

2022

The Examination of Small Chicago Nonprofit Organizations in the Voluntary Implementation of the Sarbanes-Oxley Legislation

Patricia A. Owens
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Walden University

College of Health Sciences and Public Policy

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Patricia A. Owens

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Walden University
2022

Abstract

The Examination of Small Chicago Nonprofit Organizations in the Voluntary

Implementation of the Sarbanes-Oxley Legislation

by

Patricia A. Owens

MS, Iowa State University, 1980

BA, North Carolina A. & T. State University, 1978

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

Public Policy: Nonprofit Management and Leadership

Walden University

November 2022

Abstract

Nonprofit organizations (NPOs) do not have a mandated requirement for implementing the Sarbanes-Oxley Act (SOX) of 2002; however, small Chicago NPOs had voluntarily implemented SOX provisions. The passage of SOX impacted the manner in which NPOs govern, provide disclosures, and audit their records. It was not known what the experiences, including facilitators or barriers, had been in that effort. The accountability mechanism theory by Ostrower and Stone provided the framework for this study. The key research questions focused on what major SOX provisions were most useful to implement and the experiences faced in the voluntary implementation of the SOX provisions. Executive directors and a financial officer from six NTEE 20, small NPOs' executive director, financial officer, or board director were interviewed. Data were manually coded and analyzed using a modified Van Kaam procedure to identify themes. The five themes that emerged included fiscal stewards and financial stability, auditing professionals, policy implementation, funding requirements, and executive recommendations. The findings indicated that the major barrier to voluntary implementation was the lack of funding and the need for changes in the SOX regulation to provide a mechanism for obtaining funding for small NPOs to facilitate the implementation of SOX provisions. The implications for positive social change is a baseline of ways to help small NPOs improve their financial accountability through the voluntary implementation of SOX provisions and may encourage public officials to create legislation that includes public and organizations and NPOs.

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Dedication

I dedicate this dissertation to my late mother, Ruth Evelyn Jones Owens Parker, and late grandmother, Missouri Loretta Jones Smith, who encouraged me spiritually and would have been astonished and proud that I had completed this dissertation. Lastly, my sisters, Dena Loretta Owens and Anita Owens Bethea, who also went back to school to further their education, and my late sister, Joyce Elaine Owens Taylor, who was smarter than us all without a degree.

I also dedicate this dissertation to my pastor, Rev. Dr. Otis Moss III, The Deacon Ministry, Leadership Council, and Sanctuary Choir of Trinity United Church of Christ in Chicago, IL, who allowed me to serve in leadership while I completed this process.

This dissertation is also dedicated to those who are voiceless and the ignored who strive to fight for justice, social change, and accountability within nonprofit organizations.

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“He went to school a semester and worked a semester,” Rev. Jeremiah A. Wright Jr. on how his father finished college. Those are the words that really kept me going. Thank you, Rev. Wright.

Dr. Hilda Sheppard has been on this very journey with me since I started in 2016, and I am certainly grateful that Dr. Gary Kelsey agreed to be my methodology expert. Thank you both for encouraging me and making sure I stayed on the path that led me to complete this research project.

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Chapter 1: Introduction to the Study

Americans and people around the world responded to crises such as the 9/11 terrorist attack, Hurricane Katrina, an earthquake in China, and a tsunami in Japan with a generosity of spirit. The public demonstrated an open and charitable heart and set a standard of giving when it comes to making monetary contributions in times of crisis. The public gave generously to the Red Cross, United Way, Salvation Army, and so on when asked to support the various disasters; however, the discovery of the misappropriation of funds to these organizations revealed a horrifying truth. Millions of dollars raised by organizations for disaster victims were misdirected due to mismanagement and fraud. There was an increase in accusations regarding boards and their members about scandalous behavior that included embezzling, fraud, excessive compensation, forgeries, money laundering, vanishing donations, and inaccurate record keeping (BoardSource, 2018). Scrutiny from donors and other contributors expected that organizations they contributed to were accountable in allocating their funds; however, scandals within reputable organizations such as the American Red Cross, United Way, and so on made the public sometimes distrust these organizations and demand accountability (Ito, 2018).

The Sarbanes-Oxley Act of 2002 (SOX) was introduced and passed by bipartisan congressional representatives as a solution to the corporate and accounting scandals that plagued for-profit organizations. Though targeted to remedy corruption and fraud, SOX provided no regulations for nonprofit organizations (NPOs); however, their existence revealed challenges of self-regulation (Chang & Choy, 2016) that required examination

in the current study. Chapter 1 includes the background of the study, problem statement, purpose of the study, research questions (RQs), theoretical framework, nature of the study, definitions of terms, assumptions, scope and delimitations, limitations, significance of the study, and implications for social change. Chapter 1 ends with the summary and transition.

Background

Corporate scandals involving Enron, Tyco, and WorldCom (Abyad, 2020) coupled with the collapses of Lehman Brothers and Arthur Anderson drew attention to a need for effective organizational leadership with governing boards (Curry et al., 2018). It was these failures that limited oversight and policies necessary for their organization to be run in a fiscally responsible way. Corporate failures may be due to improper governance, lack of operation oversights, neglect in authority delegation, board member turnover, chief executive officer (CEO) oversight, missing internal controls, and lack of checks and balances. Banerjee and Kaya (2017) disclosed methods for accountability for board independence of its members that occurred in the portrayal of the programmatic vision and shared the fiduciary responsibility of the organization with board compensation of outside directors. Organizations often lost credibility when they had the inability to detect fraud, abuse of tax-exempt status, and failure to pay for local services provided by voluntary contributions. These challenges demonstrated that NPOs are not any different from other organizations when they undermine the people they serve and those who make contributions in good faith (Archambeault, & Webber, 2018).

Sullivan (2018) revealed how human service NPOs confronted implementing programs that were later dissolved due to small budgets and limited personnel. Many innovative programs were birthed by human resource organizations, such as job training, youth development, programs for affordable housing, and assistance for disaster relief. One such national program, Drug Abuse Resistance Education, was a youth drug abuse program. Drug Abuse Resistance Education was launched in all 50 states and was implemented in 75% of high schools; however, research indicated that there was little or no evidence that the program worked (Sullivan, 2018). There was no administrative staff who tracked the outcome of the program to support success to constitute continued funding on the local level. Also, there was no local support from the community or representation from local leadership to substantiate the needs of the community, which resulted in less representation of its needs. Sullivan determined that some boards did not operate or function as intended. Failures in these areas showed that mismanagement or a lack of understanding of the board roles occurred when the vision was lost. Consequently, Sullivan concluded that programs that were successful locally would lead to national success. Additionally, when nonprofit boards opened their membership to people who had no interest in the community they represented and were not a part of or had an interest in that community at large, this contributed to the collapse of the board's mission. Boards should be involved with community programs that reflect the interests of members located in the community they serve (Piscitelli et al., 2020). Drucker asserted that board members should have a legitimate interest in the boards they serve (Rao,

2021). Stakeholders or donors should also be involved in the organization and have a commitment to the cause of the organization.

In the wake of the crisis, there was a desperate need for a change to be made in the accounting business. This catalyst for change was the SOX of 2002 and the seven provisions that were developed mostly for public organizations. There was a gap of knowledge wherein voluntary concessions were created by nonprofit boards who struggled to find their footing in where they fit and how those boards were to survive under SOX. The current study focused on small NPOs and the experiences encountered in the voluntary implementation of SOX policies. The passage of SOX impacted the manner in which NPOs govern, provide disclosures, and audit their records (Natarajan & Zheng, 2019). Measures introduced by this legislation required additional management monitoring by the board of directors by taking more responsibility for the financial transactions of their organizations. Moreover, the current study was needed to explore the reasoning behind implementing certain SOX provisions and the experiences faced by small NPOs in the voluntary implementation of these policies.

Problem Statement

There is a problem facing NPOs related to the 2002 SOX legislation. The problem is the lack of compliance methods that led NPOs to the voluntary implementation of the SOX provisions. NPOs were not mandated to follow the SOX; however, they were encouraged to incorporate the provisions. Many small nonprofits struggled to implement the provisions. There were several factors that hindered small NPOs from implementing some components of the SOX legislation; however, there were no regulations or agencies

responsible for monitoring compliance with the legislation. There were many factors that NPOs may have faced in the voluntary implementation of the SOX legislation, such as costs (Banerjee & Kaya, 2017), audit controls (Schroeder & Shepardson, 2016), or the loss of tax status (Cunningham, 2015) without any input from the government to address these issues. There was also no policy requiring NPOs to adhere to any of the seven components of the SOX. The literature reviewed for the current study indicated that most experts had determined that the control audits, audit fees, and size of the nonprofit were related to its level of compliance with SOX (Ettredge et al., 2018; Schroeder & Shepardson, 2016). I explored experiences encountered by small NPOs with voluntary implementation of the legislation.

Purpose of the Study

The purpose of this phenomenological study was to examine the lived experiences of small Chicago nonprofit executives and their voluntary implementation of the SOX of 2002 and the use of self-regulating practices (see Chang & Choy, 2016). SOX introduced seven components for private sector corporations that served to ensure financial transparency and accountability for public organizations. The SOX provisions were created from the fraud and misappropriation of funds from the Enron, Tyco, and WorldCom corporate and accounting scandals. The legislation was designed to rebuild public trust in America's corporate sector (BoardSource, 2018). Although the SOX was mandatory for corporations, Congress, along with local governments, have required that NPOs implement as many of the provisions as possible in an effort to be transparent and accountable to those who serve because the same principles apply to all entities (Petters,

2020; Saxton & Neely, 2019). The goal of the current study was to identify methods to assist NPOs who voluntarily implement best practices of the SOX and identify the challenges and facilitators to making SOX a part of the function of NPOs.

Research Questions

To explore and understand how NPOs regulated themselves when implementing the SOX provisions, I used the following two RQs to guide the study:

RQ1: In the experience of small A20 Chicago nonprofit executives, what major SOX provisions were most useful to implement and why?

RQ2: What experiences did small A20 Chicago NPOs face in the voluntary implementation of the SOX provisions?

Theoretical Framework

The theoretical basis for this study was the Ostrower and Stone (2007) accountability mechanism theory that addressed laws that impacted nonprofit accountability practices. The theory addressed the relationship between the board and stakeholders and the ability of NPOs to use regulating and self-regulating practices (Chang & Choy, 2016). Ostrower and Stone (2007) cited the experiences that nonprofit executives faced for large versus small NPOs in completing their mission as well as strengthening internal board controls. The Ostrower and Stone (2006) accountability mechanism theory was used to examine the effect of the SOX of 2002 and the results of NPOs that complied with some of the legislation. The theory was used to explore how the SOX legislation contributed to the policy changing environment for NPOs because some chose to voluntarily implement some of the provisions.

Nature of the Study

Qualitative methodology and a phenomenological design were used to explore the lived experiences of nonprofit board chairs, executive directors (EDs), and financial officers in the implementation of the SOX provisions. I explored the administrators' ability to govern by regulating themselves in the use of the SOX provisions. For-profit organizations were mandated to implement the SOX legislation; however, there was no such mandate for NPOs. Some small NPOs have aligned themselves with current regulations and regulated themselves to have their existence not be threatened by not conforming (Chang & Choy, 2016).

Using a stratified random sampling strategy, I sent emails to 100 of the 167 small National Taxonomy of Exempt Entities (NTEE) A20 (Arts) Chicago NPOs. Of the 100 organizations, 23 responded. There were no board chairs; five EDs and one financial officer agreed to be interviewed by telephone. All interviews were recorded, and I used a researcher-developed interview guide. Data were coded and analyzed using Atlas.ti9 software, and six themes were identified.

Definitions

Accountability: The commitment of an individual or company to explain its procedures and behaviors and accept responsibility for them by disclosing results in a transparent manner (Ito & Slatten, 2020).

Board of directors: Governing body for an organization or group that may be appointed or elected (Curry, et. al. 2018).

Compliance: An act of obeying a particular law or rule according to the agreement (Petters, 2020).

ED: The person responsible for overall day-to-day operations of the agency that include administration, management, and leadership. Duties include fiscal accountability, personnel management, operations management, and compliance with applicable laws, regulations, policies, and procedures. The ED has responsibility for the organization of staff, including recruitment, hiring, promotions, development, discipline, and the evaluation process (Mathews, 2019).

Governance: The state of leadership that involves exercising authority within an organization (Moulton & Sandfort, 2017).

GuideStar: An organization founded in 1994 to promote transparency within NPOs and to provide a central location where donors could gather information to use for decisions for donations. The site can be used to research nonprofit new compliance policies and nonprofit reports on compensation, finances, training, and so on (BoardSource, 2018).

Mission statement: A statement of existence for a company or organization. It is a short statement that focuses on the purpose, goals, type of service, and intended audience (Dillman & Christie, 2017).

NPO: An incorporated organization in which shareholders or trustees do not benefit financially. Income is generated through public donations. Any funds that are generated from the NPO, such as dues, must be used for operational expenses and programs. In applying as a nonprofit, the organization normally pursues tax-exempt

status and may be exempt from local taxes, including property and sales taxes. NPOs include charities, religious organizations, educational organizations, and medical associations (BoardSource, 2018).

Policy implementation: The third stage of a policy cycle where the policy passes into a law or an action takes place to put the law into effect for a problem to be solved. Implementation of the law is the administrative parties of the law in which various people, organizations, procedures, and methods work together to put adopted policies into effect to attain program goals (Moulton & Sandfort, 2017).

Self-regulating: Operating or governing oneself without outside interference or imposed controls or regulations, or enforcing or upholding its own rules and laws (Chang & Choy, 2016).

SOX: Legislation designed to produce government reform by instituting seven provisions for the establishment of board accountability and transparency. SOX was enacted in response to the high-profile Enron and WorldCom financial scandals. The goal of the seven policies is to protect the public and shareholders from fraudulent practices and accounting errors within the organization. SOX is controlled by the Securities and Exchange Commission (BoardSource, 2018).

Assumptions

Assumptions in research are statements accepted as true by the researcher. The volunteer participants do not present any motives for their participation. For the current study, I assumed that boards allowed their board chairs, financial officers, and EDs to volunteer to participate in the study. I also assumed that board chairs of small Chicago

NPOs were aware of the impact of SOX on their organization. Finally, I assumed that each nonprofit executive (board chair, ED, and financial officer) interviewed was aware of why certain provisions were chosen and had experience in implementing the SOX legislation and its provisions.

Scope and Delimitations

The scope is the area to be covered in the study. The scope for the current study included small Chicago NPOs that were within the arts subset from the GuideStar database using the NTEE A20 code category. I concentrated on small Chicago nonprofits and the experiences of implementing the SOX legislation.

Delimitations in a study allow the researcher to limit the scope and boundaries of a study and target a specific group. The current study was limited to the participation of the small nonprofit board chairs, EDs, and financial officers who had knowledge of the SOX legislation. This population was interviewed to investigate their familiarity with the legislation and their experience in implementing the seven SOX provisions.

Limitations

Limitations in a study are those components that the researcher cannot control. The current study involved nonprofit executives who were responsible for the introduction or implementation of policy within their organization. The nonprofit executive has a great responsibility to ensure transparency throughout the organization; however, the current study may have been limited in determining whether the data reflected the true voice or practices of the organization. I may have been limited in expecting a response that was aligned with the mission of the organization. Producing

viable and verifiable results from the data collected was critical in understanding any results that may have affected the outcome. There were limitations in knowing how many NPOs implemented the SOX provisions without knowing it was related to the legislation. Some of these organizations may have been included or eliminated depending on whether they met the selection criteria. The major limitation of the study was the possibility of a small response from one or more groups because of the evaluation of small NPOs. Increasing the scope of the population was done to expand the interview base to include the ED and financial officer to ensure an adequate sample size. The study involved a purposeful sample of nonprofit individuals who were relevant and responsible for the implementation of policy within their organization. The population that was identified in this study included board chairs, EDs, and financial officers. I explored their role in identifying the provisions implemented and their experiences in implementing the provisions.

Significance

Social change involves individuals, groups of people, or a movement that addresses social issues that affect a community. Social change brings about reforms in policy that involve solutions to issues targeted at improving the condition of others. The current study may create a pathway for elected officials to introduce legislation that addresses small NPOs that would provide more steps to ease the burden encountered by these organizations.

The current study contributed to the body of knowledge needed to address the experiences faced by small NPOs with the voluntary implementation of SOX. The results

of this study provided insight from nonprofit executives about their participation in selecting provisions that were useful to their organization and their experiences of voluntarily implementing the SOX provisions. Although met with challenges, implementation of SOX provisions for small NPOs included in this study demonstrated that NPOs benefit from transparent and accountable processes. The results of the study contributed to measures other organizations can use to support the adoption of improved fiscal management and governance that may lead to increased donations needed for their existence. The outcome of this study may lead to more regulatory legislation (see Tersteeg, 2019) and obligations targeted by NPOs.

Chin (2018) suggested how theories of governance and public policy can complement each other. The implementation of this process through the current study may contribute to social change with the involvement of NPOs in the process of transparency and financial accountability of the organizations they support. Organizations that respect their memberships and allow them to participate in the decision-making process reflect good governance, address member concerns, and in turn, gain the respect, credibility, and understanding of the importance of boards being transparent and accountable to their membership by addressing member interests (Piscitelli et al., 2020). A change in legislation due to these experiences may improve the ability of small NPOs to implement SOX in a manner that strengthens the organization and its ability to govern and meets its mission.

Summary

In Chapter 1, I introduced the research problem, purpose of the study, and nature of the study. The purpose of this phenomenological study was to examine the lived experiences of small Chicago nonprofit executives and their voluntary implementation of the SOX of 2002 and the use of self-regulating practices. Board chairs, EDs, and financial officers from small Chicago NPOs were interviewed to provide insight into how provisions were chosen and their experiences with the implementation of the SOX provisions. NPOs were not bound to implement the SOX provisions; however, they may have encountered challenges in electing to regulate themselves in the voluntary implementations of the provisions. Chapter 2 provides a review of the literature that outlines previous theorists and their research methods. The review also includes research on the impact of the SOX legislation on NPOs and their implementation of its provisions.

Chapter 2: Literature Review

There is a lack of compliance methods that may affect NPOs in the voluntary implementation of the seven SOX provisions. The purpose of this phenomenological study was to examine the lived experiences of small Chicago nonprofit executives and their voluntary implementation of the SOX of 2002 and the use of self-regulating practices (see Chang & Choy, 2016). The seven SOX provisions are required for for-profit organizations and are not mandated for NPOs. According to Zhao and Ziebart (2015), the lack of monitoring mechanisms is one possible factor that NPOs have faced in the voluntary implementation of the SOX legislation along with costs (Banerjee & Kaya, 2017), control audits (Schroeder & Shepardson, 2016), or losing the tax status (Cunningham, 2015) without any input from the government to address these issues.

The literature reviewed for this study indicated that most experts had determined that the operating budget and size of the nonprofit are related to the level of compliance with SOX (Schroeder & Shepardson, 2016). I attempted to address the gap between the current compliance management policies of SOX and the experiences of executives regarding the implementation of the SOX legislation within small Chicago NPOs. Ostrower and Stone (2006) indicated that NPOs and other institutions found some of their greatest challenges at all levels of governance, including corporate governance, internal controls, and auditor independence (Garven et al., 2018). The remainder of this chapter includes the literature search strategy, theoretical framework, literature review of key concepts related to the problem, and a summary and transition to Chapter 3.

Literature Search Strategy

The search for literature was conducted using Walden University's online library system. Scholarly journals, periodicals, and peer-reviewed journals were assessed through Abstracts and Reviews, Academic Search Premier Complete, Dissertation and Theses @Walden University, EBSCO, GuideStar, ProQuest, Sage Journals, and Science Direct in the Walden Library. The terms *public policy* and *administration and business and management* were also used within these databases to widen the search.

The Boolean phrase search strategy was used for the following keywords: *board accountability, board compliance, board governance, board leadership, board responsibility, compliance management, nonprofit policy implementation, nonprofit accountability, policy implementation, Sarbanes-Oxley, and self-regulating* in capturing relevant articles. Terms were added, such as *policy implementation* and *nonprofit policy implementation*, that expanded the search to more current articles associated with SOX and nonprofit policy implementation. Literature from 2017 to 2021 was captured; however, seminal literature prior to 2017 was also included that provided related topics, historical insight, and compliance trends that were relevant to current policy.

Theoretical Foundation

The theoretical framework for this study was Ostrower and Stone's (2007) and Cabal and Santos's (2016) accountability mechanism theory. The purpose of using this concept was to discover and analyze the impact of the voluntary implementation of the SOX legislation on small NPOs. The theory was used to investigate the relationship

between the board and stakeholders and the ability of NPOs to use regulating and self-regulating practices (see Chang & Choy, 2016).

The accountability mechanism theory was selected because its concept was aligned with the self-regulating practices of NPOs in implementing the SOX legislation. The theory was used to analyze how the passage of the SOX legislation contributed to the changing environment of NPOs that use self-regulating practices for policy implementation (see Thomann et al., 2018). This theory was the foundation used by NPOs in the voluntary implementation of SOX legislation.

Origins of Governance and Policy Implementation

Researchers have examined the governance of executing regulatory and self-regulating practices for NPOs (Chang & Choy, 2016). Research on governance and policy implementation was conducted as early in the 1960s by Drucker, who was viewed as the authority on nonprofit board leadership and governance (Piscitelli et al., 2020). Nonprofit boards typically adopt the procedures outlined by Drucker as their components to function and execute policy (Piscitelli et al., 2020). According to Blevins et al. (2022), nonprofit boards were able to teach and demonstrate how an NPO was to function by observing its inferior performance, lack of transparency, and whether the NPO was accountable to its board.

Karst (1960) and Kezar (2006) indicated the need for policy and regulations for NPOs to govern. Karst and Kezar believed that for an NPO to govern properly, it is necessary to raise questions to the organization about its governance and compliance management practices. Compliance is normally conducted within the organization;

however, Karst believed the role of compliance was related to the person who supervised the nonprofit.

Blevins et al. (2022) created policies that strengthened the value of nonprofit boards and its relationship between owners and staff. Blevins et al. acknowledged that board members have experienced and demonstrated intelligence; however, it was believed the function of the board was mediocre. The board represented and spoke on behalf of the members it represented without allowing their interests to interfere with the mission of the organization. Additionally, boards were developed to have relationships inside the organization and work with the staff to strengthen the position of the board; however, policy governance indicated that board relationships should be developed on the outside with the owners (Curry et al., 2018).

The organizational structure included the ED as the day-to-day operating officer of the NPO. The responsibility of the ED is to foster a suitable connection with members of the board. Drucker emphasized that organizations who are hiring their board chair should keep in mind the chair should have the ability to maintain a cohesive atmosphere among the board members (Rao, 2021). Drucker recognized that for a board to function effectively, having policies in place designed to foster the mission of the organization was the skill of the chair (Rao, 2021). A skilled board chair along with a talented ED was the formula for what Drucker referred to as good ethics with good governance in identifying the elements of an efficiently run nonprofit (Piscitelli et al., 2020). The board chair works cohesively with the ED by recognizing risk management issues, thereby reducing risks, escaping fines, and avoiding being charged for unethical and criminal acts

(David, 2019). Detecting issues that lead to conflict and effectively resolving those issues is also a function of an ED (Denny, 2015).

Marx and Davis's (2012) research of New Hampshire board members indicated the shared responsibility of the ED and board members for assignments involving understanding the mission, responsibilities, roles, finances, fundraising, and recruitment of board members. The role of the board member is defined; however, the board has the authority to make policy. There may have been a temporary shift in the manner that boards operated since the passage of SOX, with chairs serving on board committees prior to the legislation (Banerjee & Kaya, 2017). SOX prohibited the representation of employees on boards or committees, thereby affecting the composition and function of some boards (Kecskes, 2017). The pattern of directorships dropped around 2005 since the passing of SOX, making the board more accountable (Banerjee & Kaya, 2017). I reviewed the SOX policies implemented that may have led to the challenges for policy development for small NPOs.

The framework for this study encompassed the views of Ostrower and Stone (2006) as they related to regulating and self-regulating practices (Chang & Choy, 2016) of NPOs along with the role of the board chair in the implementation of policy. Executive officers are responsible for implementing policy changes voted on by the body of the organization and adhering to updated compliance regulations for nonprofit groups (Ostrower & Stone, 2006). The executive officer has the responsibility to ensure programs reflect the expectations of the stakeholder and to monitor the activities of NPOs. Nonprofit management by the executive officer involves the examination of the

board control in which the focus of a private board is the link between the corporate financial performance and the board's control role. There should be a reciprocal relationship between the board chair and the executive officer in implementing policy as well as nonprofit programs among the volunteers and constituents.

The chair leads the board of directors; however, an executive officer who reports to the board of directors leads the staff. The role of the staff and the board, along with their defined roles, should be clear. The board chair provides the vision and mission of the NPO (Curry et al., 2018). The ED executes policy and vision with the mission of the organization in mind through programs that are approved by the board and members. Piscitelli et al. (2020) stated that the role clarity relationship between the board and the ED is key in the guidance and management of the organization. The mission and vision are implemented with the assurance that the program does not delude the foundation of the organization.

Rationale for Theory Selection

The nonprofit structure is important to examine in the implementation of policy. Fyall (2016) examined how nonprofit groups had a positive influence on policy and impacted the positive implementation of policy. Ostrower and Stone's (2006) research highlighted the importance of the board through the implementation of policy to improve board development. The low level of training is as prevalent in volunteer boards as it is in nonprofit boards (Piscitelli et al., 2020); however, nonprofit boards have a higher percentage (from 82% to 94%) for orientation and training than those nonprofit boards who report training development (Commonfund Institute, 2020). Wiley and Berry (2018)

indicated that additional research was needed to determine whether appointed volunteer boards were effective in their line of attack for increasing board representation and the effect of the board in creating policy.

A theory of change method instituted by research conducted by Carman (2007, as cited in Hagan, 2020) addressed improving the overall performance of NPOs as well as enhancing financial accountability issues. The study revealed that the lack of knowledge was cited as the reason most NPOs do not start or complete an evaluation process (Hagan, 2020). Despite the new methods of accountability introduced in research by Saxton and Neely (2019), accountability evaluations were not conducted due to the shortage of training on the processes created to conduct the evaluation.

Compared to corporate governance, NPOs have not progressed (Coule, 2015); however, they have been consistently challenged regarding their accountability. Increases in corporate scandals and an increase in diversion of funds from contributors left the public with much distrust. The purpose of the SOX legislation was to restore public confidence that was lost from these scandals (Westland, 2020). The accountability mechanism theory was identified to address and reinforce how NPOs may be able to account for areas of weakness in their governance. Due to widespread concern regarding overcoming the embarrassment of corruption, this theory was used to highlight how new standards may be useful through SOX in winning back public confidence.

Focus groups were formed in the study by Coule (2015) to use the accountability mechanism theory to identify areas of distrust for corporate human rights violations. Violations such as torture, unlawful detention, and the sale of military weapons were

identified as the subjects that contributed to public and corporate mistrust. The focus groups also identified barriers such as the corporate structure, which made it impossible to overcome some of the identified issues. It was proposed in one group that a regional human rights commissioner be appointed to oversee national legislation and address corporate harms.

Relationship of Accountability Theory With the Present Study and Research

Questions

The accountability mechanism has been used as one of the most effective tools for monitoring board accountability (Ostrower, 2014). There are many levels of board engagement; however, Ostrower (2014) revealed that several SOX practices were voluntarily implemented even though, under the law, NPOs are required to meet basic accountability standards. RQ1 addressed the provisions that were selected by small Chicago NPOs and how one provision was selected over another. The RQs addressed the experiences Ostrower and Stone (2006) cited regarding implementation problems with large versus small NPOs and problems faced in policy compliance. RQ1 focused on the portion of the theory that examined laws and how those laws impacted NPOs in analyzing which provisions were implemented. The accountability component was used in answering RQ2, which dealt with the experiences of implementing the SOX provisions.

Literature Review

Studies Related to the Constructs of Interest and Chosen Methodology

Research indicated that the accountability mechanism model focused on the CEO behavior in the adoption of SOX (Nezhina & Brudney, 2010; Ostrower & Stone, 2006). Internal characteristics such as size, age, education, and value of the CEO were factors used in determining the reasons SOX policies were adopted by NPOs. According to Boland et al. (2018), document retention and destruction and whistleblower provisions were mandatory for NPOs to implement; however, independent audits and regulating audits were relevant but not mandatory.

Ostrower and Stone (2006) and Ostrower (2007) examined nonprofit governance in relation to the adoption of SOX policies and what provisions NPOs were influenced to adopt. In the current study, RQ1 addressed the selected provisions through interviews to determine why certain provisions were chosen. There was a national survey of 303,077 NPOs divided into three income groups (Ostrower & Stone, 2007). Another study revealed that the size of the nonprofit was a determining factor in the compliance of SOX policies, and that the transition of these policies would be difficult along with any associated costs (Ettredge et al., 2018). The return factor of 50.3% indicated none of the SOX policies were implemented, compared to 49.7%, which indicated a low to moderate number of policies were applied.

A qualitative study similar to the present research was conducted by Ostrower (2007), who interviewed managers, EDs, and financial officers to find out their influence in implementing SOX provisions. Six NPOs that serviced youth, emergency services,

education, arts, and health were selected based on annual revenue. The focus of my research was on a smaller group of NPOs with the same type of population using NTEE A20 Arts as the only sample. The findings of the quantitative research conducted by Ostrower (2007) and Nezhina and Brudney (2010) had similar findings where 90% of SOX policies were adopted. The population from the Arts provided the most diverse and valuable results. Independence of the board of directors, external audits, conflict of interest policies, whistleblower policies, and document retention and destruction were adopted with SOX-like policies (Boland et al., 2018). In the current study, the small nonprofit sample yielded a similar outcome.

Rationale for Selection of Concepts

Nonprofit legal scholars refer to governance as satisfying fiduciary and legal responsibilities, most particularly, the need for the board to comply with the duty of care and conflicts of interests (Ostrower & Stone, 2007). A properly run board can be successful and effective by not allowing the executive committee to gain power and function as a collective body. The executive committee can be prevented from taking over the board when there is constant and open communication and the chair controls and produces a structured and balanced board (Kezar, 2006). Piscitelli et al. (2020) referred to Drucker, who emphasized that a board executive was viewed as efficient when they took responsibility for communicating and engaging with the members of the community. David (2019) suggested that ethical and responsible leaders transferred these actions into their positions and organizations, thus demonstrating respect and trust to their members for their leadership.

Ostrower and Stone (2010) researched nonprofit board governance by using a sample population from the Urban Institute National Survey of Nonprofit Governance. The 990 tax forms were used to explore the framework of NPOs. The study revealed that board attributes, external environments, and internal organizational characteristics influenced the responsibility and role of the board. Ostrower (2007) acknowledged that the SOX had a positive effect on the accountability practices of NPOs. The establishment of the independent audit committee and the reporting provisions to donors created an atmosphere of accountability. Ostrower also noted that the IRS used the SOX provisions as a guide for NPOs and endorsed the provisions as best practices within nonprofit groups.

The responsibility of the board was rated as the primary concern among NPOs despite the current claims of excessive compensation. Directors who serve on board committees, such as the audit committee, were another concern; however, there has been a decline in director positions on boards since SOX was implemented (Banerjee & Kaya, 2017). Despite the decline, SOX is viewed as a value-enhancing regulation that improves productivity and strengthens corporate governance (Chang & Choy, 2016). Members of NPOs demand accountability by transparency in the allocation of funds and regular reporting. Codes of conduct clauses have been reevaluated that reflected updated legislation and include new language. The whistle-blower provision allowed employees the freedom to speak out without retaliation, and Section 302 of the provision allowed anonymous reporting (L. Gao, 2020). The board represented the direction of membership and should reflect this through observation of the population of the nonprofit. The views

of the NPO were to be compatible with communication through current legislation or government (Wiley & Berry, 2018).

Some theories represented may have different schools of thought regarding corporate versus nonprofit governance. Research by Coule (2015) focused on the link between board composition and the role of staff. This study consisted of a model of governance and conceptions of accountability that attributed to a board's success, which was related to the implementation of human resource management legislation and formal accountability practices. The study credited the ED for holding the staff accountable for their actions, whereas the board held the ED to account for the actions of the nonprofit.

Board chairs and chief executive officers of NPOs have displayed inconsistent roles by having a voting position on the board, thus creating conflict in fulfilling their accountability roles (Banerjee & Kaya, 2017). A series of strategies and practices outlined areas for board performance improvements. Suggestions were not offered on how boards could be improved; however, it was concluded that survey research was not useful in recognizing methods for improving board performance (Curry et al., 2018). Boards that understood the governance model was more functional by demonstrating competence in operating in the best interest of the owners displayed the model of an effective governing board (Blevins et al., 2022). Boards that defined the relationships of the shareholders, chair, CEO, committees, and EDs controlled their own roles in preserving the wholeness of the board while still maintaining the singleness of its significant contributors (Curry, et.al. 2018).

NPOs have continued to face major challenges in defining and structuring policy (Kecskes, 2017) that demonstrates best practices in a governance relationship between the volunteer board and executive management (Marx & Davis, 2012). Wiley and Berry (2018) and Boland et al. (2018) were confronted regarding ways to comply with policy when compliance was not possible because of accountability costs. According to Marx and Davis (2012), research has not closed the gap in producing a best practice model that clarifies the relationship between board member and executive management. In Marx and Davis's study, 193 members of the New Hampshire Center for Nonprofits indicated the need for better defined and structured relationships. This current study attempted to narrow that gap by defining and identifying the experiences that may introduce best practices in the implementation of SOX legislation within small Chicago NPOs.

Studies Related to Key Concepts

Community support is essential in seeking aggressive policy change in collaboration with community supporters (Fyall & McGuire, 2015). Piscitelli et al. (2020) focused on the role of board chairs and their constituents and how their memberships are respected, have community representation, and allow for community involvement in policy execution. The inclusion of the community reflects good governance and decision making that created an impact for social change within the community with the inclusion of member interests. Nonprofit boards that involved the community and advocated for policy change formed a network of different organizations to bring about change in areas such as public housing and health service organizations (Chin, 2018). The qualitative study conducted by Fyall and McGuire (2015) revealed that the lack of community

involvement decreased the possibility of introducing or implementing a meaningful policy that would benefit a community. This shortage of participation stalled the social action needed to move the community forward.

Basile et al. (2015) conducted a quantitative study to review SOX policies. The study revealed that compliance costs for NPOs are high initially. Over time, costs decreased, although it was questioned why NPOs voluntarily employed SOX-like procedures when they were not required. Six hundred surveys were sent out to audit and financial executives (Basile et al., 2015). Seventy percent of the respondents indicated an improvement in their financial control systems. There was a decrease of 50% for NPOs for low compliance costs. RQ1 in the current study addressed the provisions implemented and what the outcome revealed about the implementation of certain provisions.

NPOs have been asked why they voluntarily complied with SOX. The research revealed it was because of benefits, such as effective and efficient processing, better control of objects, and eliminating duplicate work. The current study was important in taking a retrospective look at SOX to see if its original purpose had been realized. Basile et al. (2015) acknowledged that most public companies instituted SOX-like policies. Basile et al. concluded that SOX surpassed its initial intention, goals, and expectations for public or private companies. RQ2 in this current study addressed the experiences of NPO executives in implementing the SOX provisions, and I found outcomes to be similar.

Piscitelli et al. (2020) provided an example of how members influenced policy with their participation in the community by addressing member concerns and having a voice to bring about change. This study highlighted the necessity for the board of

directors to meet the needs of the community by acknowledging the importance of community involvement. According to Ostrower and Stone (2010), this process permits transparency and accountability for nonprofit membership organizations. Ostrower and Stone contributed to social change by revealing how the interaction between a nonprofit board's members improved through examination of board dynamics due to diversity during various stages. Diverse nonprofit boards were likely to be more effective with governance when allowed to participate in the implementation of policy (Lee, 2021). Lee's (2021) qualitative study raised questions targeting social change issues. Areas included inquiries regarding board accountability, training, relationships, and strategies for policy creation for those NPOs that have developed partnerships with the community. Social change occurred as strategies were developed to reveal how boards could best serve the community they represented.

Gallagher et al. (2019) found there was an increase in voluntary disclosure by larger companies using audit firms than smaller ones since the passage of the SOX legislation. In 2018, 88% of these companies disclosed they were responsible for appointing the audit company compared to 44% in 2012. Performance and financial accountability research conducted by Saxton and Neely (2019) included 117 community foundations conducted through their websites in the United States. This type of measurement, supplied on the website, was unlike any form of accountability measurement previously used. The research outlined methods determined whether information technology increased nonprofit accountability. The information needed for foundations to assess accountability methods was readily available on the websites;

however, the foundations did not assess them to acquire the information. Saxton and Neely demonstrated that only 7% of the 117 foundations used information on their websites to obtain information that was available. Saxton and Neely indicated failures in this quantitative study due to the small sample size and because the foundations did not use the technology available to them.

Lee (2021) sampled 1,456 CEOs from diverse NPO boards to examine diverse board policies and practices. All 50 states were represented in the study; 55% were Caucasian women, and 39% of those sampled were between the ages of 50 to 64. Caucasians represented 82% of the survey participants, African Americans 9%, Hispanics 4%, and Asians 2%. The study indicated that diverse boards have more improved and inclusive governance in addition to external government practices (Lee, 2021). According to Denny (2015), there has also been better implementation of policies and practices among diverse boards and an increased opportunity for better performance in financial monitoring, CEO support, strategic planning, community support, outreach, and engagement. Policies and practices among less diverse boards do not have as significant an impact on governing effectively and implementing the mission of the organization (Lee, 2021). Nonprofit boards have also directed their focus on SOX for voluntary incorporating rules and regulations that led to better engagement for their board of directors (Denny, 2015; Tushe, 2016).

The personal interest of public officials in NPOs has played a significant role in the success and implementation of policy, leading to the leveraging of funds and services (Fyall, 2016). Community-based board engagement and political advocacy demonstrated

a positive interaction and policy influence in using NPOs to deliver public programs (Denny, 2015; Fyall, 2016). The use of the nonprofit was seen as a catalyst in moving policy to benefit communities starving for change. Public officials who were aware of the power of NPOs targeted the solution in their neighborhoods by planning community programs and increasing the accountability between board members and the community they represented. Denny (2015) examined board members who had better engagement with one another through effective meeting planning and strategic thinking to determine a successful board. Denny concluded that the selection of the appropriate board chair who can engage other board members was pivotal in making decisions and supporting a policy that fostered the advancement of the organization.

Policy advocacy was prominent with NPOs that provided social or health services. A case study conducted by Chin (2018) demonstrated that policy advocacy was developed when NPOs were engaged in their day-to-day case advocacy on the ground level where policy agendas were developed. An assessment of key roles for nonprofit boards from foundation executives of 121 community foundations responded that the board's focus should be on strategic leadership and direction (Chin, 2018). Forty-six percent of foundation executive respondents indicated that planning and strategy were viewed as important, whereas 43% of community executives viewed financial oversight as significant. Public relations, marketing, and publicizing the foundation's message to the community were necessary to 37% of foundation executives, who indicated it was important for raising community awareness (Chin, 2018). NPOs demonstrated strength when the organization had proper leadership with the board chair (Rao, 2021). This

leadership is essential in introducing and advocating policy that may have influenced the growth of the organization (Chin, 2018).

Dougherty and Easton (2011) found the lack of training or orientation resulted in low board participation with unfilled seats and a lack of community involvement for the appointment of volunteer boards in Pittsburgh, Pennsylvania. This study examined how public participation encouraged community responsibility which proved essential to the survival of public volunteer boards. Local boards where citizens were involved created cohesiveness between people in their community as well as developed connections between the community and government by setting policy. Boards should have representation corresponding to the various constituencies they serve.

Significance of Sarbanes-Oxley to Nonprofit Organizations

The SOX legislation of 2002 was created from the American Competitiveness and Corporate Accountability Act (BoardSource, 2018). This legislation controlled, protected, and regulated funds for investors and ensured that corporate governance was regulated and transparent with the financial records of organizations. The seven SOX provisions gave pause to NPOs by addressing violations of corporate governance and weak internal controls (Westland, 2020). The overview of the provisions indicated how NPOs would be greatly affected by auditing practices, public reporting, and how they are governed. The introduction of the SOX legislation was a result of the public financial scandals that were a disgrace to the corporate community and involved well-known companies, such as Arthur Anderson, Enron, and Tyco (BoardSource, 2018; Independent Sector, 2018). Corporate abuse at this level stunned the public, creating an urgency for legislative

interventions, thus initiating the SOX legislation (Kecskes, 2017). The SOX legislation was instituted to reestablish public trust among stakeholders in publicly traded companies. Instituting safeguards against corporate abuse was the leading issue in the formation of the SOX legislation; due to the sensitivity of financial accountability, approximately 20% of NPOs voluntarily implemented procedural governance changes (BoardSource, 2018).

From the start, all the seven provisions of the bill only applied to publicly traded corporations (Denny, 2015). The passage of the SOX legislation served as notice to NPOs regarding the effective governance of their organizations (BoardSource, 2018). Nonprofit executives weighed whether their organization should voluntarily implement any of the SOX provisions in interpreting the SOX legislation. In my study, I reviewed those provisions and assessed their relevance to NPOs as they are sensitive to fraud and its negative effects (see Husam & Dursun, 2020). RQ1 concentrated on the specific provisions of the SOX implemented by NPOs' RQ2 focused on the experiences of executives in implementing them.

SOX received bipartisan support and bore the name of a Democrat, the former late Senator Paul Sarbanes from Maryland, and the late Republican Representative Michael Oxley from Ohio. Sarbanes was Chair of the House Financial Services Committee, and Oxley was Chair of the Senate Banking and Housing Committee. SOX was aimed at public companies and designed to set new standards of accountability (Ahluwalia et al., 2018).

The SOX legislation was introduced with seven target provisions designed to protect investors with improved accuracy and reliability of corporate disclosures (Kecskes, 2017). President George W. Bush signed the SOX legislation into law on July 20, 2002 (Kecskes, 2017). The bipartisan vote passed by a landslide in the House and Senate. The legislation served as a response to the outcry and rage from the public that questioned the current structure and governance of boards that created scandals concerning financial irregularities (Chang & Choy, 2016). The focus of SOX was to improve corporate governance and auditing practices and ensure that the top executives were accountable to their organization for company management. The following seven provisions of the legislation and their descriptions are listed below.

Auditors and Audit Committee

This provision required the creation of an independent audit committee who have the skills to review financial statements and bids from accounting companies for auditing (BoardSource, 2018). There is another subprovision within SOX that recommends volunteers for the organization not serve on the finance committee. A professional from an independent financial institution should also serve on the finance committee

Certified Financial Statements

This provision is within the limits of the law of each state and requires that NPOs file their certified financial statements on the 990 or 990-PF form (BoardSource, 2018). The board of directors should review the 990 forms; however, the CEO and chief financial officer must sign off on the financial statements. The accuracy, completeness, and deadlines of the 990s must be met to avoid penalties.

Responsibilities of Auditors

This provision focused on the rotation of the lead and reviewing auditors in the auditing firm every 5 years (BoardSource, 2018). However, there is no request that the auditing firm is changed. Companies decide whether the auditing company is changed or if auditors rotate to ensure that auditors do not get used to practices, creating greater oversight and transparency.

Insider Transactions and Conflicts of Interest

This provision is designed to ensure that those within the organization as well as management are not a part of any behavior that involves conflict with the interests of members, especially if an executive officer would benefit (BoardSource, 2018). The policy should include the handling of loans to executives and directors that should specify value, terms, and limits and must be approved by the board of directors if the state does not prohibit such transactions. Each NPO should verify the regulations in their state because most have laws that prevent executives from receiving a loan.

Disclosure

It is the responsibility of the NPO to reveal to its stakeholders the financial condition of the organization and the internal controls in place to make sure of accurate reporting and detection and correction of such reporting. NPOs can make regular reports that reflect an accurate picture of the organization's financial condition. Electronic filing is a method that can be used to make sure reports are completed on time and issued to the appropriate persons (BoardSource, 2018).

Whistleblower Protection

This is a policy designed to protect employees who filed complaints regarding fraud or the illegal activities of their employer (BoardSource, 2018). This provision is designed to prohibit punishments, such as preventing promotions, discriminatory acts, demotions, firings, or suspensions. Employers are to design confidential and anonymous methods for managing such complaints and also prevent retaliation.

Document Destruction

This policy is related to document retention and destruction that includes paper, electronic, email, and any document archived and backups. To be compliant with SOX polices, companies are also required to keep records of existing files and catalog which files are to be shredded (BoardSource, 2018). This policy should also include procedures if the organization becomes part of any investigation.

Sarbanes-Oxley Influence

The study conducted by Ahluwalia et al. (2018) revealed that document retention and whistleblower protection policies were the provisions most implemented by public and private companies. Codes have been added to the SOX to serve as updates to the provisions. To address the conduct of financial officers for mainly large firms, Section 406 was put in place as the Code of Ethics for Senior Financial Officers. There were positive compliance effects of these codes that ensured financial integrity and ethical leadership (Ahluwalia et al., 2018). Certain sections, such as SOX Section 1101, were amended to align and strengthen current federal laws. SOX Section 1101 pertains to document destruction and obstruction of justice. SOX Section 1107 made it a crime to

retaliate against whistleblowers and addresses witness tampering. The conflict of interest provision is an example of how small NPOs find they have no choice but to adopt SOX's provisions if they want to get insurance, attract investors and donors, and repel lawsuits. SOX compliance is becoming a collection of building blocks that cannot be ignored (Tushe, 2016). Conflict of interest policies should be designed to protect against any biased service to the organization by any officer, director, manager, employee, member, or shareholder.

RQ1 for this current study targeted the specific provisions of the SOX implemented by small Chicago NPOs, focusing on the executives' experiences in implementing them. Some states have put into operation their own regulations laws to protect NPOs against future scandals by the implementation of policies that strengthen nonprofit governance. California and New York have used SOX as a guide to implement their own regulations for NPOs.

The state of California sought to reinforce accountability and oversight methods of their NPOs through the Nonprofit Act of 2004. The Nonprofit Act served as an expansion of the SOX Act. SOX examined and strengthened the oversight and accountability practices of NPOs within California. Former Governor Arnold Schwarzenegger was responsible for signing the legislation into law that covered jurisdictions for the state or where the attorney general could enforce or have supervisory powers for all trusts, charitable corporations, and unincorporated trusts (Kahn, 2015; Tushe, 2016). Iyer and Watkins (2008) cited that the implementation of SOX policies was inevitable to avoid the penalty for noncompliance. Luoma (2010) noted that SOX

created provisions that would mandate how a company would effectively govern and manage its financial processes.

Influenced by the SOX legislation, the state of New York introduced the New York Nonprofit Revitalization Act in 2010 (Tushe, 2016). The Revitalization Act was signed into law on September 17, 2010, by former Governor David Patterson. The law was passed in December 2013 and was designed to improve audit procedures and board accountability and makeup. Tushe's (2016) study revealed that, unlike the SOX, the Revitalization Act did not provide checks and balances between the audit committee and the board. Size and financial revenue were considerations of the Revitalization Act to make it easier for small NPOs to comply. According to Garven et al. (2018), there was a positive relationship between SOX and NPOs in producing quality financial reports. SOX also mandates that board and audit committee members be academically qualified to hold the position. One of the main goals of modeling the Revitalization Act after SOX was to decrease nonprofit scandals. "We can't return to the lax standards that preceded Sarbanes-Oxley," (Lucas, 2004, p. 7) stated Senator Paul S. Sarbanes in an interview at the University of Maryland in 2004.

Ostrower and Stone's (2010) study outlined the obligations of the board's responsibilities and accountability practices as contained within SOX. A rating measurement scale of "not very active" to "active" was used by respondents for rating 11 areas. These included evaluating the CEO as a fundraiser and a confidant in sensitive management issues (Ostrower & Stone, 2010). Ostrower and Stone also evaluated areas for educating the public about the organization, policy setting, monitoring programs and

services, monitoring the board's performance, community relationships, influencing public policy, and financial oversight planning. The top three areas rated "very active" included planning (44.43%), financial oversight (52.44%), and setting policy (52.64%). The lowest three areas rated as "not at all active" were educating the public (7.37%), community relations (7.62%), and monitoring the board (13.51%).

This current study focused on the executive experiences in the implementation of the SOX legislation for small Chicago NPOs. Monitoring measures within SOX introduced and targeted top management of for-profit organizations. Managers are to take more responsibility for financial and auditing procedures with the implementation of these measures. Natarajan and Zheng (2019) indicated that accountability standards and the extent to which NPOs met performance standards were the two primary issues to consider in their study that had participation from nonprofit academicians and practitioners.

A qualitative study by Luoma (2010) included 115 surveys to board members of 500 Connecticut NPOs that provided services in agriculture, nutrition, employment, youth, food, human services, and chambers of commerce. The study was conducted to determine if Connecticut nonprofit executives were aware of the SOX legislation and whether it had any effect on their organizations. The board members completed a Likert scale with questions related to their familiarity with SOX and the impact the legislation had on their organization (Luoma, 2010). This research was similar to the study I conducted with small Chicago NPOs in which I focused on the executive experiences in implementing SOX as addressed by RQ1.

Iyer and Watkins's (2008) surveyed 215 NPOs in North Carolina regarding the specific provisions of SOX that had been adopted. The board of directors and independent board members answered questions in this empirical study that addressed every SOX provision. The size of the board and budget were determining factors of the regression results. Financial and corporate accountability, transparency, and responsibility questions determined the roles and relationships among board members, audit committees, auditors, and management in implementing the SOX provisions. Iyer and Watkins concluded that the size of the organization influenced the level of compliance. Larger organizations are more likely to have policies in place for financial certification, audit committees, codes of conduct, and whistleblowers than smaller organizations (Schroeder & Shepardson, 2016). Nonprofit advocates of policy change look for avenues where they can influence and benefit their work as well as the larger community (Fyall & McGuire, 2015). Research by Ostrower and Stone (2006) also concluded that certain SOX practices were more likely to be implemented by larger boards. Those practices include some of the same practices indicated by Iyer and Watkins, with the addition of the conflict of interest policy and document destruction policy. My study focused on small Chicago NPOs that examined which SOX practices were more or less likely to be implemented as addressed by RQ1.

Studies Related to the Research Questions

Since 2002, for-profit organizations have had the opportunity to examine and create a plan of implementation for the SOX legislation. Although not addressed by NPOs, the SOX legislation outlined policies that became the threshold for best practices

for NPOs in identifying the seven provision areas targeted for uniformity and consistency in governance (Commonfund Institute, 2020). This study current focused on small Chicago NPOs and the experiences encountered in the voluntary implementation of the SOX legislation within those organizations. There is a provision within SOX that suggests volunteers of the organization not serve on the finance committee. It also recommends that a person who is a professional from an independent financial institution should take a position on the finance committee. Volunteers on the committee are encouraged to serve to help with resources needed for the audit; however, they cannot be members of the committee as described in the SOX provisions (Banerjee & Kaya, 2017)

In this study, I examined the experiences of small A20 Chicago nonprofit executives, what major SOX provisions were most useful for them to implement and why, as well as their experiences in voluntary implementation of those provisions through two RQs. NPOs that service a large number of people, such as universities, hospitals, and fraternal or national institutions, voluntarily adopt SOX provisions as best practices. Audit committees were found to be implemented in 90% of 128 NPOs sampled in 2004 (Weston, 2012).

Cost contributed to the pace of implementation of the SOX legislation for some NPOs as well as environmental experiences among human services agencies (Natarajan & Zheng, 2019; Saxton & Neely, 2019). Saxton and Neely (2019) addressed the consequences of the implementation of policy to become aligned with SOX policies that kept them competitive with other NPOs. Saxton and Neely demonstrated that larger NPOs had access to more resources to integrate diverse services, while smaller NPOs

were forced to use subcontractors or merge services to be competitive with larger markets. Some of the human services provided included childcare, home care, nursing home or assisted living health care, low-income housing, soup kitchens, and homeless shelter services. Saxton and Neely suggested that NPOs institute 20% of the SOX provisions voluntarily to avoid fines, penalties, and being in jeopardy of losing their tax-exempt status. Ostrower (2008) indicated accountability practices affected by SOX included 54% of NPOs that have separate audit committee policies and practices created as a result of the legislation. Although not required, the NPOs in Saxton and Neely's study who voluntarily complied with the legislation believed that they demonstrated sound fiscal management for their members.

Schroeder and Shepardson (2016) stated that many of the reforms, such as the rotation of audit committees suggested by SOX, had been improved. Regardless of the size, there is little evidence that long tenure affected audit quality (Garven et al., 2018). H. Gao and Zhang (2019) and Gupta et al. (2018) examined whether audit controls were improved under Section 404 of the SOX legislation. Various auditing standards were under scrutiny and questioned regarding whether auditing procedures were adequate or if the cost for compliance exceeded benefits. Schroeder and Shepardson's final conclusions were that the SOX legislation had some level of improvement through the control audits and management assessments.

In contrast to all the other research, Natarajan and Zheng's (2019) study demonstrated an increase in revenue for NPOs by implementing the SOX provisions. The Catholic Healthcare West nonprofit in California boasted of payment and revenue

increases as a result of complying with SOX legislation. Compliance with SOX enabled NPOs to eliminate duplication and decrease payer denial claims due to process improvements. Drexel University in Philadelphia voluntarily complied with SOX and was able to create better methods to capture financial assets and streamline business operations (Natarajan & Zheng, 2019). These methods contributed to the improvement of processes and enabled the achievement of institutional goals. These improvements also created millions of dollars in savings for the institution (Natarajan & Zheng, 2019). Catholic Healthcare West and Drexel University are two examples of NPOs that had success with the voluntary implementation of the SOX legislation (Natarajan & Zheng, 2019); however, the age of the organization has an effect on the success of the fiscal responsibility of the organization (Garven et al., 2018).

The SOX legislation updates have included more stringent changes to federal and state laws regarding for-profit corporations. Newer regulations, due to these updates, have also been implemented to apply to some nonprofit corporations. These new policies are connected to SOX regulations that were the foundation for their creation (Tushe, 2016). The most remarkable relationship between the two sets of reforms is the shared emphasis on the board of directors and fiduciary duties (Tushe, 2016).

Summary and Conclusions

According to the literature, the similarities and differences revealed in research on board governance and responsibilities from earlier theorists like Drucker (Rao, 2021), Karst (1960) and Kezar (2006) and current researchers like Ostrower and Stone (2010) indicated the need for policy change and regulations for NPOs. This legislation was

designed to guide for-profit organizations on how to govern; however, NPOs are voluntarily using the legislation to tighten their guidelines and demonstrate financial accountability and responsibility (Chang & Choy, 2016). As outlined in previous research, NPOs have experienced various challenges in the implementation of certain policies (Moulton & Sandfort, 2017).

The current study examined the experiences of small NPO executives who voluntarily implemented some of the provisions of SOX, which was addressed in RQ2. Luoma (2010) stated that executives in Connecticut NPOs were aware of SOX and that some provisions had changed their operating procedures based on the legislation. The seven provisions outlined within SOX are used by the IRS as a foundation to make NPOs more accountable for funds collected for charity. Since the passing of the legislation in 2002, there has been a gap that has not been addressed concerning the experiences of small NPOs executives regarding the implementation of the seven provisions that comprise SOX or the effect that policy has had on small NPOs. RQ2 focused on issues involving the implementation of SOX. In the current research, coupled with theorists' views, I sought to close the gap to determine if the policy of SOX had any impact on small Chicago NPOs. Harrison and Murray's (2015) research demonstrated that there had been little focus on nonprofit board chairs and their leadership; therefore, their study closes a gap in the literature concerning board chairs and their leadership in the implementation of SOX. Fyall (2016) demonstrated that nonprofit leaders contributed to positive decision making that led to a positive influence on policy. There remains a gap in the literature between the legislation and the experiences encountered in the

implementation of SOX provisions. Chapter 3 is a presentation of the research design and methodology that includes the operationalization of the data collection and analysis procedures. This qualitative study focused on small Chicago NPOs and responses from EDs and a financial officer about their experiences in implementing the SOX Act.

Chapter 3: Research Method

The purpose of this phenomenological study was to examine the lived experiences of small Chicago nonprofit executives and their voluntary implementation of the SOX of 2002 and the use of self-regulating practices. I used a qualitative research design in gathering data through interviews with EDs and a financial officer. SOX introduced seven provisions for the private sector that serve as financial transparency and accountability for public organizations. The SOX policies were created from the fraud and misappropriation of funds from the Enron and Tyco corporate and accounting scandals. The legislation was designed to rebuild public trust in America's corporate sector (BoardSource, 2018). The current study improved the understanding of the process concerning which SOX provisions were chosen, and their voluntary implementation by NPO executives. A qualitative approach was used to address this gap and the experiences encountered by small Chicago NPO executives. Chapter 3 includes the research design and rationale, role of the researcher, methodology, issues of trustworthiness, and a summary and transition to Chapter 4.

Research Questions

To explore and understand how NPOs regulated themselves in implementing the SOX provisions, I used the following two RQs to guide the study:

RQ1: In the experience of small A20 Chicago nonprofit executives, what major SOX provisions were most useful to implement and why?

RQ2: What experiences did small A20 Chicago NPOs face in the voluntary implementation of the SOX provisions?

Central Concept of the Study

The central purpose of the study was to explore how small NPOs were affected by the passing of the SOX legislation. Some small NPOs had voluntarily implemented the policy; however, it was mandated that public NPOs institute the provisions. Small NPOs do not have the resources of their larger counterparts; consequently, small NPOs may suffer challenges in implementing some of the provisions. Despite no rules in place for the execution of these policies, private NPOs may encounter limited resources when attempting to implement the policies. The population for the current study consisted of EDs and a financial officer.

Research Design and Rationale

Qualitative methodology is used to describe the outcome based on the realities of those who live day-to-day with those experiences. The social science tradition of using qualitative methodology was documented in numerous studies reviewed in Chapter 2 (Chin, 2018; Fyall, 2016; Ostrower, 2007; Ostrower & Stone, 2006; Saxton & Neely, 2019). In addition, using a phenomenological design, I was able to capture the daily lived experiences, including facilitators and barriers to voluntarily implementing the SOX. The goal of this study was to identify methods to assist NPO executives who voluntarily implement best practices of the SOX and to identify challenges and facilitators in making the SOX a part of the function of the NPO. A phenomenological design was useful because of the intent to capture the true lived experiences through the interviews (see Giorgi, 1997). Neither a quantitative nor mixed-methods approach was appropriate because the intent was to identify the meaning of the individual experience of the

executives as they implemented the provisions. There was a content analysis of data collected through interviews. The information was gathered to produce new models and theories to explain the research outcome.

The rationale for this study was to bring awareness and identify solutions for small NPOs in the implementation of policy. The study provided a better understanding of legislators and the challenges faced by small NPOs in policy implementation. Ostrower and Stone (2010) suggested that smaller organizations should be considered equally in determining ways that policy can be enacted based on the size of the organization. I addressed Ostrower and Stone in the literature review regarding the concerns of feedback for regulating and self-regulating practices of NPOs, along with the relationship of the board chair and the connection the chair makes with members. Luoma (2010) investigated whether Connecticut nonprofit executives were aware of the SOX legislation and if it had any effect on their organization. My study addressed small Chicago NPOs with income equal to or less than \$500,000 and the experiences faced in the voluntary implementation of the SOX legislation.

Role of the Researcher

I served in the roles of interviewer and participant-observer in this qualitative study. In the role of researcher, I collected and analyzed data that were gathered through the use of the interview guide I designed. Participants were EDs and a financial officer from small NTEE A20 NPOs in Chicago, Illinois. Even though I work within the nonprofit sector, I ensured there were no biases that affected the study by following the guidelines of Walden University's Institutional Review Board (IRB) and Schuh (2009),

Florczak (2022), and Ayorinde et al. (2020) for minimizing researcher bias. I recruited participants from organizations within the NTEE A20 code consisting 167 nonprofits. I did not have a personal or professional relationship with any of the small NTEE A20 NPO members from Chicago to ensure there was no unintended influence.

Methodology

Participant Selection and Sampling Strategy

Participants in this study were to originally include nonprofit board chairs, EDs, and financial officers from charitable nonprofits under the NTEE A20 code of NPOs listed in GuideStar for the Arts, Culture, and Humanities subset. However, the final participant group consisted of only five EDs and one financial officer as no board members agreed to be part of the study. The population used in this study was extracted from the GuideStar.org database. GuideStar was founded in 1994 to promote transparency within nonprofits and to provide a central location where donors could gather information to use for decisions for donations (BoardSource, 2018). GuideStar is the leading provider of nonprofit information worldwide (BoardSource, 2018). The GuideStar database contained over 35,000 public NPOs and 7,000 other charities that included charitable, medical, educational, industrial, environmental, animal, legal, athletic, and religious organizations. GuideStar is a watchdog of NPOs designed for service to the public. The GuideStar website contained mission statements, purpose, and tax information on NPOs (BoardSource, 2018).

I identified 1,634 NPOs that had the NTEE code of A20. My search was further narrowed by searching for small A20 NPOs that had income equal to or less than

\$500,000. This financial delimiter was the definition criteria used by GuideStar for what constituted a small nonprofit (BoardSource, 2018). Using a stratified random sampling method, I reviewed the NPOs' latest IRS 990 forms on file in the GuideStar.org database and verified that the organization met the inclusion criterion. A stratified random sampling method was used in this study because the population represented a diverse group of NPOs whose executives shared their lived experiences beneficial to the research (see BoardSource, 2018).

A total of 167 NTEE A20 nonprofits met the monetary criterion. I excluded A20 organizations that did not have an A20 NTEE code and those that did not have a current IRS 990 on file. Emails (see Appendix A) were sent to over 100 of the 167 Chicago NPOs within the NTEE A20 code with the anticipation of receiving 10–15 responses.

The number of emails was determined based on research done by Kecskes (2017), Iyer and Watkins (2008), Ostrower (2014), and Ostrower and Stone (2006). These researchers gathered data from similar populations regarding SOX legislation and policy implementation for small NPOs. The researchers determined that saturation could be expected at the 30% point. This was consistent with leading experts' guidance on how to estimate the number needed to meet saturation (see Morse, 2015). Once I determined that the board director, ED, or financial officer were eligible, a participant letter and consent form were sent by email. I had originally crafted an organization permission letter but later decided that it was unnecessary due to the limitations of contact with nonprofits due to COVID.

Previous research indicated that 30% of responses were sufficient for the saturation of the population (Morse, 2015). Saturation for small nonprofit NPOs may yield a greater response size in determining a viable outcome. Morse (2015) noted that saturation is present in all qualitative research and has the status of being the gold standard for the determination of sample size in qualitative research. Morse also noted that when there are little data, saturation is not used; however, when there are many examples and plentiful data for the study, saturation is used in assessing the data collection. Saturation is necessary in providing a sufficient sample size. Saunders et al. (2018) concluded that there were inconsistencies in the use of saturation; however, they agreed that it is widely accepted as a methodological principle in qualitative research.

I received responses from only six organizations after follow-up phone calls and resending emails. For the six organizations that did respond, I resent the original email (see Appendix A) to the individuals listed as board chair, ED, or financial officer within each organization. Once I was contacted by an individual from each eligible organization, I used a screener guide (see Appendix B) to ensure that the individual met the study's eligibility requirements: (a) had held a position of director, ED, or financial officer in the A20 organization; (b) had held the position for at least 1 year; (c) were familiar with the SOX; and (d) had a working knowledge of at least four provisions of the SOX of 2002.

After 6 months of recruiting and consultation with my committee chair, I elected to cease data collection with the six and reported the inability to reach saturation in all areas as a limitation to the study findings in Chapter 5. Although saturation was not

reached, findings were still informative and provided a useful understanding of the challenges and facilitators for voluntary implementation of the SOX within NPOs.

Category for Small Nonprofit Organizations

I gathered data using telephone interviews for this qualitative phenomenological study and used descriptive narrative analysis to code the data. I noted any recurring themes from the experiences of small Chicago nonprofit executives in the implementation of the SOX legislation. Data were analyzed using Atlas.ti9 software for identifying recurring themes and contrasts, meanings or relationships, and relevant conclusions.

Instrumentation

I used a researcher-designed instrument (see Appendix C) to collect data on the executive experiences with the SOX. The SOX interview guide consisted of nine questions that addressed the key concepts identified in Chapter 2 as relevant to address the RQs. Interview questions were reviewed with a few individuals to ensure they were clear and understandable. The participants met the basic criteria for participating in the study. None of the participants made a recommendation for change; however, the questions were pretested for clarity and understanding only. It was not expected that the participant would be able to answer the questions. The test was used to determine internal and external validity and reliability as additional questions were added as a result of the test. The small test was conducted to ensure the two RQs that were developed around provisions of the SOX legislation would be answered.

Procedures for Recruitment, Participation, and Data Collection

Participants were recruited from NPOs located in Chicago, Illinois, from the GuideStar database. After contacting over 100 nonprofits via email, I collected data through telephone interviews. An introductory email was sent to members within each nonprofit agency selected. Prospective participants were given a brief background of the study, a request for their voluntary participation, and informed they would be interviewed within a week if they agreed to be in the study. Once the consent to participate form was received, I called the participant and administered the screener guide. If the participant was eligible, I set up a date, time, and place and conducted the interview by phone. Interviews were scheduled at a time convenient for the participant and their privacy ensured. I planned to conduct interviews weekly for at least 60 days or until saturation was reached. Each interview was expected to last about 30 minutes but no longer than 60 minutes. I recorded the interview using the Voice Recorder app on my cell phone. As the participant answered the questions in the interview session, I took written notes of the responses.

If any of the participants had changed their minds about participating before, during, or after the interview, I planned to continue to recruit to ensure sufficient response numbers. As I conducted the interview process, I verified the responses from the participants. The participants were also reminded of how to reach me should they have any questions. I gave an overview of the next steps in the research study process. I reminded them, as a condition of participation and as stated in the consent form, that I may need to contact them to obtain clarification of the notes or recording. As the

interview ended, the interviewees were assured of the confidentiality of the study and were asked if they had any questions.

Data Analysis

Participants were asked questions from the interview guide. Their responses were entered into an Excel spreadsheet and imported into the Atlas.ti9 software for analysis. I recorded the data as they were collected through the interviews and simultaneously took written notes of the responses received during the interview session. The data gathered were imported from the spreadsheet to the Atlasti.9 software. The data analysis consisted of coding describing the comparisons, contrasts, and themes developed from the telephone interviews. Codes were developed based on the responses using a modified Van Kaam procedure (see Corley et al., 2020) with Atlasti9 software used to identify themes. Reports in the form of tables were created for a visualization of the data to reveal meanings and relationships.

The data collected using the interview guide provided information to address each of the RQs. The recorded file and written narrative were loaded into Atlasti.9, which created the codes highlighting phases, sentences, sections, or words that were relevant to the research. Categories and themes were created from these codes that described connections within the study. Interview questions that pertained to the RQs were grouped together in the interview guide. RQ1 was addressed in Interview Questions 1–4, and RQ2 was addressed in Interview Questions 5–9:

RQ1: In the experience of small A20 Chicago nonprofit executives, what major SOX provisions were most useful to implement and why?

RQ2: What experiences did small A20 Chicago NPOs face in the voluntary implementation of the SOX provisions?

If anyone had elected not to complete the entire interview session or not answer certain questions, those persons would have been excused from the study so that it would not be one-sided in some areas with no responses. I reviewed the consent letter prior to starting the interview to make sure everyone understood the study. All six participants completed the entire interview sessions; therefore, no one was excused before completing the interviews.

Issue of Trustworthiness

In this qualitative study, I addressed credibility, transferability, dependability, and confirmability (see Lincoln & Guba, 1985) throughout the research design and implementation process. This section includes a discussion of the validity and reliability of qualitative data and ethical procedures supported by noted researchers such as Morse (2015). Trustworthiness in qualitative research was established by using methods developed by Lincoln and Guba (1985).

Internal and External Validity

Credibility was established in my study through triangulation, which confirmed the validity of the data, which were collected by more than one method. Using multiple methods enhanced the value of this qualitative research by using interviews, notes, and recordings to establish validity (see Schuh, 2009). I also used data triangulation (Fusch et al., 2018), a cross checking method within the study (Fusch et al., 2018). I reviewed the written and recorded individual transcripts, looking for similarities within and across all

participants. Data triangulation in this study included using manual and automated recording of interviews collected from the nonprofit EDs and financial officer. The interviews were compared to the overall perception of collective data from each executive who participated in the interviews. Credibility was established by using the interviewers' words in the study, spending sufficient time conducting the interviews, asking any follow up questions or clarification, and making a thorough review of the notes.

Transferability is external validity that occurs when the findings in a study can be transferred to another group who have similar themes, situations, and populations (Lincoln & Guba, 1985). Results of this research may be transferred to groups to develop policy for small nonprofits; however, there are no plans to transfer any of the data to any other group. My role was to offer the most accurate information in providing data for a study. Transferability was accomplished by using the same data collection methods that can be applied to different groups or geographical locations.

Dependability is the reliability of the study and is also needed to establish stability for the data over time (Lincoln & Guba, 1985). This showed that the research findings were consistent with the previous research. It is important that the study results were aligned with the data that was collected. Transcripts from the interviews were read over and over and examined for patterns revealed in the Atlasti9 software to eliminate bias and make sure the data were interpreted correctly. Lincoln and Guba (1985) suggested that coded data be checked to ensure the researcher has accurately interpreted the data and that it should be stored securely. The hard copies and electronic documents were placed

in a secured file and will be maintained for 5 years as required by federal regulations and Walden University's IRB before shredding.

Confirmability was the last step in achieving trustworthiness in a qualitative study after credibility, transferability, and dependability have been established (Lincoln & Guba, 1985). Two or more people were used to determine that the data were correct as recorded based on what the participants in the study reported in the interviews to reduce bias and ensure accuracy of the data. Confirmability was determined in the study by recording any biases following an interview and any needed clarifications while interviewing.

Ethical Procedures

After receiving IRB approval (#11-12-20-0113250), the NPOs were selected from GuideStar, and the participants were contacted for a scheduled interview. Participants received an email that contained the background of the study and were prescreened to verify their eligibility through a screener guide. The participants were asked four questions regarding their familiarity with the SOX legislation and the impact the legislation had on small NPOs. The participants consisted of five EDs and one financial officer.

Once a participant's eligibility was established, an appointment was set up within 5 days for a nine-question interview from the interview guide. Each participant was required to sign a consent form prior to participating in the study. Agreeing to take part in the study would in no way affect their ability to withdraw at any time if they desired.

Participation in this study was voluntary and did not present any risk to safety, reputation, or well-being.

Confidentiality was of the highest concern and was appropriately observed by following the guidelines of Walden's IRB and securely storing the data in a locked cabinet that was only accessible to me. Materials (notes, consent forms, audio recordings, etc.) gathered from the study will be retained for 5 years for audit purposes and in keeping with the University's document retention policy, after which they will be destroyed. I followed the guidelines set by Walden University's IRB for the participants' informed consent and confidentiality. As indicated in the participant letter, confidentiality was of the greatest importance and was appropriately observed. I also completed an online course, Protecting Human Research Participants. Information from the use of the Atlas.ti9 software was not shared except to provide the results in Chapter 4.

Summary

In this chapter, I described the research design and rationale, population, data collection, data analysis, and instrumentation. I developed a screener guide to determine participant eligibility and provide validity for the interview guide with nine questions. I also explained the content of the instrument and the use of GuideStar to identify the small NPOs for the research. The study contributed to the body of knowledge needed to address this process deficiency by identifying the absence of procedures that may be used to strengthen the potential value and the use of the SOX by small NPOs. In Chapter 4, I report the results of the screener survey and the results of the responses to the interview guide questions.

Chapter 4: Results

One of the major objections from small NPO executives is the constant request to prove they are compliant with the SOX legislation. The nonprofit cannot apply for funding or exist without proper documentation that these provisions are part of their records. There were no regulations within the SOX legislation that included small Chicago nonprofits; however, their existence was dependent on the implementation of its seven provisions.

The purpose of this phenomenological study was to examine the lived experiences of small Chicago nonprofit executives and their voluntary implementation of the SOX of 2002 and the use of self-regulating practices (see Chang & Choy, 2016). I captured some beneficial and problematic lived experiences from the six small Chicago nonprofits. The results of this study indicated that procedures were voluntarily implemented to operate as a nonprofit or to receive any type of funding. The lived experiences of the five EDs and one financial officer were examined, along with their assessments of the implementation of the SOX provisions within their respective NPOs. This chapter addresses the two RQs through the presentation of the results from the interviews. To explore and understand how NPOs regulated themselves in implementing the SOX provisions, I used the following two RQs to guide the study:

RQ1: In the experience of small A20 Chicago nonprofit executives, what major SOX provisions were most useful to implement and why?

RQ2: What experiences did small A20 Chicago NPOs face in the voluntary implementation of the SOX provisions

I used a qualitative approach to analyze the interview responses to the questions that aligned with the participants' lived experiences. I also identified the emerging themes revealed through manual coding of their voluntary implementation of the SOX legislation. Data from the audio recordings were checked against the interview transcripts to verify that the themes were representative of the interviewees' experience by using the modified van Kaam procedure. The results of the study are presented in this chapter in the following sections: Setting, Demographics, Data Collection, Data Analysis, Results, Evidence of Trustworthiness, and Summary.

Setting

An Excel file of 167 small Chicago nonprofits was compiled from the GuideStar database. The file comprised certain criteria for NPOs in the state of Illinois with an NTEE code of A20 and with an IRS 990 form on file in the GuideStar database that indicated income equal to or less than \$500,000. Board chairs, EDs, and financial officers were invited to be in the study. The Excel sheet included the name, address, phone number, email address, date of contact, and response from each nonprofit. I received IRB approval to proceed with data collection in November 2020. I began the data collection process in December 2020 and contacted the 167 NPOs listed on my Excel spreadsheet. I later applied for an extension in November 2021 when additional interviews were required; although saturation was not reached, no additional interviews were conducted. I believed that data were useful in providing an understanding of the challenges and facilitators for the voluntary implementation of the SOX within NPOs.

The first set of emails was sent out on December 20, 2020. There was difficulty contacting some of the NPOs because of COVID-19. Some of the NPOs were not open or remote; others had no alternate contact information, and some offices remained closed because of COVID-19. In January 2021, when the city of Chicago started to partially open, the following protocol was followed after I had received no responses from the December emails in 2020:

- Another set of emails was sent, and companies were called who did not respond.
- I sent emails to a new group of NPOs in the A20 category; GuideStar updates its nonprofits within 5–7 months, which generated a new set that fell within the A20 category to contact.
- I received permission to use the social media platform LinkedIn as a recruitment method.
- I received permission to use referrals from people who declined the interview but gave names of other nonprofits that may have been interested.

Once I received approval of the revised referral method, the referred NPO was contacted. The same protocols for contact procedures were followed. I informed the contact person from the NPO about the study and sent the participant email with the consent form regarding the study for prospective participants' review if they wanted to participate. There were only two NPOs that had members who agreed to an interview that originated from the eight referrals after they were contacted. Two of the NPOs were not eligible under the A20 category type, and the other four referrals made no contact.

There were three qualifying questions for each person interviewed to determine their eligibility for the study. Eligible persons were those who had their position for 1 year and were familiar with at least four of the SOX provisions (see Table 1). Participants' demographics are displayed in the breakdown of the responses of those people who were deemed eligible to participate in the interview.

Table 1

Participant Demographics

Characteristic	Participant responses
Do you hold either of the following positions?	
Board director	0
ED	5
Financial officer	1
None of the above	0
Have you held this position for at least 1 year?	
Yes	6
No	0
Which provisions of the legislation are you most familiar with?	
Auditors and audit committee	6
Certified financial statements	6
Responsibilities of auditors	5
Insider transactions and conflicts of interest	5
Disclosure	5
Whistleblower protection	4
Document destruction	4

Data Collection

Five EDs and one financial officer agreed to be interviewed. There were no board directors who agreed to participate in the study. Six screenings and interviews were conducted on the phone at the request and convenience of those being interviewed and for safety precautions due to COVID-19. All six of the interviews were conducted in a

secured room in my home. Prior to the interview, I asked and was granted permission from the participants to record the interviews. Once permission was given, I used the Voice Recorder app to record the interview session. I anticipated that the interviews would last 15–30 minutes. The interviews were conducted between August 2020 and October 2021. In reality, the duration of the interviews was 10–15 minutes. The recorded interviews were saved under the titles Interview 1, Interview 2, and so on using Walden’s Microsoft 365 and the transcription feature. The recordings were transferred to a Word document during transcription. After the transfer of the audio file, the written transcribed file was created. I purchased a new laptop so all files would be moved to a secured file and copied on a dedicated flash drive for backup.

After each file was transcribed, I played the recording of each of the six interviews to make sure all garbled, unclear, or misprinted words were corrected. After going through all interviews, I separated each question and put the corresponding answers with that question. I wanted to make sure that each person interviewed had returned and indicated that they had read the consent form and agreed to the interview.

Data Analysis

The data analysis for this study involved manual coding of the data from the interviews to identify themes, words, phrases, or concepts. The data were organized using the interview guide to ensure the RQs were answered. Several topics were extracted from the narratives from the interview recordings using a modified van Kaam procedure to create the thematic headings (see Corley et al., 2020). The modified van Kaam procedure was selected because it involved checking the data against the text to verify the themes

were representative of the interviewees' experiences. Additionally, a code book (see Appendix D) was developed to capture the various ideas or phases that were frequently repeated by the six people who were interviewed.

Results

I explored the lived experiences of five EDs and one financial officer regarding what major SOX provisions were most useful to implement and the experiences they faced in the voluntary implementation of the SOX provisions. The first screening question asked if they served as a board director, ED, or financial officer. There were five EDs and one financial officer who met the requirements and participated in the interviews.

Four of the EDs were the founders of their respective organizations. All of the interviewees indicated they were vested in their respective organizations. The second screening question asked if they had the position for at least 1 year. The time in positions held for the six participants ranged from 4 to 12 years. The third screening question asked which provisions of the legislation they were most familiar with. Five of the respondents indicated they were familiar with all of the provisions, one was familiar with six, and one was familiar with five (see Table1).

Once eligibility was established, a date was set for the interviews. Each person was called on their agreed interview date. The consent form was reviewed with each interviewee, and they were also reminded to email the form back to me. If the consent form was not received prior to the interview, it was forwarded to the participant while on

the phone. I reminded the participant before the interview began that their consent was needed. The form was returned in its entirety or with an emailed, "I consent" response.

The data for this phenomenological study represented the lived experiences of five EDs and one financial officer of small Chicago nonprofits and their role in the voluntary implementation of the SOX of 2002. Two RQs guided the study:

RQ1: In the experience of small A20 Chicago nonprofit executives, what major SOX provisions were most useful to implement and why?

RQ2: What experiences did small A20 Chicago NPOs face in the voluntary implementation of the SOX provisions?

There were five themes derived from the interviews that reflected which SOX provisions were implemented and why as well as what experiences were faced in the implementation process. The five themes that emerged from the data included fiscal stewards and financial stability, auditing professionals, policy implementation, funding requirements, and executive recommendations. Table 2 shows codes, categories, themes, and their corresponding quotes extracted from the interviews.

Table 2*Theme Formulation*

Thematic quote	Code	Category	Theme
“Keeping record of all money that’s going into the organization and money that is going out. You have to prove you are a good steward.” “We are constantly confronted with proving we are good fiscal stewards.”	Accurate record keeping	Record keeping	Fiscal stewards and financial stability
	Keep receipts	Organization	
	Checks and balances	Good stewards	
“There were problems with taxes when I did not use a reputable company.”	Don’t use anyone to do taxes	Reputable company or individuals	Auditing professionals
“It is worth the investment to get a company or consultant who specializes in nonprofits.” “Encountered a problem with my taxes because I did not use a reputable financial company.”	Payment of fines for violating policy	Specialize in nonprofits	Audited financial statements
	Need to make an investment	Audited financial statements	
“Challenges putting these policies into place” “Limitations of time and human resources to be able to draft the policies.” “It is difficult completing all the paperwork, and a lot of information is required to prove the policies are in place.”	Difficult to implement	Nonprofit guide	Policy implementation
	Paperwork overwhelming	Provisions required	
	Challenging to implement		
“There are challenges when we are applying for money.” “Omissions of certain policies may affect whether or not funding is approved.” “If you want funding, you have to get these policies as part of your organization.”	No funding without provisions	Funding limitations	Funding requirements
	Revenue generated	Proof of provisions for funding	
	Difficult application process		
“Mindful accountant who has experience with different size organizations and businesses.”	Unexperienced board members hinder progress	Experienced board members	Executive recommendations
		Template of provisions	
“Templates or depository of resources that could be used instead of creating policies by scratch.” “Board members should be researched before serving.”	Improper paperwork hinders funding	Experienced nonprofit professionals	
	Inexperienced auditors created financial violations		

The interview responses from my study support research by Saxton and Neely (2019) that indicated that adoption of the provisions of the SAX for nonprofits was a result of a spillover from the for-profit sector. This further indicated the need for small nonprofits to implement the provisions. Saxton and Neely's results were also consistent with current findings when the interviewees indicated there was no choice but to implement the provisions or face the elimination of federal or state funding.

The validity and reliability of the responses were ensured by listening to and matching the responses to each interview question with the audio recording. This process was important to guarantee that responses from each person were accurate and reflected their experiences. This process was important to ensure my manual recording matched the audio recording and transcripts.

The first RQ addressed the participants' familiarity with the SOX legislation. The question was designed to find out how familiar the EDs and the financial officer were with the provisions and their experiences in the implementation process. Two of the EDs indicated they were not familiar with all the provisions and that their NPO had not implemented the document destruction or the whistleblower provisions. Interviewee # 2 indicated they did implement document destruction and was unsure if they had the whistleblower policy but was familiar with it. Interviewee #3 indicated that their NPO was not familiar with either document destruction or whistleblower policy; however, it would not be hard to implement. Interviewee #6 stated that their NPO had only implemented the certified financial statements provision, although they were familiar

with them all. The main focus of their NPO was to be sure they were tax compliant so they could get funding each year.

Fiscal Stewards and Financial Stability

The recurring theme for the five EDs and one financial officer in implementing the provisions was the financial stability of the organization. It was stated that a small NPO was dependent on balanced and sound financial audits and certified financial statements. Proof of these documents was always requested to secure contracts and government funding or leverage to maintain standing as an NPO. It was necessary for small NPOs to demonstrate a good history of managing finances and that they were allocated properly.

The SOX provisions had to be in place to obtain funding and receive grants. Interviewee #6 stated that the SOX provisions were necessary to implement to apply for grant funding, to stay eligible as a charitable organization, and to be legitimate for state and federal government funds. They also noted the difficulty in completing the forms correctly to avoid being denied funding.

The EDs and financial officer indicated a variety of experiences in implementation of the SOX provisions with their nonprofit agencies. However, all echoed the common theme of being good stewards of the finances they were responsible for disbursing. As Interviewee #5, commented, “We are constantly confronted with proving we are good fiscal stewards and making sure we have the proper checks and balances.”

The EDs and financial officer acknowledged their existence depended on their organizations being financially sound. If grants or funding from the city were to be given, documentation that showed financial status was requested before any aspect of the nonprofit was examined. Interviewee #6 stated, “Financial statements is [*sic*] the least challenging to implement because as a good organization, you need to be fiscally responsible.” Interviewee #5 emphasized that the “cadence of creating monthly P&Ls and quarterly financials should already exist.” Fiscal stewards and financial stability were the common theme throughout all of the interviews.

Auditing Professionals

Fines from violations, loss of tax status, IRS issues, and IRS audits were the problems that were encountered by small Chicago NPOs as the participants started their nonprofits or sought funding. It was noted in the interviews how important it is to have documentation of the grant money received, which should also be reflected in the certified financial statements. Audits revealed through the financial statements whether funds were properly allocated to apply and continue receiving funding (see Mule, 2019). Documentation of grants received by the city was important to receive future grants. There were stipulations that funds received through the city would have to be paid back if proper documentation was not submitted to ensure funds were allocated as indicated.

Interviewee #1 stated that it was important to “hit a certain annual revenue in a financial audit to get government funding.” Interviewees #3 and #4 made similar remarks. Interviewee #6 noted, “When you are applying for government funding, you

have to show evidence that those policies exist within the organization.” The application served as a baseline for the funding, and the documentation serves as the evidence.

Interviewee #6 only implemented one of the provisions—financial statements—and had strong views that it was the most important provision to implement at that time:

[The NPO] encouraged anyone to first and foremost have their financial recordkeeping in place in establishing a nonprofit and before applying for funding. As a tax entity, you need to keep receipts. You have to prove that you are a good steward.

Interviewee #4 commented on how they encountered a problem with their taxes because they did not use a reputable company or licensed individual. They also said there are no gains by cutting corners or paying cheaper costs, which hurt them overall. It is better to invest in a reputable financial company that will save money in the end.

Interviewee #4 stated, “It is important to make arrangements where you can pay quarterly instead of paying all upfront which is costly. No one is going to give money to a poorly run nonprofit, so it is better to invest the money.” Interviewee #2 made the following comment about choosing an auditor:

There were financial challenges for anybody, and I think the other thing is, it seems so massive from the outside looking in you automatically assume you can't afford it. There's a lot of consultants out here that can do periodic or quarterly work. I think that's really important. Well, I can't afford this ongoing, but if you can find the consultants to be willing to do quarterly check-ins or work bi-

monthly, that can be really helpful. I am not going to ask you to do something that I cannot afford. I let them know what I need and ask them for their price.

All six nonprofit participants indicated that auditing firms were an issue. It was mentioned several times that it is worth the investment to employ a company or a consultant who specializes in nonprofits. Interviewee #3 also indicated there were problems with taxes when they did not use a reputable firm or someone who was licensed.

Auditing firms represented the best financial interest of the nonprofit. One ED, Interviewee #3, commented, “To trust not necessarily your friends or your family because you need someone who’s going to tell you the truth, so it is the advantage of the NPO to hire professionals.” Most of the interviewees agreed that hiring a professional or licensed auditor will ensure accurate certified financial statements.

Policy Implementation

The second RQ was focused on the experiences of the participants with the implementation of the SOX legislation. The results from the responses to the interview questions directly addressed my problem statement. There are many possible factors that NPOs may face in the voluntary implementation of the SOX legislation, such as costs (Banerjee & Kaya, 2017), audit controls (Schroeder & Shepardson, 2016), or the loss of tax status (Cunningham, 2015) without any input from the government to address these issues. There is also no policy requiring NPOs to adhere to any of the seven components of the SOX Act.

All respondents made strong arguments that being a small nonprofit was a major challenge to implementation of the policies (see Gunz & Thorne, 2019), which hindered receiving funding. Iyer and Watkins (2008) concluded that the size of the organization influenced the level of compliance. Larger organizations were more likely to have policies in place for financial certification, audit committees, codes of conduct, and whistleblowers than smaller organizations (Schroeder & Shepardson, 2016; Whispli, 2019). Nonprofit advocates of policy change look for avenues where they can influence and benefit their work and the larger community (Fyall & McGuire, 2015). Ostrower and Stone (2006) also concluded that certain SOX practices were more likely to be implemented by larger boards. Those practices included some of the same practices indicated by Iyer and Watkins (2008), with the addition of the conflict of interest policy and document destruction policies.

Three of the participants indicated the whistleblower provision, and the remaining four interviewees indicated whistleblower and document destruction provisions were the easiest policies to implement. The experience of the NPO executives reflected Interviewee #3's statement that these provisions "are just pieces of paper that state what you are not going to do and what you are going to allow." These provisions needed to be a part of a nonprofit; however, there is no financial obligation associated with implementing them.

Although four of the participants would not commit regarding which was the most beneficial provision, all six of the NPO representatives indicated that either document destruction or whistleblower was the provision that would be least beneficial. Based on

the type of grant, Interviewee #6 stated they received yearly funding on the programs that were implemented. This NPO executive believed, “To stay eligible as a charitable organization, we have to file those statements every year to stay with the state and the federal government.” Interviewee #6 believed that proving financial stability was an important provision to ensure yearly funding.

Interviewee #4 indicated that they did not have a conflict of interest policy, but as the interview progressed they stated they felt one was needed. Interviewee #5 noted that the whistleblower and document destruction provisions did not exist, but it made sense to have them. Interviewee #5 added there were “challenges putting these policies into place.”

Interviewee #3 said there were “limitations of time and human resources to be able to draft the policies.” Policies had to be drafted and also implemented. Interview #3 continued, “[The] difficult part was attributing appropriate time to develop policies. When you are a small nonprofit, the focus is really on being great stewards of the money and over the funding.” Interviewee #4 stated the following regarding the implementation of policy:

There are challenges when we are applying for money. We have to pretty much sign a lot of information that certifies that we have disclosures, whistleblower disclosure, and have to submit certified financial documents. It is difficult completing all the paperwork, and a lot of information is required to prove the policies are in place.

Three of the EDs would not commit to saying that one provision was more important than the other; however, it is significant to note that, in their experience, all provisions were as important as the other and had equal value. To dismiss one provision would be to diminish the impact that provision has on the existence of the NPO.

Interviewee #1 stated, “One was not more important than the other or more challenging than the next one, and it’s just something we had to have in place to function as a nonprofit.” It was noted that in most instances that all the provisions had equal value.

Funding Requirements

The financial officer interviewed indicated it was impossible for small Chicago NPOs to advance in the application for funding process unless they were able to check off and provide proof of certain provisions required for funding. It was a lesson learned when the application was denied. Providing financial statements is key to the funding process for small nonprofits, or as Interviewee #4 stated, “To be taken seriously, you have to be sound financially to compete for funds.”

Saxton and Neely (2019) demonstrated that while larger NPOs had access to more resources to integrate numerous services, smaller NPOs were forced to use subcontractors or merge services to be competitive with the larger markets. Some of the human services provided included childcare, home care, nursing home or assisted living health care, low-income housing, soup kitchens, and homeless shelter services. Saxton and Neely suggested that NPOs institute 20% of the SOX provisions voluntarily to avoid fines, penalties, and being in jeopardy of losing their tax-exempt status. Saxton and Neely also noted that the largest responses came from human services (29%) and the arts (14%).

Ostrower (2007) demonstrated accountability practices affected by SOX included 54% of NPOs that used separate audit committee policies and practices created as a result of the legislation. Although not required, NPOs who voluntarily complied with the legislation believed they were demonstrating sound fiscal management for their members (Saxton & Neely, 2019).

Executive Recommendations

The experiences of implementing the SOX legislation by the EDs and financial officer led to several recommendations. The overriding recommendation was to have a good accountant. Specifically, Interviewee #2 advocated “to have a really mindful accountant who has experience with different size organizations and businesses.” Interviewee #3 attributed their success to an accountant who was “successful in scaling up a lot of small businesses where they essentially outgrow themselves.” Problems with taxes also arose with not using a reputable company or licensed individual. It was the experience of the participants that it was more costly to use a nonlicensed individual or firm than investing in those with experience in filing and paying the appropriate taxes and paperwork.

There was concern about implementing the SOX provisions without any prototypes or guidance. Interviewee #5 said, “What would have been helpful is if there were templates or having a repository of resources that we could have used instead of creating the policies from scratch.” The participant also mentioned the difficulty in their experiences with dealing with financial statements. Interviewee #5 also recommended, “There should be a person in the organization dedicated to monitoring these provisions.

We should have a position where one person will be the person that monitors all of that. I think it will be less stressful.” Having a template and a person on staff specifically dedicated to the provisions was important for Interviewee #5.

There was a helpful recommendation from Interviewee #6 to attend an auditing workshop for nonprofits held by the city for those NPOs seeking funding through the city. Attendance at the workshops would give them insight on how to complete the forms and what the city requires to grant funding. Interviewees #2 and #3 indicated they did not have the support of their boards, which caused problems when innovative ideas or programs were presented. Interviewee #3 stated that it was important to know who were appointed to their boards.

Evidence of Trustworthiness

Credibility was established through replaying the recording of the interviews with the six participants to ensure clarity and make sure their experiences were accurately captured. Similarities and differences were highlighted and captured in direct quotes from the interviews (see Nowell et al., 2017). This method was used to describe and organize the themes. Each answer was put with the corresponding interview question, which enabled me to use direct quotes that reflected the participants' true experiences.

Transferability was achieved in my research through direct quotes obtained from the transcription of the data. Dependability was attained in the manner the interviews were captured and stored. The recorded interviews were saved under Interviewee 1, Interviewee 2, etc. using Walden’s Microsoft 365 and the transcription feature. Each recording was transferred to be transcribed. After the transfer of the audio file, a written

transcribed file was created, which enabled me to provide direct quotes from each person interviewed. Transcripts from the interviews were read and examined for patterns and to eliminate bias, making sure data were interpreted correctly.

Confirmability was established through the several topics extracted from the narratives in the interview recordings, which provided information for the thematic headings. I developed a code book to record various ideas or phases frequently repeated by the six interviewees. The hard copies and electronic documents will be maintained in a secured file for 5 years as required by federal regulations and Walden University's IRB.

Summary

The six interviewees indicated how funding was normally targeted to program costs, which has presented a challenge for nonprofits seeking funding for programs and operation. Nonprofits that sought to avoid implementing any of SOX policies suffered significant financial impact for noncompliance (see Feng & Elder, 2017). Responses by the interviewees that answered RQ1 indicated that nonprofits could only allocate funds to the areas they could prove were significant, and that it was important to be good stewards of their finances. Financially stable NPOs were able to receive funding; otherwise, funding was granted by presenting accurate, certified financial statements and clean financial audits. Other provisions were also important to implement; however, these were the foundation for small Chicago NPOs to be paid back and if not implemented could jeopardize future funding. None of the nonprofit executives used the word "forced," but it was evident by their responses that they could not exist or receive city or government funding without some or all provisions being in place.

The challenges in implementing the SOX provisions noted by the participants, which answered RQ2 were also outlined in the interviews. These included putting policies into place, limitations of time and human resources to be able to draft the policies, and difficulty in completing all the paperwork. The participants also stated that a lot of information was required to prove the policies were in place. There was no template to ensure proper submission of paperwork. As previously referenced, SOX was designed for public organizations; however, SOX practices have been voluntarily implemented even though, under the law, NPOs are only required to meet basic accountability standards to function as a nonprofit (Ostrower, 2014). Chapter 5 presents the findings, interpretation of the results, implications for social change, and recommendations for further study and action.

Chapter 5: Discussion, Conclusions, and Recommendations

The purpose of this phenomenological study was to examine the lived experiences of small Chicago nonprofit executives and their voluntary implementation of the SOX of 2002 and the use of self-regulating practices (see Chang & Choy, 2016). The legislation known as SOX introduced seven provisions for the private sector that serve as financial transparency and accountability for public organizations. The SOX provisions were created from the fraud and misappropriation of funds from the Enron, Tyco, and WorldCom corporate and accounting scandals. The legislation was designed to rebuild public trust in America's corporate sector (BoardSource, 2018).

In this qualitative study, I explored the lived experiences of EDs and a financial officer in the implementation of the SOX provisions. Nonprofit board chairs were also targeted; however, none were interviewed. The study addressed administrators' abilities to govern by self-regulating with the use of the SOX provisions. For-profit organizations are mandated to implement the SOX legislation; however, there is no such mandate for NPOs. Some small NPOs have aligned with current guidelines so as to regulate themselves keep their existence from being threatened by nonconformance (Chang & Choy, 2016).

Data collected from this current research revealed the necessity for small Chicago nonprofits to implement the seven provisions of the SOX legislation to exist as a nonprofit and be granted funding. I conducted telephone interviews with five EDs and one financial officer from small Chicago NPOs. The RQs addressed the experiences of

the EDs and financial officer regarding what they face in the implementation of the SOX provisions.

Interpretation of Key Findings

I explored the phenomenon through the lens of nonprofit executives in the implementation of the SOX legislation. The interviews revealed the difficulty of obtaining funds without the requirement of provisions being in place. SOX compliance was not a requirement; however, NPOs in the study conducted by Saxton and Neely (2019) voluntarily complied with the legislation because they believed it demonstrated sound fiscal management for their members; otherwise, they would not receive state and federal funding. Ostrower (2014) also noted that several SOX practices were voluntarily implemented even though, under the law, only for-profit organizations were required to meet basic accountability standards. Other research demonstrated there was a higher demand for more financial oversight (Hartfield, 2018). I decided to focus on the A20 nonprofit classification because Saxton and Neely noted that this population provided the most diverse and valuable results.

The population for this quantitative study consisted of NPOs from small Chicago nonprofits with the designation of A20. In this study, findings indicated that 95% of the six nonprofit executives interviewed had adopted the seven provisions of the SOX. Ostrower (2007) and Nezhina and Brudney (2010) had comparable results in which 90% of SOX policies were adopted. My small sampling from Chicago small NPOs yielded a similar outcome.

There were no board chairs that participated in the study. Board chairs were approached by phone and explained the purpose of the study. The board chair often referred me to someone within the NPO to participate in the study. NPOs were just opening out of COVID and the schedule of board chairs were frequently too busy for them to take time for the interview. Often the board chair or the person referred would ask me to explain the Sarbanes-Oxley legislation. Although they were familiar with the actual provisions, they were not familiar with the formal name. None of the board chairs participated in the study; however, one executive director that was referred did participate.

The study I conducted revealed how small Chicago NPO executives experienced various challenges in the implementation of SOX provisions. Wiley and Berry (2018) stated that nonprofits were challenged with ways to comply with policy that were not possible because of accountability costs. Natarajan and Zheng (2019) discussed how the impact of SOX impacted the manner in which NPOs govern, provide disclosures, and audit their records. Saxton and Neely (2019) indicated in their qualitative study that small NPOs were forced to use subcontractors or merge services. In my research, this was supported as several of the EDs stated it was essential to hire subcontractors, especially for auditing.

The costs of the audits placed a burden on the small Chicago nonprofits, which resulted in violations and fines for not being tax compliant. Interviewee #6 commented that it was like a “cat chasing its tail.” The study revealed that if NPOs wanted to receive funding, the SOX policies had to be a part of the framework of the organization. It was

recommended by Interviewee #1, “Hire a licensed person and not a friend to conduct the audit. It is best to pay quarterly for those services so that you don’t get hit at the end of the year with an expensive bill.”

Research results from the six small Chicago nonprofit executives aligned with the research by Garven et al. (2018), who claimed, “There is a positive relationship between SOX and nonprofit organizations in producing quality financial reports” (p. 53). SOX also mandates that board and audit committee members are academically qualified to hold the position. This mandate was challenging for the small NPOs to implement. The EDs and financial officer were focused on being good stewards to be eligible to apply for funding for their programs. Also, some were intentional about who served on their boards, and others met with yet another challenge. The EDs and financial officer revealed that board members or those involved with the nonprofit needed to be ethical, trustworthy, and honest. Interviewee #4 stated, “Board members tend to not have the breadth and depth of experience on the boards they serve. Board members should be researched before serving, and they need to have knowledge of how nonprofits operate.” It was also noted that appointing persons who had no experience would not be beneficial for the nonprofit.

The feedback given during the interviews stressed the importance of being aware of who was being named to the board. When the boards of these nonprofits were put together, the first point of contact for all of them was their friends. The appointment of friends on some of the boards proved to be confrontational and caused conflict due to their inexperience. In those instances, there were several disagreements that hindered the

mission of the organization, and policy could not move forward; therefore, board members had to be replaced for the advancement of the organization.

Some participants indicated they received positive feedback from their boards and donors. Any latest programs, fundraising ideas, or policies regarding SOX were approved, adopted, and received without difficulties. The board members were pleased with bookkeeping, and their main focus was to be good stewards of the funds. Measures introduced by SOX legislation required more management monitoring by the board of directors by taking additional responsibility for the financial transactions of their organizations.

Most of the participants used the word “eligible” in their description of how small Chicago NPOs were able to exist or procure city or government funding without some or all provisions being in place. Saxton and Neely (2019) indicated that small NPOs had to use subcontractors or merge services to be competitive with larger markets. The current study revealed that for the small Chicago nonprofits to be eligible or relevant, they were required to meet more than basic accountability standards to function. Saxton and Neely stated that higher audit and administrative costs were a result of the implementation of the SOX provisions. Auditing fees and finding a reputable auditor were the most challenging experiences revealed in the interviews.

The responses were similar from the EDs and financial officer despite the length of time they were in their respective positions. Being a good steward of finances was the major theme that guided government funding, support for programs, and support for operations. Interviewee #2 gave a response that summed up the research:

So, you got to figure out some way to get that auditing dollars in your budget because you can't get funded. They say you don't need it, but then when you look at it, like I said before with Sarbanes-Oxley, it was designed for the public organization, but a small private nonprofit cannot exist without the provisions.

RQ1 addressed which provision was the most important for the NPOs to implement. It was a tie between auditors and audit committee and certified financial statements. These two provisions manifested the importance of SOX legislation and recognized by the EDs and financial officer as the catalysts for the existence of other small Chicago NPOs. There was no avoidance or workaround of the legislation because nonprofits were required to show documented proof that these provisions existed before applying for funding from the city or government. Interviewee #6 echoed this sentiment:

To stay eligible as a charitable organization, we have to file those statements every year to stay with the state and the federal government. I would encourage anyone to, first and foremost—you got to have your financial record keeping in order before you can do anything.

Bernabei et al. (2019) and L. Gao (2020) indicated that the policies most implemented by public and private companies included methods for anonymous reporting of the whistleblower provision and the inclusion of the document destruction provision. The participants relayed that these provisions were given the least attention, although they were still required for some funding. Interviewee #1 said, "Document destruction provision; it's probably the easiest thing to insert. Whistleblower provision was the least. There is no conflict of interest; however, it is something that we as board members need

to have.” All interviewees noted that document destruction and the whistleblower provisions were the easiest and required the least work to implement.

Limitations of the Study

There was difficulty in communicating with nonprofits at the beginning of the data collection process due to the impact of the COVID-19 pandemic. Over 100 emails were sent out in December 2019 during the height of the COVID-19 pandemic. I discovered that most nonprofits had closed, had old or wrong emails listed, had limited contact, or were nonresponsive. Each nonprofit executive was to be contacted by email and then interviewed in person.

Once Chicago began to open up again, another set of challenges was presented. Nearly all of the nonprofits had to regroup because of the type of services they provided, which made it difficult to get anyone to return my calls or set up an interview. Some NPOs were permanently closed or had very limited contact by email or phone. Contacting the nonprofits by phone proved to be more beneficial than waiting for a response to an email. The person on the other end of the phone listened more and was more likely to transfer or refer me to a person who could answer my questions. The assumption was that the nonprofits would respond to the emails, which proved not to be the case. The phone contact supported my ability to make the transition to introduce the research, and then I was able to send the email that explained more about the study. I was limited to contacting the nonprofits by email at first before making phone contacts.

Additionally, as I began to contact nonprofits, the mention of the SOX limited the responses for the screener guide. The people interviewed were familiar with the

provisions; however, they were not familiar with the formal name of the SOX legislation. I did not receive any responses until I reworded the screener guide to ask only about their experiences and then related the legislation to the provision. This yielded better responses once I led the conversation with the name of the provisions.

One of the limitations stated in Chapter 1 was realized. The major limitation of the study was the small response from one or more groups. There was a limited number of participants whom I was able to interview within the NTEE A20 code. It was a 6-month process to get the five EDs and one financial officer to agree to an interview. Limitations may have been overcome if another NTEE code had been used for another small nonprofit group to yield a larger population. Despite being limited to phone interviews, this research documented rich experiences and perspectives from engaging discussions with those who participated.

Recommendations

Further research needs to be conducted to examine what can be done to prepare small nonprofits for the implementation of the SOX legislation. My study confirmed that funding for small nonprofits was not possible without implementing four to seven of the provisions to receive city and government grants or loans. My research covered small Chicago nonprofits that were in the arts with the NTEE A20 code. I recommend including other small Chicago nonprofits that encompass other areas, such as those that provide social services, to expand the population of the study.

Implications

The findings in this research created a pathway for additional studies to be introduced regarding SOX that could be aimed at small NPOs for their benefit. Strategies need to be designed to ease the burdens and challenges encountered by small NPOs. Empirical evidence derived from the interviews revealed that the implementation of SOX provisions was required for city or government funding. There have been several addendums or sections added to the SOX legislation since its passage in 2002. However, some sections have not targeted a public or private company, such as Section 1107 on retaliation, where persons can be prosecuted if violated. Section 302 of the provision requires that nonprofits provide an online method for employees to report questionable conduct anonymously (L. Gao, 2020).

The findings from the current study highlighted the need for education on the seven SOX provisions for all nonprofits and the importance of their existence. Social change involves individuals, groups of people, or a movement that addresses social issues affecting a community. Social change brings about reforms in policy to develop solutions to those issues targeting improving the condition of others. It was recommended by Interviewee #2 that the main focus should be to develop the procedures, best practices, and documentation necessary to obtain funding.

Chin (2018) suggested how theories of governance and public policy can complement each other. The current study may contribute to social change by contributing to knowledge of the lived experiences of small Chicago nonprofit executives in implementing the SOX legislation. Findings indicated the importance of boards being

transparent and that those who serve on them need to be knowledgeable about their organization. A change in legislation due to these challenges may improve the ability of small NPOs to implement SOX in a manner that strengthens the organization and its ability to govern and meet its mission.

The EDs and financial officer in this study exercised self-regulating practices in the implementation of the SOX legislation. This practice was aligned with the accountability mechanism theory (Fyall, 2016) and focused on NPOs that operated independently and used laws such as the SOX to demonstrate their strong position. Small NPOs should also consider contacting their local elected officials to have fees allocated to assist small nonprofits. Additionally, NPOs can also contact government officials to make sure small nonprofits are included in legislation such as SOX, where they can also benefit.

Recommendations for Change

A major recommendation as a result of this study is the education on the SOX legislation for persons who plan to start a nonprofit. SOX has a prominent role in the existence of nonprofits, and mistakes that result in not receiving funding occur if persons who start nonprofits are unaware of the importance of SOX. There were also several other recommendations that came as a result of the interviews with the five EDs and one financial officer. It was agreed that the implementation of the SOX legislation was a step toward growth for the participants' nonprofits; however, the following recommendations were also noted.

First, templates should be developed for each provision instead of requiring nonprofits to figure out on their own what is expected or required. This would decrease the rejection of funding submissions and having to create policies from scratch. Second, a repository of resources is needed. Depending on the type of funding, resources should be available for small nonprofits to use to help in the application process. Third, there should be a person in the organization dedicated to monitoring the provisions, completing paperwork, and checking to make sure the organization stays in compliance. Fourth, a partnership with larger NPOs should be established to assist smaller organizations and educate them on the type of persons they should seek to sit on their boards. Smaller NPOs should pursue resources, identify someone who works at an organization that already has policies in place, and partner with organizations to help develop those policies.

Conclusion

The lived experiences of small Chicago nonprofit executives demonstrated the difficulty of NPOs' survival if they had not implemented the SOX provisions. The results indicated that execution of the provisions strengthened their position as a nonprofit when seeking funding and stabilized them as a valid and serious organization. Additionally, the literature supported my findings from the EDs and financial officer that most experts determined that the control audits, audit fees and size of the nonprofit were related to its level of compliance with SOX (Ettredge et al., 2018; Schroeder & Shepardson, 2016)

It was the lived experiences that demonstrated the frustration of small Chicago nonprofit executives regarding following guidelines set by legislation that did not include

their NPOs; however, their organizations were bound by their rules. Funding for programs was limited, but the NPOs had to show financial stability and prove that the SOX provisions were implemented within their organization. The EDs and financial officer stressed they were given no templates to assist them in doing this, just denial of funding if any of the seven provisions were not a part of the organization's framework. Some of my research revealed that the voluntary adoption of the SOX provisions was implemented as best practices.

This study contributed to the body of knowledge and addressed this problem by providing data for policy makers to use in developing legislation to strengthen the potential value and the use of the SOX Act by small NPOs. As indicated in a study by Fyall (2016), nonprofits were seen as a catalyst in moving policy to benefit communities starving for change. Public officials who were aware of the power of NPOs created solutions in their neighborhoods by planning community programs and increasing accountability between board members and the community they represented. This same energy can be used today to leverage the small nonprofit as a catalyst for change by inclusion in legislation that eventually affects both public and private nonprofits.

The EDs and financial officer disclosed in the interviews that small NPOs have found there was no choice but to adopt the seven provisions if they want insurance, be able to attract investors and donors, and repel lawsuits. SOX compliance has become a collection of building blocks that cannot be ignored (Tushe, 2016). Findings indicated that small Chicago nonprofit executives lived experiences included the major barrier of

proof of financial stability and that the provisions were a part of their best practices because noncompliance prevented funding or nonprofit recognition.

Whenever there is an impactful regulation, public officials should consider ways they can use their influence to pass legislation that benefits small nonprofits in the same way as private and large NPOs. NPOs should receive the level of attention that does not put stress on small organizations. It is hoped that this study shone a light on small nonprofits that desire to have influence. The SOX legislation provided a stepping stone for these small Chicago nonprofits to be competitive with other larger organizations while they were still able to receive funding and make a difference in their communities.

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Appendix A: Email Invitation to Participants

Dear Nonprofit Participant:

I am a Ph.D. student in the School of Public Policy and Administration at Walden University. I am conducting research on the experiences of small A20 nonprofit organization in Chicago, IL leaders' experience with the voluntary implementation of the Sarbanes-Oxley Act (SOX). This letter is inviting you to participate in my study and by agreeing to participate in a telephone interview that is estimated to no more than an hour. I selected you as a possible candidate because your role as _____ would be vital in understanding any challenges or facilitators to using the SOX Act in a small nonprofit organization.

Eligible participants will must (a) hold a position of director, executive director, or financial officer in the A20 organization; (b) held the position for at least 1 year; (c) be familiar with the SOX Act; and (d) have a working knowledge of at least four provisions of the SOX Act of 2002. If you meet those requirements and are willing to participate in the study, please read and return the attached consent form to me at

patricia.owens@waldenu.edu The records of the study will be kept private. In any report of this study that might be published, I will not include any information that could identify the agency or individual who participated. All findings will be reported in the aggregate. If you have any questions, please contact me via email at

patricia.owens@waldenu.edu

Thank you for considering my request.

Sincerely,

Patricia A. Owens
Ph.D. Candidate, Walden University
Phone: [REDACTED]
Email: patricia.owens@waldenu.edu

Appendix B: Screener Guide

The following will be asked to determine eligibility:

1. Do you hold either of the following positions?
 - Board director
 - Executive director
 - Financial officer
 - None of the above (Not eligible—thank and end call)

2. Have you held this position for at least 1 year?
 - Yes (continue with question 3)
 - No. (not eligible—thank and end call)

3. Which provisions of the legislation are you most familiar?
 - Auditors and audit committee F____
 - Certified financial statements F____
 - Responsibilities of auditors F____
 - Insider transactions and conflicts of interest F____
 - Disclosure F____
 - Whistleblower protection F____
 - Document destruction F____

If eligible, I will set up time, date, and place for the interview. I will follow up with a reminder (email or phone call) at least one day in advance.

Appendix C: Sarbanes-Oxley Interviewer Guide

RQ1: In the experience of small A20 Chicago nonprofit executives, what major SOX provisions were most useful to implement and why?

1. Which of the following SOX provisions has your nonprofit organization implemented?

<input type="radio"/> Auditors and audit committee	F_____
<input type="radio"/> Certified financial statements	F_____
<input type="radio"/> Responsibilities of auditors	F_____
<input type="radio"/> Insider transactions and conflicts of interest	F_____
<input type="radio"/> Disclosure	F_____
<input type="radio"/> Whistleblower protection	F_____
<input type="radio"/> Document destruction	F_____

2. Why were each of those provisions identified in previous question implemented by your organization?

3. Which provision have been most beneficial to your nonprofit to implement? (Ask for examples of the impact of implementation)

4. Which, if any, of the implemented provisions were least beneficial to your organization to implement?

RQ2: What experiences did small A20 Chicago nonprofit organizations face in the voluntary implementation of the SOX provisions?

5. Describe any experiences your organization had to deal with when implementing the provisions.

6. What do you think your organization could or should have done to prevent or minimize any problems with implementing the SOX Act provisions?

7. What type of feedback (negative or positive) did the organization receive (from staff, volunteers, clients, donors/funders, etc.) as a result of the board's decision to implement these provisions?

8. What recommendations or suggestions would you give to other small nonprofit organizations who might be considering implementing any or all of the provisions discussed today?
9. Can you explain the provisions that was least challenging to implement?

Appendix D: Code Book From Small Chicago Interviews

Code Words	Definition
Eligibility	Allows or meets certain criteria or conditions to exist to qualify
Good fiscal stewards	Organizations that demonstrate fiscal responsibility and accountability of funds
Auditing professionals	Persons who are hired to ensure accountability and performance standards are met with operating funds or derived from the community
Policy implementation	Action taken by individuals or groups to bring awareness and address a public problem through legislation
Funding requirements	Stipulations developed for individuals or organizations to provide resources to finance a program, project or need
Executive recommendations	Proposals or suggestions to improve a condition