not come in during that first week, thanking them in case they had just sent out the response and calling again for their participation.

After two more weeks, on February 15, 2008, three weeks after the initial mailing, complete questionnaire packages were set out again to all organizations that had not responded by then.

4.4.2 Response Rate

After these consecutive mailings the Pilot Study resulted in the following responses:

8	useable responses
3	declining participation
3	no response
1	undeliverable

The response rate of more than 50% usable responses is deemed to be satisfactory as compared to literature recommendations (Salant and Dillman, 1994; Bourque and Fielder, 1995; Kennedy and Vargus, 2001; Smith, 1997; Hager et al., 2003) and is also deemed adequate compared to other research in the non-profit field (Brown and Iverson, 2004; Baguley, 2004; Bies, 2003; Espirito Santo, 2001).

Generally the returned questionnaires were filled-in thoroughly with only occasional omitted questions. Regarding these omissions no specific pattern could be detected.

4.4.3 Further Communication

To facilitate further communication between the researcher and the organizations the respondents were asked at the end of the questionnaire to optionally provide contact information for a follow-up personal contact.

In most of the useable responses such information was provided and with 50% of the respondents personal contact could be established. That contact was in the form of telephone interviews discussing the questionnaire as such and also addressing the research subject area.

Specifically the questions were:

Concerning the questionnaire itself:

- Were the questions easy to understand?
- Approximately how long did it take you to complete the questionnaire?
- Did you regard this as too long?
- Did you require information or assistance from others completing the questionnaire?
- What is your position / function within the organization?
- Did you have any concerns about providing information regarding specific questions or the subject as a whole?
- Could you imagine other organizations possibly having such concerns or reasons to reject the survey?
- Did you find any particular item or certain information regarding the subject area important for your organization to be missing as part of the questionnaire?
- Do you have any general comments regarding the questionnaire?

Concerning the research subject:

- Is Corporate Governance currently a subject rising in importance for your organization?
- Have there been any recent changes in this area in your organization?
- Do you feel the current laws and regulations in this area to be a burden to your organization?

Regarding further communication:

- Would you or another member of your organization possibly be available for the second phase of the survey and be ready to take part in a personal meeting or

telephone interview regarding the subject area? This interview would also concern your personal opinion and experience regarding current and future developments in the area of corporate governance.

- Can I answer any of your questions regarding this study or the subject area?

4.5 Findings Towards the Goals of the Pilot Study

Following are the findings produced by analysing the responses gathered regarding the above questions, evaluated in addressing the goals set out for the Pilot Study:

- Is each question getting the information it is intended to get?

The below brief testing of a statistical analysis of the gathered data in an exemplary fashion gives evidence of the usability of the data to the intended application.

No misaligned or miscued responses were detected and no changes to the questions in this regard were deemed necessary.

- Are all the words understood?

In none of the returned questionnaires nor the follow-up interviews issues were raised regarding the understanding of the questions.

No changes to the wording are deemed necessary in this regard.

- Are the questions interpreted the same way by all respondents?

By briefly reviewing the questions and responses in the follow-up interviews no deviations in the interpretation of the questions were detected nor did the returned questionnaires show any obvious anomalies in this regard.

- Do all close-ended questions have an answer that applies to each respondent?

Here a need for adjustment of the questionnaire was found in two of the multiple-choice questions.

In both cases the optional responses had to be amended to include answers applicable to certain respondents, which had been missed in the design of the questionnaire. The amendments are documented in the below section regarding the changes to the questionnaire resulting out of the Pilot Study.

- Does the questionnaire create a positive impression that motivates people to respond?

The high response rate, as well as comments during the follow-up interviews showed a high motivation of recipients to respond to the questionnaire and participate in the survey.

Looking at the response rate, not only the rate of useable responses of 53% is of interest, but also the return letters of 20% of the sample population pointing out refusal to participate based on organizational policy. A large part of non-responders can thus be attributed to such matters of policy rather than any shortcomings of the questionnaire.

In this regard also the completeness of the returned questionnaires is significant and points to a thorough participation rather than half-hearted attempts.

High motivation was also evident in the follow-up interviews. One participant lauded the number of questions as comparatively low relating to other research questionnaires received, resulting in an easier turn-around.

Whereas high motivation of the participants was a consistent feature in the Pilot Study one issue was raised repeatedly. A number of the participants emphasized their personal and their organization's need for complete confidentiality of the responses and non-attribution of the gathered information.

The respondents claimed this need for confidentiality both for their own organization and also anticipated other organizations to have similar priorities.

- Are the questions answered correctly and in a way that can be understood?

Most of the questions feature a number of optional answers for selecting the appropriate choice. Understanding and interpreting of the responses by the researcher in these cases did not turn out to be problematic.

Free-form answers and request for additional comments did prove to bring in further information and did not impair understanding.

- Does any part of the questionnaire suggest bias on part of the researcher?

Neither in the questionnaire responses nor in the follow-up interviews any concerns were voiced regarding a bias of the researcher felt by the participants.

In this regard also the research subject of corporate governance has to be considered, which is not overly controversial.

- Are the instructions clear?

Neither in the responses nor in the follow-up interviews were any issues or complaints voiced regarding the questionnaire instructions. Quality and completeness of the questionnaire responses indicated a good understanding of the instructions.

- Is the order of the questions appropriate?

The order and grouping of the questions in the not very lengthy questionnaire did not raise any concerns amongst the participants.

- Are the objectives of the study clearly understood by both the surveyor and the respondents?

The objectives of the study were stated in a compact format in the cover letter to the questionnaire:

‘Subject of the research is the prevalence of new and developing approaches to corporate governance principles in German non-profit organizations and whether a pattern can be identified what kind of organizations follow these principles more closely than others.’

Neither in the written responses nor during the interviews any confusion was detected about these stated goals.

Rather on the contrary, there seemed to be a significant awareness of corporate governance issues and their importance to organizational stakeholders amongst the participants.

That said, neither the questionnaire nor the follow-up interviews delved deeper into the content and provisions of the Sarbanes-Oxley Act nor the since developed legislation concerning non-profit organizations on the state level in the US.

Summary

Based upon the responses slight changes necessary for the questionnaire were identified and documented below.

Also a further increase in emphasis on confidentiality and non-attribution of the gathered data was put in to address repeated statements in this regard from interviewees.

In the interviews also the point was raised that the respondents are interested in the subsequent findings of the study.

4.6 Subsequent Changes Made to the Questionnaire

Based on the outlined responses from and communication with the respondents the following changes were incorporated into the questionnaire:

For question A3, regarding the organization’s most important source of funding, based on write-in responses and subsequent questions in the interviews two changes were found necessary:

- A further option for the source of income relating to the ‘organization’s activities’ was added. A class of non-profit organizations charges for certain services or goods provided and whereas no profit is generated for the organization as a whole, the proceeds from these activities are for these organizations an important source of income.
- The reference to ‘Individuals’ regarding the income out of donations was removed. Respondents pointed out that donations are also received from organizations, institutions, companies and other bodies.
- As these items point to a greater diversity of sources of income amongst the organizations also the space for write-ins of other sources was enlarged.

Formerly:

A3	What is your organization’s most important source of funding?	Dues/Fees <input type="checkbox"/> Foundation Income <input type="checkbox"/> Government <input type="checkbox"/> Individuals (Donations) <input type="checkbox"/> Endowments <input type="checkbox"/> Other _____
----	--	--

Figure 4.1. Former Question A3 of the Mail Questionnaire

Changed:

A3	What is your organization’s most important source of funding?	Dues/Fees <input type="checkbox"/> Foundation Income <input type="checkbox"/> Government <input type="checkbox"/> Donations <input type="checkbox"/> Endowments <input type="checkbox"/> Organizational Activities <input type="checkbox"/> Others _____ _____
----	--	---

Figure 4.2. Changed Question A3 of the Mail Questionnaire

Question A5a was clarified. Based on write-ins in returned questionnaires the response options for that question were changed from “Yes or No” to giving the appropriate choices.

Formerly:

A5a	Is your organization a branch or headquarter of a larger organization?	Yes _____ or No _____
-----	---	-----------------------

Figure 4.3. Former question A5a of the Mail Questionnaire

Changed:

A5a	Is your organization a branch or headquarter of a larger organization?	Branch _____ HQ _____ Neither _____
-----	---	-------------------------------------

Figure 4.4. Changed question A5a of the Mail Questionnaire

4.7 Subsequent Changes Made to the Cover Letter

Additional to these changes to the questionnaire also the cover letter was slightly reworded to further emphasize confidentiality and non-attribution of the gathered information.

The passage concerned read in the Pilot Study:

‘All responses will be treated in confidence and no names or other means of identification, if provided, will be made public.’

This passage now reads:

‘All responses will be treated in strict confidence and no information will be attributed to individual organizations. No

names or other means of identification, if provided, will be made public.’

This wording is repeated on the mail questionnaire itself.

During the interviews respondents also stated an interest in the final results of the study. This now led to the inclusion in the cover letter of the offer of an ‘Executive Summary’ of the findings to survey participants once the study is completed.

4.8 Test of an Exemplary Statistical Analysis

Looking at the above defined research question, aims and objectives a test statistical analysis of the quantitative data gathered in the Pilot Study was performed in an exemplary fashion to evaluate their suitability for the statistical analysis in the main study.

Whereas for the main study the more sophisticated chi-square test is to be used, the following brief and basic statistical examinations were carried out to test the usability of the gathered quantitative data generally in a statistical application:

Example 1: Simple correlation between the size of the annual organizational revenue and the commissioning of an external financial audit at the organization

Annual Revenue	External Audit	No External Audit	Proportion
very small	0	2	0%
small	2	0	100%
intermediate	3	0	100%
big	1	0	100%
very big	-	-	n/a

Table 4.1. Correlation between Annual Revenue and Commissioning of an Annual External Audit

As stated above the categories are defined as: annual revenue of less than EUR 100,000 = ‘very small’; EUR 100,000 to 500,000 = ‘small’; EUR 500,000 to 5,000,000 =

‘intermediate’; EUR 5,000,000 to 15,000,000 = ‘big’; more than EUR 15,000,000 = ‘very big’.

Example 2: Simple correlation between the degree of donation funding and the existence of a formal prohibition of loans out of the organization’s funds to board members.

Degree of Donation Funding	Formal Prohibition of Loans	No Formal Prohibition of Loans	Proportion
insignificant source of funds	0	1	0%
important source of funds	1	1	50%
Significant source of funds	1	0	100%
dominant source of funds	0	1	0%
single source of funds	2	1	67%

Table 4.2. Correlation between the Degree of Donation Funding and the Existence of a Formal Prohibition of Loans to Board Members

Degree of Donations of the Annual Revenue less than 10% = insignificant; 10 to 33% = important; 34 to 50% = significant; 51 to 90% = dominant; more than 90% = single source of funds.

Whereas these figures are by no means showing any valid research results, it can be demonstrated in an exemplary fashion that the quantitative data gathered as in the Pilot Study can be used for a statistical analysis in the main study.

4.9 Summary

Based on text book recommendations and the example of other researchers working in this area a Pilot Study was conducted to test the Research Methodology.

After defining the goals for the Pilot Study the mail questionnaire was sent to a pre-selected small sub-sample of the research population applying sequenced consecutive mailings as laid-out in the ‘Tailored Design Method’. A response rate of greater than 50% was achieved.

Subsequent to the mail questionnaire telephone interviews were conducted with a number of the Pilot Study participants gathering further information towards the defined goals.

Based on the questionnaire responses as well as on comments in the interviews a number of minor changes were implemented.

Further an exemplary statistical analysis showed quantitative data as gathered in the questionnaires to be usable in this format for a statistical analysis in the main study.

5. Data Collection and Analysis

5.1 Introduction

Building on the above outlined research methodology, supported and refined by the Pilot Study, the data collection and subsequent analysis was conducted.

As set out in the above research design the data collection was conducted in three individual phases comprising of the mail questionnaire, structured interviews and document review.

This research design combines quantitative and qualitative techniques. In this regard the data collection and analysis had to specifically address the different kinds of data and sources in discriminating fashion. The strength of each method had to be applied to pursue the individual research objectives and address the research question.

The methods of data collection and the analysis of the data were implemented in successive order. In this way the results of the preceding steps could inform the later processes. Qualitative information about underlying causes for particular findings could be gathered with the quantitative data already in hand.

This chapter is now to detail the process of application and analysis, as well as the subsequent results of each of the three methods of data collection separately and to then draw the findings together in preparation for the final conclusions summarized in the following chapter.

5.2 Data Collection and Analysis

5.2.1 Mail Questionnaire

Based on the above methodology the mail questionnaire was administered to collect the data for analysis and subsequently addressing the research objectives using the 'Tailored Design Method' (Dillmann, 1991; 2007).

Further the data gathered out of the returned questionnaires relating to the defined Sarbanes-Oxley type corporate governance practices in the organizations and the organizations' characteristics were tested for their association to address the research objectives defined above.

At the heart of the analysis of the survey data is this investigation of the association between these two variables using the chi-square test.

In each of the performed tests one of the defined organizational characteristics and one of the identified Sarbanes-Oxley Act corporate governance features are paired up and their association is measured in the chi-square test.

The result of the mail questionnaire analysis is the identification of those organizational characteristics displaying a significant association to the existence of SOA type practices, based upon this part of the overall research methodology.

5.2.1.1 Application of the Mail Questionnaire

The basis for the applied methodology was developed as described in the above methodology section. The general administration of the mail questionnaire then followed the process of the 'Tailored Design Method' as defined by Dillman (Dillman, 1991; Salant and Dillman, 1994; Dillman, 2007). As described above the questionnaire was pilot tested before the main study.

The 'Tailored Design Method' prescribes a specific sequence of mailings to the research population to be sent out in defined intervals. After completion of the Pilot Study the final mail questionnaire had been produced. This document, along with a cover letter, a letter of introduction by Edinburgh Business School and a stamped return envelope was sent to the recipients on 28 March 2008.

One week later, on 5 April 2008 a reminder postcard was sent to all organizations that had not responded at that time.

A further two weeks later, on 19 April 2008 a new full set of questionnaire documents was sent again to all organizations that still had not responded.

The English language version of the mail questionnaire, cover letter and reminder postcard are attached in the appendix.

As laid-out in the methodology section the study population are all 232 non-profit organizations that were registered with the Deutsches Zentralinstitut für Sozial Fragen, DZI in Berlin in the year 2007 and documented in its almanac (DZI, 2007a). Out of this population 159 useable questionnaires were returned, yielding a 68.5% response rate.

Later conversations with organization leaders alongside the structured interviews indicated that revelations about a corporate governance scandal at the German chapter of UNICEF which were in the news media just prior to the administration of the questionnaire provided for a high motivation by the organizations to cooperate and to display transparency (Zeit Online, 2007). Because of this event the DZI along with NPO umbrella organizations in early April 2008 launched a ‘Transparency Initiative’ exhorting NPO to be open about corporate governance matters (DZI, 2008). This coincidence appears to have been one of the drivers for the uncommonly high response rate of the questionnaire.

The data gathered out of the returned questionnaires were then coded and processed for analysis. Specific further data, such as the income of the organizations, were derived from the individual organization’s data sheets provided in the DZI almanac to complete the data sets for the statistical analysis (DZI, 2007a).

5.2.1.2 Statistical Analysis of the Mail Questionnaire

The above defined 9 SOA type corporate governance practices and the defined 7 organizational characteristics were paired-up and the gathered data analysed with the chi-square function to test the significance of any association between them.

By way of the chi-square test the association of all individual pairs of organizational characteristics and SOA features were tested. This statistical method for examining the

association between variables is a recommended and proven research tool in the social science (Roberts et al., 2003; Atteslander, 2006; Nezhina and Brudney, 2009; Hoggins-Blake, 2009).

Additionally, the computation of the chi-square test is in some cases supplemented by the visual examination of the data tables to enrich the findings and to gather further information about the association of the variables.

In this section a number of select examples of the analysis of individual pairs of SOA type practices and organizational characteristics are discussed and the overall results are presented.

The examples are chosen one for each of the examined organizational characteristics allowing for a discussion of the overall results for each characteristic relating to one example.

Example 1 – Annual Revenue / Preparation and Publication of Financial Statements

The first example is the association between the organization’s annual revenue and the preparation and publication of financial statements.

Organizational Characteristic: Annual Revenue			
Sarbanes-Oxley Feature: Preparation and publication of financial statements			
Hypotheses			
Ho: There is no association between the annual revenue and the preparation and publication of financial statements.			
H1: There is an association between the annual revenue and the preparation and publication of financial statements.			
Preparation and publication of financial statements			
Group for Annual Revenue	Yes	No	Total
very big	22	2	24
Big	14	1	15
intermediate	42	8	50
Small	33	17	50
very small	11	6	17

Total	122	34	156
Expected Values Preparation and publication of financial statements			
Group for Annual Revenue	Yes	No	Total
very big	18.77	5.23	24
Big	11.73	3.27	15
intermediate	39.10	10.90	50
Small	39.10	10.90	50
very small	13.29	3.71	17
Total	122	34	156
Chi-square values Preparation and publication of financial statements			
Group for Annual Revenue	Yes	No	Total
very big	0.56	2.00	2.55
Big	0.44	1.58	2.01
intermediate	0.21	0.77	0.99
Small	0.95	3.42	4.37
very small	0.40	1.42	1.82
Total	2.56	9.18	11.74
	Rows:	5	
	Columns:	2	
	Degrees of Freedom:	4	
Looking up the Chi-squared value of 11.74 with 4 degrees of freedom in the Chi-squared distribution tables the result is that the calculated value lies in the 2.5 per cent tail in the area of probability.			
So the conclusion is:			
Reject the null hypothesis, Ho at the 2.5 per cent level of significance.			
There is a significant association between the annual revenue and the preparation and publication of financial statements.			

Figure 5.1. Chi-Square Analysis of the Association between the Organization's Annual Revenue and the Preparation and Publication of Financial Statements

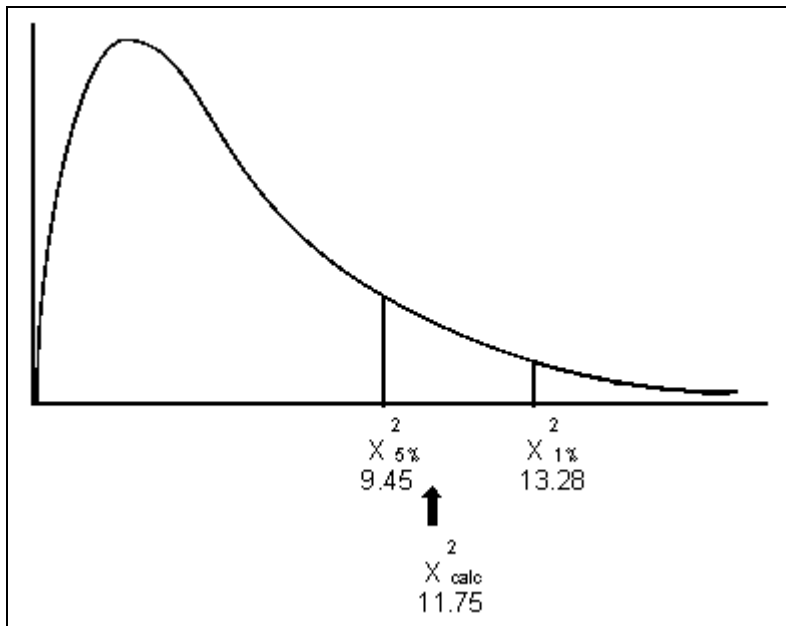


Figure 5.2. Chi-Square Representation of the Association between Annual Revenue and the Preparation and Publication of Financial Statements

As described above, the size groups established by the DZI almanac are used here for categorizing the data. The DZI categorizes the organizations as: annual income less than EUR 100,000 ‘very small’; EUR 100,000 to 500,000 ‘small’; EUR 500,000 to 5,000,000 ‘intermediate’; EUR 5,000,000 to 15,000,000 ‘big’; more than EUR 15,000,000 ‘very big’.

The chi-square analysis for the above data results in the rejection of the H_0 hypothesis and concludes that there is a significant statistical association between the two variables.

Further visually examining the above table also leads to the conclusion that bigger organizations have a larger propensity for preparing and publishing financial statements than smaller organizations.

As the size of the annual revenue is strongly associated with the preparation and publication of financial statements, this organizational characteristic can be identified as significant in determining potential compliance with this SOA feature.

The further examination of the remaining pairs of variables involving the annual revenue shows that this organizational characteristic displays a significant association

with most of the Sarbanes-Oxley features. That makes this characteristic a good indicator for a potential alignment with the Act.

Example 2 - International Scope of Activities / Board Financial Audit Committee Members Having Formal Financial Training

In this test the association between the organization having an international scope of activities as the organizational characteristic and the board financial audit committee members having formal financial training as the SOA feature is being examined.

Organizational Characteristic: International Scope of Activities			
Sarbanes-Oxley Feature: Board financial audit committee members having formal financial training			
Hypotheses			
Ho: There is no association between the International Scope of Activities and the board financial audit committee members having formal financial training.			
H1: There is an association between the International Scope of Activities and the board financial audit committee members having formal financial training.			
Board financial audit committee members having formal financial training			
International Scope of Activities	Yes	No	Total
Yes	39	2	41
No	11	5	16
Total	50	7	57
Expected Values Board financial audit committee members having formal financial training			
International Scope of Activities	Yes	No	Total
Yes	35.96	5.04	41
No	14.04	1.96	16
Total	50	7	57
Chi-square values Board financial audit committee members having formal financial training			
International Scope of Activities	Yes	No	Total
Yes	0.18	2.48	2.66
No	0.89	3.27	4.16

Total	1.07	5.75	6.82
Rows:		2	
Columns:		2	
Degrees of Freedom:		1	

Looking up the Chi-squared value of 7.43 with 1 degree of freedom in the Chi-squared distribution tables the result is that the calculated value lies in the 1 per cent tail in the area of probability.

So the conclusion is:

Reject the null hypothesis, H_0 at the 1 per cent level of significance.

There is a significant association between the International Scope of Activities and the board financial audit committee members have formal financial training.

Figure 5.3. Chi-Square Analysis of the Association between an International Scope of Activities and the Board Financial Audit Committee Members Having Formal Financial Training

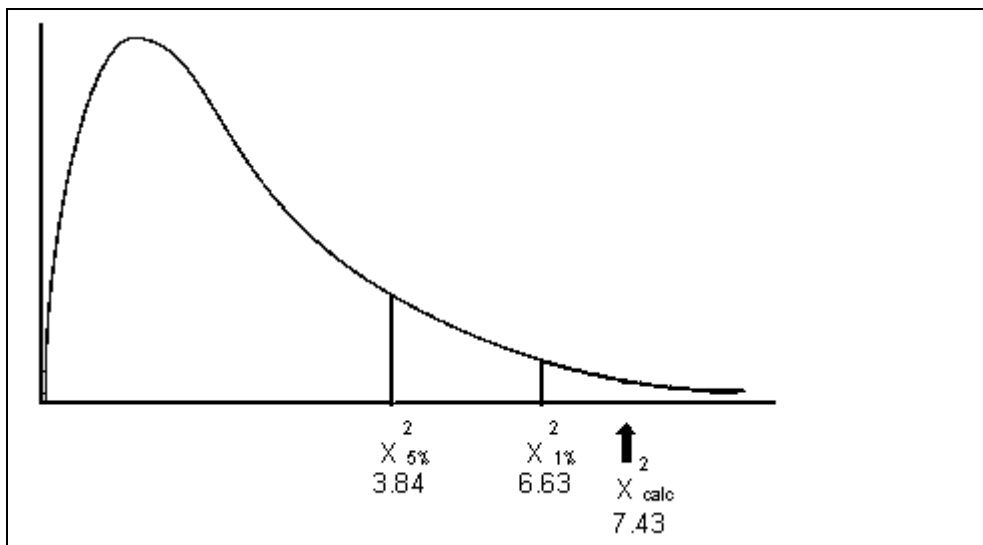


Figure 5.4. Chi-Square Representation of the Association between an International Scope of Activities and the Board Financial Audit Committee Members Having Formal Financial Training

The above chi-square analysis leads to a calculated value in the 1 per cent tail of the area of probability and to the rejection of the null hypothesis H_0 .

The conclusion is that there is a significant association between the two variables.

The further tests regarding this organizational characteristic show an association with further SOA features leading to the conclusion that having an international scope of activities is indicative of an organization also having already established SOA type practices.

Example 3 - Age of the Organization / Existence of a Formal Conflict of Interest Policy

A further example of the analysis is the association between the age of an organization and the existence of a formal conflict of interest policy covering the organization's directors and executives.

For the analysis the age of the organizations is categorized in four age groups. Category #1 contains organizations founded later than 1998, category #2 such that were founded between 1970 and 1998, category #3 such that were founded between 1945 and 1969 and category #4 such organizations that were funded before 1945.

Organizational Characteristic:				
Age of the Organization				
Sarbanes-Oxley Feature:				
Existence of a formal conflict of interest policy covering the organization's directors and executives				
Hypotheses				
Ho: There is no association between the Age of the Organization and The existence of a formal conflict of interest policy.				
H1: There is an association between the Age of the Organization and The existence of a formal conflict of interest policy.				
Existence of a formal conflict of interest policy covering the organization's directors and executives				
Group of the Age of the Organization		Yes	No	Total
	1	1	17	18
	2	17	83	100
	3	11	19	30
	4	3	5	8
Total		32	124	156
Expected Values				

		Existence of a formal conflict of interest policy covering the organization's directors and executives		
Group of the Age of the Organization		Yes	No	Total
	1	3.69	14.31	18
	2	20.51	79.49	100
	3	6.15	23.85	30
	4	1.64	6.36	8
Total		32	124	156

		Chi-square values Existence of a formal conflict of interest policy covering the organization's directors and executives		
Group of the Age of the Organization		Yes	No	Total
	1	1.96	0.51	2.47
	2	0.60	0.16	0.76
	3	3.82	0.98	4.80
	4	1.13	0.29	1.42
Total		7.51	1.94	9.44

Rows:	4
Columns:	2
Degrees of Freedom:	3

Looking up the Chi-squared value of 9.44 with 3 degrees of freedom in the Chi-squared distribution tables the result is that the calculated value lies in the 2.5 per cent tail in the area of probability.

So the conclusion is:

Reject the null hypothesis, Ho at the 2.5 per cent level of significance.

There is a significant association between the Age of the Organization and the existence of a formal conflict of interest policy covering the organization's directors and executives

Figure 5.5. Chi-Square Analysis of the Association between the Age of the Organization and the Existence of a Formal Conflict of Interest Policy

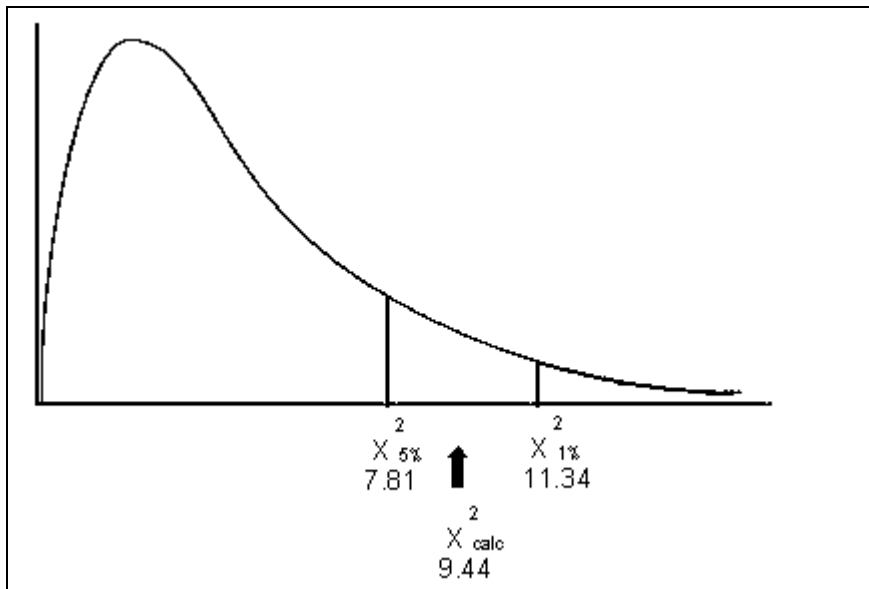


Figure 5.6. Chi-Square Representation of the Association between the Age of the Organization and the Existence of a Formal Conflict of Interest Policy

Looking at the chi-square analysis above the conclusion is that the null hypothesis would be rejected at the 5% level of significance. So there is a significant association between the two variables.

Also visually examining the above data shows that older organizations show a higher prevalence of having a formal conflict of interest policy than younger organizations. The proportion increases step-by-step with increasing age.

Relating this to the goals of the research this would make the age of the organization a good indicator for the existence this SOA corporate governance feature.

The analysis of the further pairs of variables including age led to more similar results.

Example 4 – Degree of Donation Funding / Board Financial Audit Committee

This example examines the association between the degree at which the organization is funded out of donations and the existence of a board financial audit committee.

Organizational Characteristic: Degree of Donation Funding
Sarbanes-Oxley Feature:

Existence of a board financial audit committee

Hypotheses

Ho: There is no association between the Degree of Donation Funding and the existence of a board financial audit committee.

H1: There is an association between the Degree of Donation Funding and the existence of a board financial audit committee.

Existence of a board financial audit committee

Group for Degree of Donation Funding	Yes	No	Total
single source	19	30	49
dominate source	21	27	48
significant source	4	7	11
important source	10	19	29
insignificant source	5	8	13
Total	59	91	150

Expected Values

Existence of a board financial audit committee

Group for Degree of Donation Funding	Yes	No	Total
single source	19.27	29.73	49
dominate source	18.88	29.12	48
significant source	4.33	6.67	11
important source	11.41	17.59	29
insignificant source	5.11	7.89	13
Total	59	91	150

Chi-square values

Existence of a board financial audit committee

Group for Degree of Donation Funding	Yes	No	Total
single source	0.00	0.00	0.01
dominate source	0.24	0.15	0.39
significant source	0.02	0.02	0.04
important source	0.17	0.11	0.29
insignificant source	0.00	0.00	0.00
Total	0.44	0.29	0.73

Rows: 5

Columns: 2

Degrees of Freedom: 4

Looking up the Chi-squared value of 0.73 with 4 degrees of freedom in the Chi-squared distribution tables the result is that the calculated value lies

in the 90 per cent tail in the area of probability.

So the conclusion is:

Reject the alternate hypothesis, H1 at the 90 per cent level of significance.

There is no significant association between the Degree of Donation Funding and the existence of a board financial audit committee.

Figure 5.7. Chi-Square Analysis of the Association between the Degree of Donation Funding and the Existence of a Board Financial Audit Committee

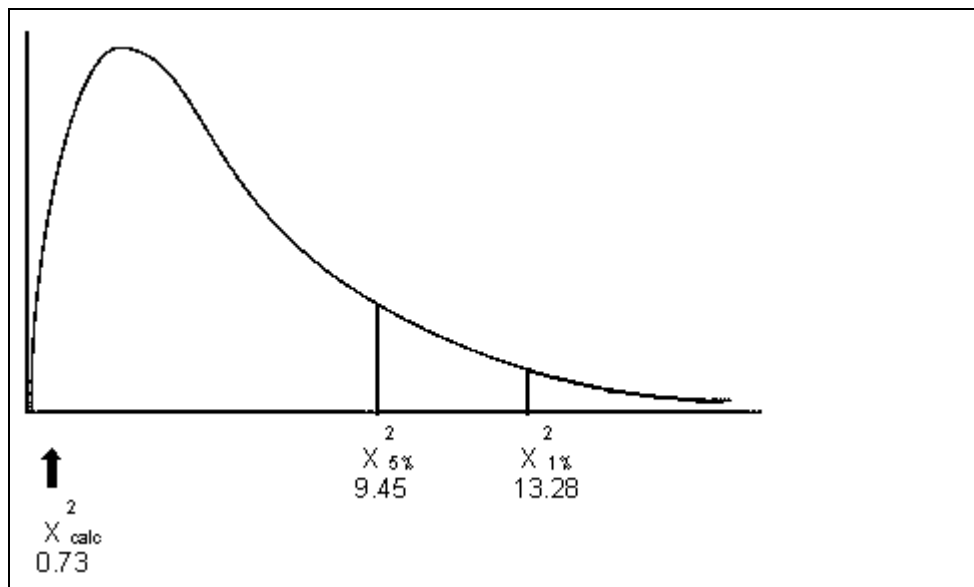


Figure 5.8. Chi-Square Representation of the Association between the Degree of Donation Funding and the Existence of a Board Financial Audit Committee

For the analysis the degree by which organizations rely on donations for their funding was separated into categories. The categories are defined as donations' share of annual revenue 90% and larger "single source", 50% and larger, "dominant source", 33% and larger "significant source", 10% and larger, "important source" and "insignificant source" for less than 10%.

The above chi-square analysis results in a calculated value in the 90% tail of the area of probability and in a rejection of the alternate hypothesis.

The complete set of analysis relating to the degree of donation funding showed that the existence of only a small number of SOA features can be significantly associated with

the degree by which the organization is funded out of donations. This organizational characteristic is thus not a good indicator for an alignment with the mandates of the Act.

Example 5 – Board Members’ Applicable Professional Background / Rotation of the External Financial Auditor or Lead Audit Partner in the Last Five Years

Here the association between the organization’s board members having an applicable professional background and the rotation of the external financial auditor or lead audit partner in the last five years is being examined.

Organizational Characteristic: Board Members applicable professional background			
Sarbanes-Oxley Feature: Rotation of external financial auditor or lead audit partner in the last five years			
Hypotheses			
Ho: There is no association between the BOD applicable professional background and the rotation of external financial auditor or lead audit partner in the last five years.			
H1: There is an association between the BOD applicable professional background and the rotation of external financial auditor or lead audit partner in the last five years.			
Rotation of external financial auditor or lead audit partner in the last five years			
BOD applicable professional background	Yes	No	Total
Yes	39	60	99
No	15	15	30
Total	54	75	129
Expected Values Rotation of external financial auditor or lead audit partner in the last five years			
BOD applicable professional background	Yes	No	Total
Yes	41.44	57.56	99
No	12.56	17.44	30
Total	54	75	129
Chi-square values Rotation of external financial auditor or lead audit partner in the last five years			
applying Yates' correction	Yes	No	Total
BOD applicable professional background	Yes	No	Total
Yes	0.21	0.07	0.27
No	0.30	0.50	0.80
Total	0.51	0.56	1.07
Rows:		2	

Columns:	2
Degrees of Freedom:	1

Looking up the Chi-squared value of 1.06 with 1 degree of freedom in the Chi-squared distribution tables the result is that the calculated value lies in the middle of the area of probability

So the conclusion is:

Reject the alternate hypothesis, H1.

There is no significant association between the BOD applicable professional background and the rotation of external financial auditor or lead audit partner in the last five years.

Figure 5.9. Chi-Square Analysis of the Association between Board Members' Applicable Professional Background and the Rotation of the External Financial Auditor or Lead Audit Partner in the Last Five Years

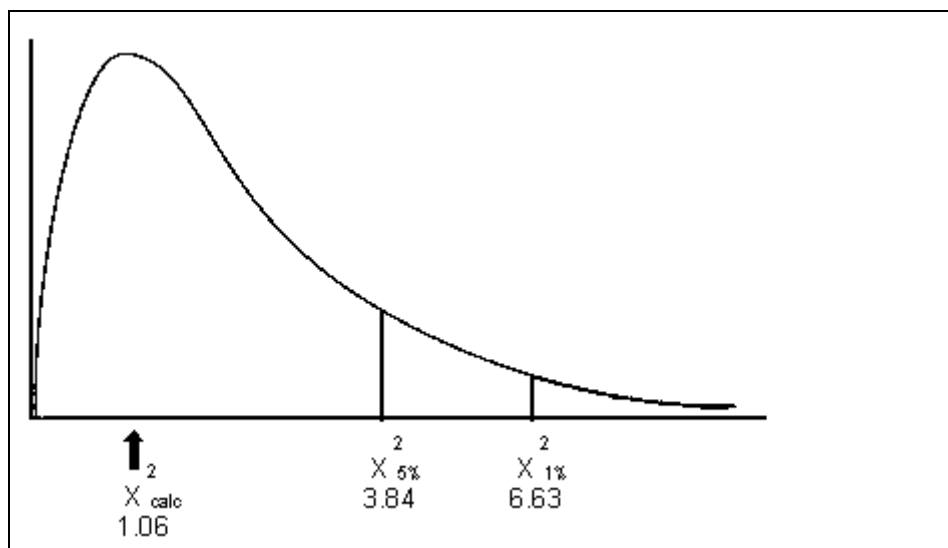


Figure 5.10. Chi-Square Representation of the Association between Board Members' Applicable Professional Background and the Rotation of the External Financial Auditor or Lead Audit Partner in the Last Five years

The chi-square analysis above leads to a calculated value in the middle of the area of probability.

The applicable professional background for be board members was defined above as the organization's field of activity, management, law, accounting and other finance. Neither

in this example nor in any case in the complete analysis could a significant association be observed between the board members having a professional background with the existence of the SOA type practices. This organizational characteristic is thus no indicator for an organization's alignment with the Act.

Example 6 - International Structure / Annual External Financial Audit

This example shows the analysis of the association between the existence of an international branch or sub-organization structure and the organization's commissioning of an annual external financial audit.

Organizational Characteristic:			
Existence of an international branch or sub-organization structure			
Sarbanes-Oxley Feature:			
Commissioning of an annual external financial audit			
Hypotheses			
Ho: There is no association between the Existence of an international branch Or sub-organization structure and the commissioning of an annual external financial audit.			
H1: There is an association between the Existence of an international branch Or sub-organization structure and the commissioning of an annual external financial audit.			
		Commissioning of an annual external financial audit	
Existence of an international branch or sub- organization structure	Yes	No	Total
Yes	53	4	57
No	78	19	97
Total	131	23	154
		Expected Values Commissioning of an annual external financial audit	
Existence of an international branch or sub- organization structure	Yes	No	Total
Yes	48.49	8.51	57
No	82.51	14.49	97
Total	131	23	154

applying Yates' correction		Chi-square values		
		Commissioning of an annual external financial audit		
Existence of an international branch or sub-organization structure		Yes	No	Total
Yes		0.33	2.95	3.28
No		0.30	1.11	1.42
Total		0.64	4.06	4.70
		Rows:	2	
		Columns:	2	
		Degrees of Freedom:	1	
<p>Looking up the Chi-squared value of 4.47 with 1 degree of freedom in the Chi-squared distribution tables the result is that the calculated value lies in the 5 per cent tail in the area of probability.</p> <p>So the conclusion is:</p> <p>Reject the null hypothesis, Ho at the 5 per cent level of significance.</p> <p>There is a significant association between the Existence of an international branch or sub-organization structure and the commissioning of an annual external financial audit</p>				

Figure 5.11. Chi-Square Analysis of the Association between the Existence of an International Structure and the Commissioning of an Annual External Financial Audit

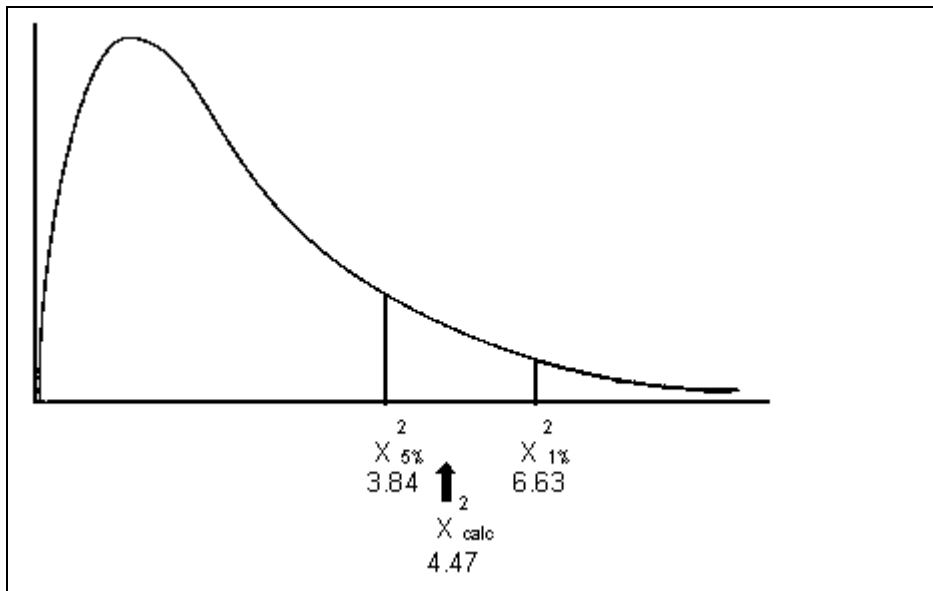


Figure 5.12. Chi-Square Representation of the Association between the Existence of an International Structure and the Commissioning of an Annual External Financial Audit

The chi-square analysis of this pair of variables shows an association to exist between the organization belonging to an international branch or sub-organization structure and the commissioning of an annual external financial audit.

The further analysis regarding this organizational characteristic showed that associations exist to more of the defined SOA features so that it can be regarded as an indicator for a potential alignment of the organization with the Act.

Example 7 – Board Members Active in the Private Sector / Formal Document Retention / Destruction Policy

A further example of the conducted analysis is the examination of the association between the board members of the organization being active in the private sector and the organization having a formal document retention/destruction policy.

Organizational Characteristic: Board Members are active in the private sector
Sarbanes-Oxley Feature: Existence of a formal Document Retention / Destruction Policy
Hypotheses
Ho: There is no association between the Board Members being active in the

private sector and the existence of a formal document retention / destruction policy.

H1: There is an association between the Board Members are active in the private sector and the existence of a formal document retention / destruction policy.

Board Members are active in the private sector	Existence of a formal Document Retention / Destruction Policy		
	Yes	No	Total
Yes	24	29	53
No	29	71	100
Total	53	100	153

Board Members are active in the private sector	Expected Values Existence of a formal Document Retention / Destruction Policy		
	Yes	No	Total
Yes	18.36	34.64	53
No	34.64	65.36	100
Total	53	100	153

Board Members are active in the private sector	Chi-square values Existence of a formal Document Retention / Destruction Policy		
	Yes	No	Total
Yes	1.44	1.09	2.53
No	1.09	0.40	1.49
Total	2.53	1.49	4.02

applying Yates' correction

Rows: 2

Columns: 2

Degrees of Freedom: 1

Looking up the Chi-squared value of 4.06 with 1 degree of freedom in the Chi-squared distribution tables the result is that the calculated value lies in the 5 per cent tail in the area of probability.

So the conclusion is:

Reject the null hypothesis, Ho at the 5 per cent level of significance.

There is a significant association between the Board Members being active in the private sector and existence of a formal document retention / destruction policy.

Figure 5.13. Chi-Square Analysis of the Association between Board Members Being Active in the Private Sector and the Existence of a Formal Document Retention / Destruction Policy

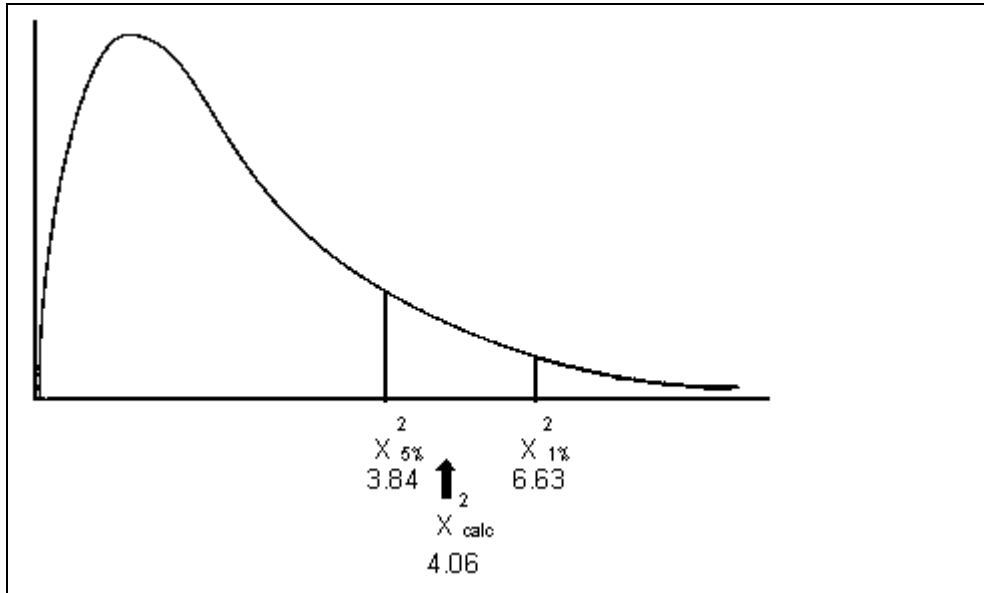


Figure 5.14. Chi-Square Representation of the Association between Board Members Being Active in the Private Sector and the Existence of a Formal Document Retention / Destruction Policy

The chi-square test shows a result in the 5% tail of the area of probability leading to the conclusion that there is an association between the examined variables.

This organizational characteristic also shows a number of further associations to SOA practices being applied. The board members are bringing experience from the private sector to non-profit organizations and strengthen corporate governance practices there. This characteristic is an indicator for the existence of SOA type practices in non-profit organizations.

Results

In the above described manner all pairs of variables were examined and tested. The following table presents the results of the tests and gives the count of those tests that have shown a significant association to the existence of Sarbanes-Oxley type practices for each organizational characteristic.

Table 5.1. Results: Existence of an Association between the Variables of the Chi-Square Tests

Results

Existence of an Association between the Variables based on the Chi-square Test

Organizational Characteristic:

Sarbanes-Oxley Feature:		Annual Revenue	BOD applicable professional background	Existence of an international branch or sub-organization	Age of the Organization	International Scope of Activities	Degree of Donation Funding	Board Members are active in the private sector
Preparation and publication of financial statements		YES	NO	NO	YES	NO	NO	YES
Existence of a board financial audit committee		NO	NO	NO	YES	YES	NO	NO
Board financial audit committee members have formal financial training		NO	NO	NO	NO	YES	NO	NO
Commissioning of an annual external financial audit		YES	NO	YES	NO	YES	NO	NO
Rotation of external financial auditor or lead audit partner in the last five years		YES	NO	YES	YES	NO	YES	YES
Existence of a formal conflict of interest policy covering the organization's directors and executives		YES	NO	YES	YES	NO	NO	YES
Existence of a formal process to handle employee complaints		YES	NO	YES	YES	NO	YES	NO
Existence of a formal Document Retention / Destruction Policy		YES	NO	NO	NO	NO	NO	YES
Prohibition of loans out of the organization's funds to its board members		NO	NO	NO	NO	NO	NO	NO
Count		6	0	4	5	3	2	4

Summarizing the results it can now be said:

- The size of the annual revenue of the organization shows for 6 out of the 9 SOA type practices a significant association, making this organizational characteristic the strongest indicator of potential compliance with the regulation's mandates.
- Further the age of the organization with 5 positive results is also showing a significant relationship.
- The existence of an international branch or sub-organization structure the organization belongs to is another characteristic displaying positive results.
- The same applies to the organization's board members being active in the private sector.
- The organization having an international scope of activities has some significant associations to SOA features.
- The degree of funding out of donations with only 2 significant associations and the board members having an applicable professional background with none are not particularly indicative of an alignment with SOA type corporate governance practices.

5.2.1.3 Summary

This sub-section has shown the process in which the mail questionnaire was applied and the gathered data were analysed using the chi-square statistical tool. It has given the results of this analysis by presenting those organizational characteristics which display a significant association to the existence of Sarbanes-Oxley type corporate governance practices in the organization.

These results of the analysis can now be related to the research question, aims and objectives. Specifically the research question was defined as: What organizational characteristics of German non-profit organizations are most influential in determining potential compliance with the US Sarbanes-Oxley Act?

Looking at the results of this part of the research methodology it can now be summarized that the size of the annual revenue, the age of the organization, it belonging to an international structure, it having an international scope of activities and its board members being active in the private sector are organizational characteristics of German non-profit organizations that are influential in determining potential compliance with the US Sarbanes-Oxley Act.

The professional background of the organization's board members and the degree its funding is depended on donations are not influential.

These results can now become the subject of further scrutiny in the other parts of the research methodology to be addressed in the following sub-sections.

5.2.2 Structured Interviews

The above set-out methodology provides the foundation for the second part of the data collection and analysis, the structured interviews.

The preceding section has provided the analysis and results of the mail questionnaire. To verify and enrich these results in a second phase of the data collection structured interviews were conducted with representatives of a sub-sample of the organizations that had taken part in the survey. Whereas the questionnaires yielded mainly quantitative data, the structured interviews provided qualitative data to help provide for means to triangulate and enrich the overall research results.

The main thrust of those interviews concerned the verification of the results obtained in the questionnaire survey and also the collection of information about what the representatives viewed as the main drivers of these results. In this way this part of the

data collection and analysis is more focused than the preceding section on the search for the underlying causes of the study's observations.

This section will now document what method was used to conduct and record the structured interviews, how the data were analysed and what results were derived.

5.2.2.1 Methodological Basis for the Structured Interviews

The approach in recording and analysing the structured interviews was based on literature guides in conducting such processes and on examples of this method being applied by other researchers in the non-profit field.

Among other guide books Moustakas (1994) was used, who stated that pertaining to interviews the structured phenomenological investigation should include:

“Developing a set of questions or topics to include in the interview process; Conducting and recording a lengthy person-to-person interview that focuses on a bracketed topic and question; Organizing and analyzing the data to facilitate development of individual textural and structural description” (Moustakas, 1994, page 3).

Based on this advise the interview structure sheet provided in the appendix was developed to guide the interview process and record the participants' responses. It contains the specific interview questions and space for recording the responses by the interviewer by noting them down.

The applied methodology was also based on methods used by other researchers in the non-profit sector and particularly on research in the area of corporate governance and the Sarbanes-Oxley Act. Gustafson (2006) stated in her thesis regarding the conducted telephone interviews and subsequent analysis:

“The researcher transcribed responses or her notes from the interviews as the telephone conversations occurred without assistance from audiotapes.

The results were combined by grouping responses according to general themes” (Gustafson, 2006).

The responses to each question were categorized and counted. This was done following the general principle stated by Miles and Huberman (1994) in referring even to qualitative analysis:

“There are three good reasons to resort to numbers: to see rapidly what you have in a large batch of data; to verify a hunch or hypothesis; and to keep yourself analytically honest, protecting against bias” (Miles and Huberman, 1994, page 253).

This design has also been successfully applied by other researchers in the non-profit field, for example Gaid (2007), Elbert (2006) or Mandato (2004). These researchers used surveys for gathering quantitative data which were then supplemented by qualitative data out of interviews. Processing, analysis and presentation of the results was then set out in a way conforming to the literature guidance provided for such mixed method research.

Based on this advise and examples in processing, analysing and presenting the results of structured interviews the following sub-sections provide information on the process and on the results of the structured interviews as part of this research.

5.2.2.2 Application of the Structured Interviews

The interviews were conducted over the phone and lasted anywhere between 10 and 30 minutes. Participants were representatives of the organizations in various capacities, mostly executives or managers, also members of the board, in a number of cases specific public relations personnel.

The interviews were conducted by the researcher based on a prepared structure sheet provided for reference in the appendix. The structure of the interviews and the questions asked were based on the results of the mail questionnaire and on the purpose of this second part of the data collection and analysis to provide verification of these results

and to enrich and develop the findings in terms of searching for the drivers and underlying reasons for these results.

The responses to the questions were noted down by the researcher on the space provided for this purpose on the interview structure sheets during the interview itself and immediately after the calls.

These documents were later coded for the data analysis.

In all 28 structured interviews were conducted in this way.

5.2.2.3 Analysis of the Structured Interviews

To address the above set-out purpose of the structured interviews to verify and enrich the research results the main thrust of the analysis is the search for the reasons behind the earlier obtained mail questionnaire results. The analysis of the structured interviews in leading to the identification of the drivers of those results then provides for support of the conclusions and adds towards enriching the overall results of the study.

For this purpose the questions defined for the structured interviews addressed two main areas:

- What are the reasons for the questionnaire results? Why are certain organizational characteristics more influential towards potential compliance with the main features of the Sarbanes-Oxley Act than others? Why are certain organizational characteristics not influential at all?
- Are these results useful for the stakeholders? Why would certain groups of stakeholders find the results useful and other groups would not? Can the results be used for benchmarking? Why would the information about the most influential organizational characteristics be useful to increase potential compliance?

The questionnaire results give information in terms of which organizational characteristics show a significant association with the main features of SOA; in the structured interviews specific information was gathered regarding what underlying causes drive these results.

Documentation of these causes, answering ‘why’, will also contribute towards the verification of the questionnaire results and will provide a way to triangulate the research.

5.2.2.4 Overview of the Results of the Structured Interviews

Why Are these Organizational Characteristics of Importance for the Potential Compliance with the Sarbanes-Oxley Act?

In the mail questionnaire analysis these organizational characteristics were identified as significantly influential: annual income, age of the organization, board members are active in the private sector, existence of an international branch or sub-organization structure, international scope of activities.

There was general agreement amongst the interview participants regarding the characteristics identified in the questionnaire results as being of importance for the potential compliance.

The result was:

Yes, I agree that the identified organizational characteristics are significantly influential:	25 responses	89.3%
No, I do not agree that these organizational characteristics are significantly influential:	3 responses	10.7%

Reasons Given Why the Organizational Characteristics were Perceived as Influential

The following specific reasons were given by the participants why the identified organizational characteristics are perceived as significantly influential:

- Regarding the annual income:

‘The more income the organization has, the more responsible the conduct and administration of those funds has to be.’

‘Only with increased funding can you hire the personnel to handle such a corporate governance system.’

‘Some features of a corporate governance system can only be afforded if the organization has a certain financial wherewithal.’

‘There is a self-sustaining dynamic here. The more funds the organization takes in the more professional it gets and can attract yet more funding.’

‘The income of an organization is to a degree a measure of its success. Being successful then also relates to having a good corporate governance system.’

‘Higher income is related to a tighter organizational set-up, more goal oriented processes and generally a stronger organizational structure.’

‘Greater resources enable the organization to recruit better qualified personnel which leads to better practices.’

‘Organizations with higher income can hire more full-time employees, relying less on volunteers. This can lead to greater professionalism.’

- Regarding the age of the organization:

‘As time passes the organization goes through step-by-step of its development, furthering the creation of corporate governance structures. This is especially pronounced at the time when the more informal founders are succeeded by a more settled next generation.’

‘At the beginning corporate governance is a low priority for the organization.’

‘Over time the organizations become more efficient, they move along the learning curve.’

‘As time passes in the development of an organization idealism and spontaneity give way to a more rules based approach.’

‘There could also be a relationship between the age of the organization and its level of income.’

‘If the organizations did not have good practices they would not get that old.’

‘Over time the organizations move along the learning curve. They also have more opportunity to learn from others.’

- Board members are active in the private sector:

‘Board members who are active in the private sector transfer ideas from there to the NPO they serve.’

‘It is likely that such individuals have gathered important and useful experience in the private sector that can then be applied also at the non-profit organization.’

- Regarding the existence of an international branch or sub-organization structure and an international scope of activities:

‘If an organization is part of an international structure the horizon of the people is extended, it becomes easier and more natural to think in terms of more complex relationships and interdependence.’

‘Being part of a larger structure leads to the organization being to a certain degree subjected to pressure to conform to the larger structure and assimilate. In regards to corporate governance this pressure should be corrective and in the end be positive.’

‘From our own experience we can confirm that international relationships further the organizational development.’

‘Organizations that are active internationally often work in conjunction with government agencies or offices, e.g. the foreign office and others. Those offices have rules of conduct those organizations must adhere to which leads to these organizations having more developed corporate governance structures.’

‘International public funding bodies, for example EU agencies, demand certain corporate governance mechanisms to be in place. So an organization that is internationally active is more likely to have a stronger corporate governance structure.’

‘Joining an international network necessitates to already have good corporate governance mechanisms in place or at least introduce them at the same time.’

Reasons Given Why the Organizational Characteristics were Not Perceived as Influential

There were a number of sceptical responses regarding specific individual organizational characteristics.

The following specific reasons were given by the participants why the identified organizational characteristics are not perceived by them as significantly influential:

‘That greater age of the organization is positively associated is surprising. I would have expected a certain conservatism in older organizations leading to slow organizational change.’

‘I would have expected older organizations to be less innovative than younger ones.’

‘Even if an organization belongs to an international network, the organizations still remain legally independent. Also each organization has its own history and development.’

‘The area of activity of the organization should also be looked at. Increased emphasis on improvement in corporate governance is currently very prominent in the international aid sector, which is our field of activity. That might not be so in other areas.’

‘That greater age of an organization is associated with a stronger corporate governance system is surprising. I regard the competition for funding in the past as not as fierce as today and would have expected younger organizations to be more up to date on current developments.’

‘That the age of the organization is ranking so highly is surprising. I would have expected those older organizations to have more traditional, inherited processes. Also there might be a loyal community of donors which is not pressing for change and development in those organizations.’

‘Not everything depends on money. Small organizations can also have good corporate governance systems!’

‘That there is any relationship to the background of board members is surprising. In an organization changes originate from and are driven by the staff, rather than the board.’

‘That the increasing age of an organization is related to stronger corporate governance is surprising. I would have expected that over time certain matters become routine and this is where the trouble might start.’

Responses Given Regarding Characteristics Found to be of No Importance to Compliance with SOA

Similarly information was provided regarding those characteristics that had been identified as having no importance for the potential compliance with SOA.

As not significantly influential these organizational characteristics were identified: applicable professional background of the members of the board of directors, the degree of funding out of donations.

Regarding why these characteristics are not important responses were given:

- Regarding the BOD professional background:

‘The professional background of the BOD members is not important, as in the selection process it is determined whether they are up to the task, no matter what their background is.’

‘The personal integrity of the individual is more important in the selection as a board member and subsequently to his or her conduct in steering the organization. What ever might be missing in the necessary professional expertise can be provided by others.’

‘The influence of the board goes only so far. For example, even if there is maybe a legal expert on the board, the organization’s staff still has to implement corporate governance policies and here might be a different level of legal expertise.’

‘Good corporate governance does not depend on single individuals on the board, but on the attitude of this body as a whole.’

‘For the work in non-profit organizations in general and the adherence to or introduction of good corporate governance systems, not the training or education are decisive, but the attitude and inner commitment of the person.’

- Regarding the degree of funding out of donations:

‘Important for the proportion of donations of the income is to a significant degree the organization’s field of activities. There are fields which are eligible for government grants or aid. Here donations are a much lesser part of the income than at organizations that do not get public funds. Thus the degree of donation funding depends on this eligibility, which is independent from the drivers of a strong corporate governance system. Examples are certain religious organizations, which are huge and well organized, but do not get aid, versus small informal relief organizations which do receive government grants.’

‘Corporate governance is of minor importance to donors, so there is no relationship between the volume of donations an organization receives and its corporate governance structure.’

‘Important for the quality of the corporate system is the size of the organization, not where the money comes from.’

‘Apparently donors are indifferent to the quality of the corporate governance structure of the organization.’

‘Important to the quality of the corporate governance system in the organization are the organization’s core principles which are guiding the conduct of its managers and which are independent from how it is financed.’

‘Where the money comes from does not matter. Administrators of public funding sources, as well as donors nowadays demand accountability and transparency.’

Assessing the Utility of the Results of the Mail Questionnaire for Use of Stakeholders

Further, based on the responses given in the structured interviews information can now be summarized about the utility of the earlier obtained results of the mail questionnaire for the organizations' various groups of stakeholders.

Why would certain groups of stakeholders find the results useful and other groups would not?

As stakeholders were defined above: internal decision makers inside the organization, lawmakers / regulators and donors / sponsors.

- Utility to decision makers inside NPO

Yes, the results of the survey would be useful

to decision makers inside of NPO:	23 responses	82.1%
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No, the results of the survey would not be useful

to decision makers inside of NPO:	5 responses	17.9%
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The majority of the participants expected people inside the organizations to be interested in the results. Here many of the participants related this question to their own personal situation as such a decision maker.

Supporting statements were given:

‘The subject of corporate governance is very popular right now, people are generally very interested in it.’

‘NPO leaders have to be interested as the DZI is aware of the latest corporate governance developments and is making that part of its review process.’

‘Today the opportunities for benchmarking in the non-profit sector are generally very limited, so any new information that enables comparison would be very welcome.’

‘It is very important for an organization to know where it stands in comparison to others.’

‘In light of the existing dynamic towards improved corporate governance these research findings would be very useful.’

‘Many organizational leaders would be grateful for such comparative information.’

‘As our organization is very young and we are just starting to develop procedures and structures we are very active in observing other organizations with the goal to adopt best practices. So the information would be very helpful to us.’

‘Yes, but the form of communication would be important. The corporate governance mechanisms would have to be clearly defined and explained.’

There were dissenting voices:

‘Whether this is interesting to the organizations depends very much on its priorities. It can not be generally stated.’

‘Such decision makers working part-time or volunteering for the NPO might not have the time to look into this.’

‘In the day-to-day business this information might not be really necessary.’

‘In smaller organizations there might just be not time for this.’

- Utility to lawmakers / regulators

Yes, the results of the survey would be useful
to lawmakers: 16 responses 57.1%

No, the results of the survey would not be useful
to lawmakers: 12 responses 42.9%

Generally the opinion amongst the interview participants was mixed regarding the usefulness of the research results to lawmakers and regulators. A slight majority of participants responded that the results would indeed be useful to this group of stakeholders and would aid their interaction with sector organizations.

A number of interview participants see only a limited role for the study results in the decision making process of regulators. Whereas the information itself would be useful, it was pointed out that other considerations might be accorded higher priorities.

Specific statements were given:

‘Well, the results should be useful to them.’

‘I would hope they are interested, but it might be doubtful.’

‘We would hope they use the results. For non-profit sector institutions this might be likely, but for governmental agencies this might be unlikely.’

‘It would be worth a try.’

‘Increased awareness of these research findings would be very necessary among this group of addressees.’

‘I think that this group of people has other priorities in their decision making towards corporate governance rather than the organization’s characteristics.’

‘Lawmakers and regulators are often far removed from the actual circumstances in the non-profit sector and these research findings should prove useful to them.’

‘Information regarding the quality of the discussed corporate governance mechanisms would also have to be conveyed.’

- Utility to donors / sponsors

Yes, the results of the survey would be useful

to donors / sponsors:	8 responses	28.6%
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No, the results of the survey would not be useful

to donors / sponsors:	20 responses	71.4%
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Regarding the usefulness of the research results to donors and sponsors the majority of the recorded responses were negative.

Specific reasons were given as:

‘The information might be useful, but it would be very hard to reach the general public. By what means of communication would you transport the results?’

‘Donors are much more focused on the goals of the organization.’

‘Other considerations are much more important to donors. A significant portion of donors give based on religious affiliation. Also very important are personal reasons, for example an ill or handicapped person in the family or an experience during foreign travel.’

‘It is doubtful that the general private donor would be able to really evaluate this information.’

‘Donors focus much more on the effectiveness of the organization.’

‘Donors as a group are very diverse. It is very difficult to make general statements or assumptions regarding the donors as a group.’

‘Some donors regard the information organizations publish about their corporate governance structure as advertising.’

‘The information might be interesting to donors, but would in the end not be the decisive issue.’

‘Especially the large donors have often a particular relationship with the specific organization. Its corporate governance system does not play a part in this.’

‘More important to donors is the popularity of the organization and whether it is well known.’

‘In our experience the general donor is definitely not concerned with this issue.’

‘Personal relationships and trust are much more important for the donor’s decision.’

‘To a significant degree the donor’s decision to which organization to give is not rational.’

‘We have tried to actively communicate with our supporters about corporate governance via our regular publications, but the feedback was minimal.’

‘There would only be very few donors who would actually be able to use this information.’

There was a minority of participants that expected the research results to be useful also to donors. The reasons given were:

‘People are nowadays much more sensitive and educated regarding corporate governance and do pay attention to developments. We are currently experiencing a significant increase in specific inquiries.’

‘For companies acting as donors or sponsors corporate governance in the organization might be important, as this is of course also an issue there and they are familiar with the subject.’

‘Possibly large foundations issuing grants could make use of these research findings.’

‘It would be useful to donors, too. But the information would have to be put into a very condensed form.’

‘Companies that engage in professional sponsoring relationships with non-profit organizations might find this information useful.’

Further Groups of NPO Stakeholders

Very interestingly beyond the above pre-defined categories participants suggested during the interviews further groups of stakeholders and uses for the research results that were very insightful:

‘For general donors the information might not be that useful, but institutional donors and especially public aid offices might be interested. People administering public support programmes and disbursing public funds are professionals and would be much better able to use this information than the general public.’

‘Beyond lawmakers also auditors and accountants servicing the non-profit sector should be interested in the research results.’

‘Other than the organizations themselves and the mentioned third parties also umbrella-organizations like the DZI or VENRO [Verband Entwicklungspolitik deutscher Nichtregierungsorganisationen e.V., an umbrella organization] should be interested in the results to share with their member organizations.’

‘Umbrella-organizations could serve as a conduit for the communication of the results of the research and become multipliers in their dissemination.’

‘Consultants active in the non-profit sector should also be strongly interested in the research results.’

Utility of the Results to Increase Potential Compliance with SOA Type Practices

Further, based on the data gathered in the structured interviews information can now be given why the knowledge about the most influential organizational characteristics is useful to increase potential compliance of organizations with Sarbanes-Oxley type corporate governance practices.

Of particular interest in this regard is also whether based on the research results a step-by-step approach of first achieving certain organizational characteristics to support the subsequent implementation of Sarbanes-Oxley corporate governance features can be regarded as useful to increase potential compliance.

Examples of such an approach would be to seek board members that are active in the private sector or the organization looking for participation in an international network before actually embarking on the development and implementation a new corporate governance system.

Recruiting such board members or joining an international structure could be regarded as a basis for the advancement of corporate governance mechanism in an organization.

Yes, I think such an approach would be useful or practical:	15 responses	60.0%
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No, I think such an approach would not be useful or practical:	10 responses	40.0%
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The responses to this question were mixed with a majority of respondents agreeing with this notion, but a significant minority disagreeing.

Positive statements were given as:

‘This might be helpful as supporting activities aiding the efforts of the management.’

‘In general becoming part of an international network should be helpful for the implementation of corporate governance systems in non-profit organizations or their improvement. Examples for application here would be the sharing of experiences, mutual consulting and employee training.’

‘I myself have a professional background in the private sector and was recruited specifically to further organizational change.’

‘In our approach to adopt best practices of other organizations, cooperation in international networks would generally be regarded as beneficial.’

‘This would be a logical and systematic approach.’

‘We are considering just such an approach right now. It is very important to us to have a heterogeneously staffed board.’

‘This was the case in our organization. Our umbrella organization demanded a more professional board and brought in commercially educated individuals.’

‘Yes, this might be an interesting approach especially for organizations that are not continuously engaged in a certain activities, but on and off do philanthropic projects or campaigns like certain clubs or associations for example.’

Negative statements were:

‘No, we would not go this route. It is the responsibility of the existing management to implement such changes. We are going through changes in

another organizational area right now and we are not considering such an approach.'

'The selection of board members is already a tricky job.'

'It depends on what priority corporate governance has for the organization.'

'In general this is part of the job of the people that are already there. We would not go out and look for new BOD members or managers just for this issue.'

'This depends on the urgency to improve the organization's corporate governance structure. There might not be enough time to go through these steps. It very much depends on the individual circumstances.'

'The development of the organization's corporate governance system is too peripheral compared to the main activities of the entity to warrant such an involved approach.'

'To become part of a larger network can turn into an encumbrance on organizational development as decision making and implementation are being slowed down.'

'To be admitted into an international network, often times certain minimum standards already have to be met first. So, going step-by-step like this might not actually work.'

'This very much depends on the priorities of the organization.'

'In my experience the reputation of the person invited on a board is the main issue in the selection. Trust is here much more important than professional background. Other criteria might be the public celebrity of the person.'

Summarizing the results of the structured interviews it can now be said:

- The organizational characteristics identified as significantly influential in the mail questionnaire were confirmed as such in the structured interviews.

The interview participants elaborated on what the basis for their sentiment is and in this way provided a number of interesting insights regarding the influence of the individual organizational characteristics helping to enrich the overall research results.

Dissenting opinions, even though in the minority, provided additional views.

Similarly information and subsequent confirmation was obtained regarding those organizational characteristics which had earlier been identified as having no influence on potential compliance.

- Opinions on the utility of the results for the defined groups of stakeholders were also obtained from the interview participants.

- Regarding the utility of the results for decision makers inside the organizations the sentiment of the participants was largely positive. The feedback carried added weight as most of the interview participants were themselves actually in a responsible position in their organization.

In the interviews further statements regarding the application of the results by the NPO decision makers were provided.

- The question regarding the utility of the results for lawmakers or regulators in their tasks led to mixed results, with a small majority of positive responses.

Interestingly the participants, when giving reasons for their doubtful responses did largely not attribute this to the results of the study in form of the identified organizational characteristics, but to a perceived

unresponsiveness of lawmakers to such data and a decision making on their part based on other considerations.

- A utility of the results to donors or sponsors of non-profit organizations was rejected by a majority of the interview participants.

This view was based on the perception that donors, in the experience of the interviewed organizational representatives, make their decision largely on the grounds of other priorities, rather than organizational corporate governance practices. Cited were here the goals of organizations and often personal reasons relating to the individual donor.

Those participants that did see an application of the results for this group of stakeholders did so only in specific circumstances and for specific sub-groups of organizational supporters, for example in professional sponsoring relationships.

- Additional information was obtained regarding potential uses of the results for other interested groups, which had not been pre-defined and that provides further potential application for this study's results.

Examples of those interested groups were professionals such as accountants, auditors or consultants with a focus on the non-profit sector or NPO umbrella organizations where the research results can be applied in their role of providing assistance to their member organizations.

- As a further use for the results of this study their application in increasing the potential compliance with SOA type practices was examined in the structured interviews.

Based on the mail questionnaire results the interview participants were asked whether they would deem it likely that an organization might use the establishment of the identified influential organizational characteristics as a preparatory step in further developing their corporate governance practices. An

example would be the recruitment of board members active in the private sector before drafting new corporate governance policies.

The responses to this question were mixed, with a slight majority in favour of such an approach.

In giving reasons for their opinion some participants regarded proceeding in such a way as useful and logical, others deemed such an approach as cumbersome and pointed to the weight of other considerations in making decisions on the identified organizational characteristics.

5.2.2.5 Summary

This section provided information regarding the structured interviews as part of the overall data collection and analysis of this study.

The process was designed and applied based on literature both in the way of text books and practical application by other researchers in similar studies.

Purpose of this part of the data collection and analysis was to verify and enrich the results obtained in the earlier mail questionnaire process and in this way help to triangulate and further develop the overall research outcome. Whereas the mail questionnaire was mostly focused on quantitative data the structured interviews provided a more qualitative, phenomenological view looking at reasons and drivers behind the earlier obtained results.

Summarizing the results of the structured interviews it can now be said that the organizational characteristics first identified as significantly influential in the mail questionnaire analysis were confirmed as such in the structured interviews.

The utility of these results for the defined stakeholder groups was regarded in a differentiated spectrum by the interview participants. Application of the results for NPO decision makers was viewed as beneficial. The opinion of the participants was divided

about the use of the results by lawmakers and they rejected a general utility of the information for the majority of donors or sponsors.

The structured interviews further provided suggestions for additional concerned parties which might have specific interest in or applications for the research findings.

The further use for the results of this study in increasing the potential compliance with SOA type practices was viewed in a differentiated way by the participants. Whereas one group welcomed such an approach, others raised specific doubts.

After having concluded the data collection and analysis of the structured interviews as the second part of the overall research methodology the further process regarding the document review can now be addressed in the following section.

5.2.3 Document Review

The previous sections have detailed the data collection and analysis regarding the survey and interview methods of data collection. This section now is to focus on the document review as a further source of data.

Employing a mixed method research approach for this study, this third method of data collection is primarily qualitative. From its data volume in comparison to the preceding methods the document review is of secondary nature, serving mainly as a way to strengthen the validity and reliability of the study as a whole, provide for verification of the results and generally enrich the research.

5.2.3.1 Methodology of Data Collection and Analysis of the Document Review

The methodology first outlined in the research methodology chapter regarding this research element is now further detailed by describing its application in the data collection and analysis process.

In his work on mixed method research Creswell (2003) provides a specific multi-step process for the application of qualitative data analysis, particularly in regards to documentary data sources:

- Step 1: Organize and prepare
- Step 2: Read through all the data
- Step 3: Begin detailed analysis with coding process
- Step 4: Use the coding process to generate a description of [...] categories or themes for analysis
- Step 5: Representation of description and themes in the qualitative narrative
- Step 6: Interpretation of the data

The application of this approach in the use of organizational documents is also informed by the work of other researchers on similar or related subjects employing a document review as part of their data collection and analysis (Gaid, 2007; Mellor, 2007; Pugh, 2007; Converse, 2008).

In this way the document review element of the research at hand was designed and conducted based upon a textbook foundation and existing research example, yielding qualitative results contributing to the research question.

Examined were articles of formation, by-laws, financial reports, general annual performance reports, promotional publications and specific policy statements rendered by the organizations, as well as in some cases specific codes of ethics or codes of conduct, containing information applicable to the research question.

5.2.3.2 Results of the Document Review

28 organizations made documents of the various stated types available for this study.

One main purpose of the examination of these documents was the verification of the information previously gathered in the mail questionnaire and the structured interviews.

To this end the information previously provided by these organizations in those methods of data collection were compared with the data available out of the documents.

In this way the information regarding Sarbanes-Oxley type corporate governance practices prevalent in the organizations and regarding the organizational characteristics as previously recorded in the questionnaires and structured interviews were cross-checked with the organizations' materials.

The particular focus of the document review were those organizational characteristics that had been identified in the preceding analysis as having a significant association to the existence of SOA corporate governance features in the organizations.

Further, regarding those organizations which had provided information that indicated they already follow SOA type corporate governance practices their documents were examined with a view on corroborating that information.

The following results were then obtained regarding the characteristics and practices and the following further observations were recorded:

- Commissioning of an annual external financial audit. In 12 of the available 28 sets of documents information was given regarding the commissioning of an annual external financial audit by the organization. In 10 of these cases the information given in the questionnaire could be confirmed, in two cases the organizations' documents contradicted the submitted questionnaires.

83% Confirmation Rate

- Primary Source of Funding. In their articles of formation organizations often define the primary source of funding intended for the newly created entity. Further their annual reports detail the income by type. Based on the available documents for 13 out of the 28 sets of documents such information could be reviewed. In all cases the statements in the organizational documents matched the answers provided in the questionnaires.

100% Confirmation Rate

- International Scope of Activities. The other two methods of data collection had led to the result that an international scope of activities is significantly associated with the existence of SOA type practices in the organization. Looking at the available 28 sets of organizational documents, in their articles of formation, as well as annual reports and promotional material 15 of these organizations make specific mention of or give reference to international activities.

For 3 of these 15 the document information available did not match the questionnaire responses. One reason for cases of mismatch appeared to be outdated articles of incorporation, not reflecting the latest developments in the organizations' activities, which on the other hand were basis for the questionnaire responses.

80% Confirmation Rate

- Board members' professional background, their being active in the private sector. There were cases where promotional material issued by organizations gave biographical information on the organization's leaders. This information could then be matched to answers given in the questionnaires regarding the board members' professional background and their being active in the private sector.

Whereas such information out of organizational documents was only available for 2 entities, in both cases the information confirmed the questionnaire data.

100% Confirmation Rate

- Age of the organization. As articles of formation are updated or reworked over the years they are not always unambiguous about the year of foundation of the organization. Nor do all organizations find it necessary to state that information in other publications.

6 of the examined sets of documents made specific reference to the organization's year of incorporation or formation, thus providing a means of verifying that information. In all cases the earlier obtained data could be confirmed.

100% Confirmation Rate

- Existence of a formal document retention / destruction policy. Three of the surveyed organizations made their policy paper regarding formal record keeping available. This confirmed their earlier responses regarding having such a document.

100% Confirmation Rate

Additional Information

Additional to those organizations that have board financial audit committees, the articles of formation of further cases call for an internal audit or review function for financial matters. Whereas such a function does not fit the prescription of SOA calling for a board committee and thus has no direct bearing on the study's results, this shows the apparent emphasis of prudent corporate governance and transparency in those organizations.

One organization specifically mandates in its articles of incorporation that the members of its board of directors are to be chosen of a diverse professional background.

In none of the 28 cases of the document review could the information regarding a prohibition against loans out of the organization's funds to its board members be verified as embodied in a formal statement. Yet, it can be observed that such a practice would in most cases severely contradict the definition of the organization's purpose statement given in the articles of formation and in general create a conflict with the organizations' charitable status. In this way having a clearly defined purpose statement and charitable status can be viewed as creating the basis for a prohibition of loans to board members, without a specific further statement.

In some cases it appeared that the available documents were outdated and thus did not match more recent developments in the organizations. This seems to have resulted in some of the information provided by the organization in the other types of the data collection to contradict those older documents and to lead to mismatches in the document review.

5.2.3.3 Summary

Purpose of the document review was the validation and verification of the results obtained by the other methods of the data collection, the mail questionnaire and the structured interviews. Further these earlier results were to be enriched by additional information gained out of the organizations' documents.

The review and analysis of the material was structured based on textbook application and other researchers' example, employing a qualitative research approach.

The documents made available by a sub-sample of the organizations were then analysed verifying the information relating to the SOA type practices in the organizations and to the organizational characteristics.

This process led to an overall confirmation of the results of the other research methods. Further, a number of specific insights regarding individual organizations could be added to the overall study results.

Contradictions in the data were detected only in a small minority of cases and deemed not to affect overall validity of the study results.

5.3 Summary

This chapter has provided the detailed review of the data collection and analysis. Based and the literature review the research question, aim and objectives had been defined and the methodology for the study had been developed. The methodology called for a three-

pronged mixed method research approach, combining a mail questionnaire, structured interviews and a document review.

The methodology was designed and subsequently implemented so that the three research approaches provided for means to triangulate the research, thus verifying and validating the results.

Specifically, the research design was implemented so that data and results first derived out of the analysis of the mail questionnaire were verified in the subsequent structured interviews with a sub-sample of the organizations and could be checked again in the final document review.

Further the mixed method approach enabled quantitative data gathered in the mail questionnaire to be supplemented by qualitative information collected in the structured interviews and document review. In this way the research findings could be further enriched.

The mail questionnaire data were analysed using the chi-square statistical tool to test the association between the existence of the SOA provisions and the organizational characteristics.

The structured interview data were analysed by categorizing and counting the responses to the individual questions and by providing verbatim quotes from the interview participants.

The document review was implemented using a multi-step process informed by text book recommendation and other researchers' example. Focus of this method of data collection in the study was the verification of the results obtained by the other methods and the further collection of qualitative data.

The foundation has now been laid to proceed to the overall summary and conclusions of the research study in the following chapter.

6. Summary, Conclusions and Recommendations

6.1 Introduction

The preceding chapters have established the research framework, detailed the data collection and analysis and presented the individual research findings.

Based on the review of the existing literature a research gap regarding the readiness of the German non-profit sector organizations for Sarbanes-Oxley type corporate governance practices had been identified. Subsequently the research question, aims and objectives were defined to address this research gap.

Applying a mixed method research approach this study was then designed and implemented to provide a response to the research question.

This chapter is now to provide a summary of this study in terms of its application, drawing together the major findings and resulting conclusions, as well as recommendations to non-sector stakeholders.

Further, the limitations of the study will be outlined and recommendations given for future research.

6.2 Summary of the Major Findings

In the above review of the literature base a research gap regarding the readiness of the German non-profit sector for Sarbanes-Oxley type corporate governance practices had been identified.

Laying the basis for addressing this research gap the concerned SOA type practices were identified, as well as organizational characteristics of non-profit sector entities defined. In this way an examination of the association of an existence of SOA type corporate governance practices in an organization and its organizational characteristics was enabled.

Applying a mixed method research approach data were gathered using a mail questionnaire sent to the non-profit organizations in the defined sample frame. Structured interviews with organization representatives of a sub-sample of organizations were conducted and organizational documents of a further sub-sample were reviewed.

Of the 232 organizations registered with the Deutsches Zentralinstitut für Soziale Fragen, DZI in Berlin in 2007, 159 returned usable questionnaires, representing a 68.5% response rate. Subsequently 28 structured interviews were conducted and 28 organizations provided documents for review.

This research methodology led to quantitative as well as qualitative data for the analysis. The applied methods of data collection enabled triangulation of the results and provided for a means to validate and verify the results and to enrich the overall research findings.

To test the association of the SOA type practices found in the organizations and the organizations' characteristics the questionnaire data were analysed using the chi-square statistical test.

An overview of the results of this test relating the defined corporate governance practices to organizational characteristics is given in table 6.1 below.

Table 6.1. Results: Existence of an Association between the Variables of the Chi-Square Tests

Results

Existence of an Association between the Variables based on the Chi-square Test

Organizational Characteristic:

Sarbanes-Oxley Feature:		Annual Revenue	BOD applicable professional background	Existence of an international branch or sub-organization	Age of the Organization	International Scope of Activities	Degree of Donation Funding	Board Members are active in the private sector
Preparation and publication of financial statements		YES	NO	NO	YES	NO	NO	YES
Existence of a board financial audit committee		NO	NO	NO	YES	YES	NO	NO
Board financial audit committee members have formal financial training		NO	NO	NO	NO	YES	NO	NO
Commissioning of an annual external financial audit		YES	NO	YES	NO	YES	NO	NO
Rotation of external financial auditor or lead audit partner in the last five years		YES	NO	YES	YES	NO	YES	YES
Existence of a formal conflict of interest policy covering the organization's directors and executives		YES	NO	YES	YES	NO	NO	YES
Existence of a formal process to handle employee complaints		YES	NO	YES	YES	NO	YES	NO
Existence of a formal Document Retention / Destruction Policy		YES	NO	NO	NO	NO	NO	YES
Prohibition of loans out of the organization's funds to its board members		NO	NO	NO	NO	NO	NO	NO
Count		6	0	4	5	3	2	4

6.2.1 Organizational Characteristics Most Influential in Determining Potential Compliance with the US Sarbanes-Oxley Act

Identification of the Most Influential Organizational Characteristics

Summarizing the results of the above research methodology the following organizational characteristics were identified as influential in determining potential compliance with SOA in order of their importance:

- # 1 The annual revenue of the organization

- # 2 The age of the organization

- # 3 The existence of an international branch or sub-organizations structure

- # 3 The organization's board members being active in the private sector

- # 4 The organization having an international scope of activities

Further it could be derived that the following organizational characteristics are not indicative of an alignment with SOA type corporate governance practices:

- The degree of funding out of donations

- The board members having an applicable professional background

These results were first established by analysing the gathered mail questionnaire responses using the chi-square statistical test of the association between the two variables.

The subsequent structured interviews contained elements verifying and validating these results. The interviews were also used to analyse likely causes for these results and to enrich the overall research findings.

Further, the document review, the third element of the research methodology, was applied to confirm these results.

Other Researchers

These results concerning the relationship of the Sarbanes-Oxley Act and NPO organizational characteristics compare well to the work of other researchers on similar or related issues.

As early as 2006 Ostrower and Bobowick had identified the income of a non-profit organization to be of significant importance to its preparedness for Sarbanes-Oxley type corporate governance developments (Ostrower and Bobowick, 2006; Ostrower and Stone, 2009).

The research survey conducted by Iyver and Watkins also yielded comparable results regarding the association of specific organizational characteristics, particularly the size of the organization's budget and the board composition, to the voluntary implementation of SOA type practices (Iyver and Watkins, 2008).

Whereas Nezhina and Brudney are generally cautious regarding the impact of the Act on the non-profit sector in the US, their survey results, by detecting a relationship between organizational characteristics and SOA type practices in the organizations, also point to the role of available revenue and the organization's leadership (Nezhina and Brudney, 2009).

Verification of Influential Organizational Characteristics Supported by Reasoned Interview Responses and Document Review

As delineated in the above data collection and analysis chapter the structured interviews provided detailed material on the causes for these organizational characteristics to be influential.

Whereas in each case there were dissenting voices among the interview participants, the structured interview responses confirmed the identification of the influential

characteristics through the mail questionnaire. The participants also provided significant additional input in terms of supporting their responses by giving information about the likely causes for the specific findings.

The third element of the research methodology, the review of organizational documents, was applied to further verify and validate the findings. The examination of articles of formation, by-laws, specific policy statements and other types of documents provided by the organizations also supported the research findings.

6.2.2 Utility of the Information on Organizational Characteristics' Influence to NPO Decision Makers, Lawmakers, Donors

A further objective of this research was an assessment of the utility of the research results for certain groups of organizational stakeholders. Those were defined as NPO internal decision makers, lawmakers / regulators and donors / sponsors.

Instrumental in this assessment was specifically the structured interview part of the research methodology. The results of the preceding mail questionnaire were briefly presented to the interview participants and their views on the perceived usefulness collected.

- Regarding the internal NPO decision makers, to which group most of the interview participants themselves belonged, the majority of the responses indicated that this group of addressees would gain from this knowledge and benefit from the research results.
- Regarding the utility of the results to regulators and lawmakers the opinion of the interview participants was mixed. A slight majority of participants responded that the results would indeed be useful to this group of addressees.
- Regarding the usefulness of the research findings to donors and sponsors the majority of the recorded responses were negative.

Beyond the defined concerned groups the structured interviews led to the identification of further groups of likely interested parties, which were mentioned by the participants.

Among those were auditors and accountants specializing in services for the non-profit sector. Likewise consultants working in the sector were mentioned as likely to benefit from the research results. Further, similar to the internal NPO decision makers, interview participants pointed out that representatives of non-profit sector umbrella organizations were likely to be interested in this research.

Part of the purpose of the structured interviews was also to enrich the overall research results. In this case noting the indication about the utility of the results was augmented with the gathering of more detailed opinions and reasoning provided by the interview participants.

6.2.3 Organizational Characteristics' Role in Increasing Potential Compliance with the US Sarbanes-Oxley Act

A further objective set for this research was an examination whether those organizational characteristics which were found to have an association with the existence of SOA type practices in the organization could become instrumental in increasing the potential compliance with the Act.

The data for addressing this part of the research were mainly gathered in the structured interview segment of the research methodology.

The responses from the interview participants to this question were mixed, with a slight majority assessing such an approach as useful or practical.

6.3 Recommendations to Stakeholders

The above research findings, particularly the ranking of characteristics in regards to their association with SOA type practices, was investigated regarding its utility and its specific practical applications for various groups of stakeholders. This investigation

resulted in differentiated information about individual practical applications and recommendations for each group of stakeholders:

- NPO decision makers gain from the research findings through their application as a benchmarking tool. The NPO leaders can compare the readiness of their own organization to that of similar entities, described by their organizational characteristics, and assess a necessity for improvement in comparison to the organization's peers. The identified association between characteristics and SOA type practices thereby serving as an indicator of potential compliance of similar organizations.

NPO decision makers also benefit by using the knowledge about the association of organizational characteristics and potential compliance when working to improve corporate governance practices in their organization. Specifically the information about the importance of the organization being part of an international network of organizations and the professional experience of board members relating to high potential compliance can be helpful in the development process.

- Regulators and lawmakers can apply the research findings in assessing an impact of increased corporate governance regulation on certain groups of NPO relating to their already existing readiness.

Here, differentiation of regulatory initiatives concerning German non-profit organizations depending on their organizational characteristics is aided by the research findings. Specifically the information about the influence of the annual revenue of an organization as well as of its age is of importance.

A practical example of such regulatory differentiation is the applicability of the California Nonprofit Integrity Act only for organizations of an annual income of USD 2,000,000 or more, exempting smaller organizations (California Attorney General, 2004).

- The study led to the conclusion that the findings are of only limited practical utility for most NPO donors and sponsors. Corporate governance matters were

identified as commonly only of limited importance in the decision making process of general donors.

Application of the research results in specific cases can be envisioned, for example in larger scale professional sponsorship relationships where the industrial or business sponsors are familiar with and anticipate certain corporate governance practices in the supported organization. Here the research results can provide guidance.

But most members of this group of stakeholders would have to look towards the work of other researchers for their specific needs relating to the non-profit sector.

- Further, the study led to the identification of other stakeholder groups such as auditors, accountants and consultants specializing in services for the non-profit sector, as well as leaders of NPO umbrella organizations.

The knowledge about the association between organizational characteristics and the existence of SOA type practices can be utilized specific to these service providers' relationship to sector entities. Auditors and accountants can use the research findings to assess the potential strength of corporate governance systems relating to an organization's profile and relative to other organizations. Consultants can find use in identifying and evaluating needs for change in organizations.

Further, representatives of NPO umbrella organizations can apply the research findings in communication with external addressees concerning sector corporate governance issues, their knowledge about the status having been further improved.

6.4 Contribution to the Knowledge Base

This study extends the previously existing knowledge base on non-profit governance and helps to address the above identified research gap.

It had been shown that there is similar and related research concerning the Sarbanes-Oxley Act and its impact on the non-profit sector (Ostrower and Bobowick, 2006; Nezhina and Brudney, 2009). But that research was directed at the sector in the US. Further there has been research on non-profit corporate governance issues relating to the non-profit sector in Germany, as well as in other countries, yet not specific to SOA (Bies, 2002; 2003; Wolfbauer, 2006).

Also there is by now a body of research on the impact of the Act on the German for-profit sector be it directly or indirectly through EU or national legislation (von der Crone and Roth, 2003; Braiotta, 2005; von Rosen, 2006; Wiedeking, 2007).

But there is no dedicated research focusing on the Sarbanes-Oxley Act and the potential compliance of German non-profit organizations with its provisions.

This research study then contributes to the knowledge base in a very specific way and addresses this research gap.

The assessment of a correlation or association between a potential compliance of German non-profit organizations with the main provisions of the Act and the entities' organizational characteristics leads to a meaningful contribution to the knowledge base.

As stated above this contribution to the knowledge base has a practical application to the identified stakeholder groups and their specific needs relating to the non-profit sector.

6.5 Limitations of the Study

This study is subject to a number of limitations, both relating to the research subject, as well as to the implemented research methodology.

In keeping with basic research ethics as set-out above these limitations are to be made known to the reader.

By its design and scope this study focuses on those German non-profit organizations registered with the DZI. The findings apply directly only to this sub-group of sector organizations and its generalizability beyond this sub-group may be limited.

The qualifying statement of Hoggins-Blake regarding her study of compliance with SOA in the US education sector applies also to this research:

“That means that there are infinite combinations of actions and environmental, external as well as internal, factors that help or hinder an institution’s decision to comply or their decision to refrain from volunteer compliance with SOX” (Hoggins-Blake, 2009).

Regarding the research methodology, specifically the administration of the mail questionnaire it is to be noted that the researcher did not observe the actual filling-in of the information by the recipients. Full understanding of the questions, as well as the absence of bias on part of the recipient is thus not completely assured.

As the mail questionnaire was designed by the researcher there is an inherent potential for bias. The conducted Pilot Study helped in reducing such potential and to refine and clarify the survey instrument.

Concerning the conducted interviews a potential for reactive behaviour by the participants exists and there may have been a tendency to provide responses perceived to be showing the participant and his or her organization in a positive light. Whereas this weakness can not be completely eliminated the diverse and differentiated responses support an assumption of only minimal effect of reactive behaviour.

6.6 Recommendations for Future Research

Although this study extends the previously existing knowledge base on non-profit governance and helps to address the above identified research gap, additional research should be conducted to further expand the understanding of current and future developments:

- Research of a similar nature should be conducted regarding the situation in other countries. Whereas this research has focused exclusively on the German non-profit sector, it is reasonable to assume similar effects regarding an influence of the US Sarbanes-Oxley Act to also reach other countries.

Salamon and Anheier have already collected a significant body of research on the non-profit sector in a number of countries as part of the Johns Hopkins University Non-Profit Sector Project (Salamon and Anheier, 1997; Salamon et al., 2000). There are also already country-specific studies on certain specific aspects of non-profit sector corporate governance, for example regarding third sector self-regulation in Poland (Bies, 2002; 2003). Yet, based on this research further study of the readiness for Sarbanes-Oxley type practices in the non-profit sector in countries besides Germany seems necessary.

- Looking at the trend towards increased efforts in the area of corporate governance in general in the private as well as the non-profit sectors of the economy, it would be reasonable to expect other legislation, movements or events besides the passage of the US Sarbanes-Oxley Act to have an impact on the dynamic of corporate governance development in the German non-profit sector. Additional research would be helpful to identify those likely other drivers and their impact.
- In the review of the literature base the California Non-Profit Accountability Act of 2004 was identified as directly applying practices mandated in the Sarbanes-Oxley Act to non-profit entities. This application should by now have resulted also in an understanding about the level of preparedness those organizations had when starting the implementation of the new regulation. Formal research

regarding this particular question could yield valuable insights and might be of significant interest to the same circle of concerned parties as this research.

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APPENDIXES

- Mail Questionnaire Cover Letter, English language -

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World Vision e. V.
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28 March 2008

Corporate Governance Research Questionnaire

Dear Sirs,

Your organization has been awarded with the 2007/2008 DZI donation seal attesting the highest level of professional recognition.

Based on that distinction I would like to ask you to be part of a research survey I am conducting as part of a doctoral thesis at Edinburgh Business School. Subject of the research is the prevalence of new and developing approaches to corporate governance principles in German non-profit organizations and whether a pattern can be identified what kind of organizations follow these principles more closely than others.

Your time in filling out the enclosed short questionnaire would be greatly appreciated. Once the study is completed an Executive Summary of the findings will be returned to the participants.

All responses will be treated in strict confidence and no information will be attributed to individual organizations. No names or other means of identification, if provided, will be made public.

Please do not hesitate to contact me with any questions you might have regarding the questionnaire or this research.

Thank you very much for your help

Sincerely,

Thomas Hasenpflug

Enclosures

- Mail Questionnaire Cover Letter, German language -

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28.03.2008

Forschungsfragebogen Corporate Governance

Sehr geehrte Damen und Herren,

Ihre Organisation hat als eine von nur 230 das DZI Spenden-Siegel 2007/2008 erhalten.

Auf Basis dieser Auszeichnung möchte ich Sie einladen an einer Forschungsstudie teilzunehmen, die ich als Teil einer Dissertation an Edinburgh Business School durchführe.

Forschungsgegenstand ist die Verbreitung neuer und sich entwickelnder Ansätze und Prinzipien im Bereich der Corporate Governance, also der Grundsätze der Führung von Organisationen, im deutschen Non-Profit Sektor. Ziel der Studie ist es, zu ermitteln, ob durchgängige Abhängigkeiten zwischen bestimmten Eigenschaften der Organisationen und dem Vorhandensein von bestimmten Corporate Governance Prinzipien festgestellt werden können.

Ich wäre Ihnen sehr dankbar für Ihre Mithilfe und das Ausfüllen des beigefügten kurzen Fragebogens über Ihre Organisation. Allen teilnehmenden Organisationen wird nach Beendigung der Studie eine Zusammenfassung der Forschungsergebnisse zugesendet.

Alle Antworten werden streng vertraulich behandelt und es wird keine namentliche Nennung oder Zuordnung der Organisationen vorgenommen.

Für Fragen zu diesen Unterlagen oder allgemein zu dieser Forschungsstudie stehe ich Ihnen sehr gern zur Verfügung.

Vielen Dank für Ihre Unterstützung.

Thomas Hasenpflug

Anlagen

- Mail Questionnaire, English language -

Empirical Research of New and Developing Corporate Governance Principles in German Nonprofit Organizations

A Doctoral Research Study by Thomas Hasenpflug as part of the Doctor of Business Administration Programme at Edinburgh Business School, Edinburgh, Scotland

World Vision e. V.
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Thank you very much for your cooperation in this study!

All responses will be treated in strict confidence and no information will be attributed to individual organizations. No names or other means of identification, if provided, will be made public.

Please go through the questions one by one. When you are finished, please return the questionnaire in the enclosed postage paid envelop.

Regarding any questions to this questionnaire or the research study I will be happy to assist at the blow contact information.

A	Organizational Information	
A1	Which of the following best describes the geographical scope of most of your organization's activities?	Local <input type="checkbox"/> National <input type="checkbox"/> Regional <input type="checkbox"/> International <input type="checkbox"/>
A2	Please state your organization's approximate annual revenue :	_____
A3	What is your organization's most important source of funding?	Dues/Fees <input type="checkbox"/> Foundation Income <input type="checkbox"/> Government <input type="checkbox"/> Donations <input type="checkbox"/> Endowments <input type="checkbox"/> Organizational Activities <input type="checkbox"/> Others _____ _____
A4	Approximately what portion of your organization's funding is made-up of donations ?	_____ % _____
A5a	Is your organization a branch or headquarter of a larger organization?	Branch _____ HQ _____ Neither _____

A5b	Is your organization part of a network of organizations in some way?	Yes _____ or No _____
A6	If you answered "Yes" to questions A5a or A5b, in which country or countries do related organizations reside?	EU Countries <input type="checkbox"/> United States <input type="checkbox"/> Developing Countries <input type="checkbox"/> N/A <input type="checkbox"/> Others _____ _____

B	Corporate Governance Principles	
B1a	Does your organization disclose its financial statements ?	Yes _____ or No _____
B1b	Does your organization submit to an annual external financial audit ?	Yes _____ or No _____
B1c	If you answered "Yes" to the previous question, has the external auditor or its lead audit partner rotated in the last five years?	Yes _____ No _____ N/A _____
B1d	Do CEO and CFO sign-off on all financial statements and tax returns personally?	Yes _____ No _____ N/A _____
B2a	Do any of the board members also serve on corporate boards ?	Yes _____ or No _____
B2b	Do any of the board members have a professional background in any of the following:	the organization's field of activity <input type="checkbox"/> Management <input type="checkbox"/> Law <input type="checkbox"/> Accounting <input type="checkbox"/> Other Finance <input type="checkbox"/>
B3a	Does the board of your organization have a financial audit committee ?	Yes _____ or No _____
B3b	If you answered "Yes" to the previous question, do one or more members of the audit committee have formal financial training ?	Yes _____ No _____ N/A _____
B4	Does your organization have a formal process to handle employee complaints ?	Yes _____ or No _____
B5	Does your Organization have a formal Document Retention / Destruction Policy ?	Yes _____ or No _____
B6a	Does your organization have a formal conflict of interest policy covering its directors and executives?	Yes _____ or No _____
B6b	Does your organization permit loans to be extended out of its funds to board members?	Yes _____ or No _____

C	Further On	
C1	Do you have any additional comments ?	<hr/> <hr/> <hr/> <hr/>
C2	Would you or somebody else in your organization possibly be available for a personal interview regarding the subject matter?	<hr/> <hr/> <hr/> <hr/>
C3	<p>- OPTIONAL -</p> <p>Would you be so kind and state your name and contact information?</p>	<p>Name: <input type="text"/></p> <p>Phone Number: <input type="text"/></p> <p>Email: <input type="text"/></p> <hr/>

THANK YOU VERY MUCH!

If there are any **questions regarding this questionnaire or the nature of this study**, please do not hesitate to contact me.

Also, if there are any **general questions regarding this subject matter**, I would gladly be available for any questions.

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- Mail Questionnaire, German language -

Empirische Forschung zu neuen und sich entwickelnden Corporate Governance Prinzipien in deutschen Non-Profit Organisationen

Eine Forschungsstudie im Rahmen einer Dissertation von Thomas Hasenpflug als Teil des Doctor of Business Administration Programms an Edinburgh Business School, Edinburgh, Schottland

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Vielen Dank für Ihre Mithilfe in dieser Studie!

Alle Antworten werden streng vertraulich behandelt und es wird keine namentliche Nennung oder Zuordnung der Organisationen vorgenommen.

Bitte beantworten Sie die Fragen der Reihe nach. Für die Rücksendung ist ein frankierter und adressierter Umschlag beigelegt.

Für Rückfragen zu diesem Fragebogen oder allgemein zu dieser Forschungsstudie stehe ich Ihnen sehr gern unter den obigen Kontaktinformationen zur Verfügung.

A	Informationen zur Organisation	
A1	Wie groß ist der geographische Wirkungsbereich Ihrer Organisation?	örtlich/lokal <input type="checkbox"/> regional <input type="checkbox"/> bundesweit <input type="checkbox"/> international <input type="checkbox"/>
A2	Welches ist die wichtigste Einnahmequelle Ihrer Organisation?	Beiträge <input type="checkbox"/> Stiftungseinkommen <input type="checkbox"/> Staatlich <input type="checkbox"/> Spenden <input type="checkbox"/> Erbschaften <input type="checkbox"/> Erlöse aus Leistungen <input type="checkbox"/> andere _____ _____
A3	Ungefähr welcher Anteil des Einkommens Ihrer Organisation stammt aus Spenden ?	_____ % _____
A4a	Ist Ihre Organisation eine Zweigstelle oder die Zentrale einer größeren Organisation?	Zweigstelle _____ Zentrale _____ entfällt _____
A4b	Ist Ihre Organisation Teil eines größeren Netzwerkes von Organisationen?	Ja _____ oder Nein _____

A5	<p>Wenn Sie eine der Fragen A4a oder A4b mit 'Ja' beantwortet haben, in welchen Ländern sind die verbundenen Organisationen beheimatet?</p> <p>(Mehrere Nennungen sind möglich)</p>	<p>Deutschland <input type="checkbox"/> EU Länder <input type="checkbox"/></p> <p>Entwicklungsländer <input type="checkbox"/> USA/Kanada <input type="checkbox"/></p> <p>andere _____</p> <p>_____</p>
----	--	--

B	Corporate Governance Prinzipien	
B1a	Stellt Ihre Organisation ihre wirtschaftliche Jahresrechnung der Öffentlichkeit zur Verfügung?	Ja _____ oder Nein _____
B1b	Führt Ihre Organisation eine jährliche externe Finanz- oder Wirtschaftsprüfung durch?	Ja _____ oder Nein _____
B1c	Wenn Sie die vorangegangene Frage mit 'Ja' beantwortet haben, wurden der externe Prüfer oder dessen verantwortliche Mitarbeiter in den letzten fünf Jahren gewechselt ?	Ja _____ Nein _____ entfällt _____
B1d	Unterschreiben Vorstands- oder Geschäftsführungsmitglieder persönlich Unterlagen zur Rechnungslegung oder Steuererklärungen?	Ja _____ oder Nein _____
B2a	Sind Vorstands- oder Geschäftsführungs-mitglieder auch in verantwortlicher Position in privatwirtschaftlichen Organisationen tätig?	Ja _____ oder Nein _____
B2b	Haben Vorstands- oder Geschäftsführungsmitglieder eine formale Ausbildung oder langjährige Erfahrung in einem oder mehreren der dieser Fachgebiete:	dem Betätigungsfeld Ihrer Organisation <input type="checkbox"/> Betriebswirtschaft <input type="checkbox"/> Wirtschaftsprüfung/Steuerberatung <input type="checkbox"/> Finanzwirtschaft <input type="checkbox"/> Recht <input type="checkbox"/>
B3a	Hat der Vorstand Ihrer Organisation einen Finanzprüfungsausschuss ?	Ja _____ oder Nein _____
B3b	Wenn Sie die vorangegangene Frage mit 'Ja' beantwortet haben, haben ein oder mehrere Mitglieder des Finanzprüfungs-ausschusses eine formale kaufmännische Ausbildung ?	Ja _____ Nein _____ entfällt _____
B4	Hat Ihre Organisation eine formale Richtlinie zur Bearbeitung von Mitarbeiterbeschwerden ?	Ja _____ oder Nein _____
B5	Hat Ihre Organisation eine formale Archivierungsrichtlinie ?	Ja _____ oder Nein _____

B6a	Hat Ihre Organisation eine formale Richtlinie zu Interessenkonflikten betreffend der Vorstands- und Geschäftsführungsmitglieder?	Ja _____ oder Nein _____
B6b	Verbietet Ihre Organisation grundsätzlich Darlehen aus den Mitteln der Organisation an Vorstands- oder Geschäftsführungsmitglieder?	Ja _____ oder Nein _____

C		Weitere Kommunikation
C1	Haben Sie zusätzliche Anmerkungen zu diesen Fragen oder diesem Sachgebiet?	_____ _____ _____ _____
C2	Wären Sie oder eine andere Person in Ihrer Organisation gegebenenfalls zu einem persönlichen Gespräch zu diesem Sachgebiet bereit?	_____ _____
C3	- ausdrücklich OPTIONAL - Würden Sie Ihre Kontaktinformationen oder die einer anderen Person in Ihrer Organisation für Rückfragen zur Verfügung stellen?	Name: _____ Telefonnummer: _____ Email: _____ _____

VIELEN HERZLICHEN DANK!

Wenn Sie zu **diesem Fragebogen oder dieser Studie weitere Fragen haben**, stehe ich Ihnen sehr gern zur Verfügung.

Ebenso gebe ich Ihnen sehr gern **weiterführende Auskünfte zum Sachgebiet** der Studie.

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- Reminder Postcard, English language -

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5 April 2008

Research Study Questionnaire Corporate Governance

Thank you very much for your participation in the Research Study concerning Corporate Governance.

If you have as yet not been able to find the time to complete the questionnaire, may I kindly ask you again for your cooperation.

Thank you very much!

- Reminder Postcard, German language –

Thomas Hasenpflug
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05.04.2008

Forschungsfragebogen Corporate Governance

Vielen Dank für Ihre Mithilfe in der Forschungsstudie zum Thema Corporate Governance.

Wenn Sie noch keine Zeit zum Ausfüllen des kürzlich verschickten Fragebogens gefunden haben, möchte ich Sie noch einmal ganz herzlich um Ihre Mitarbeit bitten.

Vielen Dank!

- **Structured Interview Template, English language** -

Main Study Communication Telephone Interview Questions

1 Introduction and brief review of the study, its aims and objectives and the status now after completion of the questionnaire survey.

2 Inform the participant about the survey results:

What organizational characteristics of German nonprofit organizations are most influential in determining potential compliance with the US Sarbanes-Oxley Act?

The ranking is based on the frequency of a significant association between the organizational characteristics and the existence of SOA features.

As **significantly influential** these organizational characteristics were identified:

- 1 Annual Income
- 2 Age of the Organization
- 3 Board Members are active in the private sector
- 4 Existence of an international branch or sub-organization structure
- 5 International scope of activities

As **not significantly influential** these organizational characteristics were identified:

- BOD applicable professional background
- Degree of donation funding

3 Questions to the categories of characteristic as influential and not influential

3a Would the group of influential characteristics generally match what you would have expected?

3b Why do you think certain characteristics are influential, e.g. annual income or age of the organization?

3c Why would you think that the group of characteristics is not influential?

3d Specifically, could you think of a reason why the degree of donation funding turns out to be not influential?

4 Questions regarding the ranking of the characteristics

4a Would you generally have expected the above ranking amongst the influential characteristics?

4b Why do you think the annual income to be more important than having an international structure or international scope of activities?

5 Questions regarding the use of the ranking of characteristics

5a In your opinion, would this information be useful to:

- Decision Makers inside NPO? (Benchmarking !)
- Lawmakers?
- Donors / Sponsors?

6 Further use of the ranking to increase potential compliance

Would you think that an organization would want to work on achieving certain organizational characteristics to support the implementation of Sarbanes-Oxley corporate governance features? (e. g. seeking board members that are active in the private sector or looking for an international network)

Do you have any questions regarding the study?

Thank you very much for your time and insights!