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Influences of the Sarbanes-Oxley Act on Ethical Financial Operations in Nonprofit Organizations

Stephanie Powell Works
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Walden University

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Stephanie Powell Works

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Walden University
2018

Abstract

Influences of the Sarbanes-Oxley Act on Ethical Financial Operations in Nonprofit
Organizations

by

Stephanie Powell Works

MA, Troy University, 2005

BS, Troy University, 2003

Dissertation Submitted in Partial Fulfillment
of the Requirements for the Degree of
Doctor of Philosophy
Public Policy and Administration

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November 2018

Abstract

In the United States, approximately 7% of nonprofits' annual revenue is lost as a result of a lack of ethical financial operations among nonprofit executive directors (EDs). This represents \$85 billion in estimated annual losses in available operating funds. This study addressed the problem of ineffective leadership in nonprofit organizations from the perspective of EDs responsible for ethical financial operations. The purpose of this phenomenological study was to understand the lived experiences of nonprofit EDs who self-reported the use of 1 of Burn's and Bass' 3 leadership styles and whether leadership style influenced the use of the Sarbanes Oxley Act to manage the ethical financial operations of their human service nonprofit organization. Qualitative data were collected from 12 EDs through semi structured interviews and then coded and analyzed using a modified van Kaam procedure. The results of the study indicated that EDs who self-reported using transformational leadership style were more inclined to adhere to the Sarbanes Oxley Act. In addition, participants acknowledged the need for organizational support to improve leadership qualities in EDs, efficiency, and effective ethical financial operations in nonprofit organizations. The study provides a baseline for nonprofit organizations to increase positive social change by adding knowledge on implementing strategies that will result in the enhancement of quality leadership in EDs that may ultimately result in more efficient and effective ethical financial operations in nonprofit organizations.

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Dedication

This dissertation is dedicated to my entire family for their love and support. The encouraging words and sincere prayers helped me to stay the course and continue to trust the process. May God continue to bless each of you richly is my most sincere prayer.

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Chapter 1: Introduction to the Study

The lack of accountability and transparency in nonprofit organizations (NPOs) generates questions of leadership and ethical financial operations in human service organizations. In 2002, the Sarbanes-Oxley (SOX) Act was passed in an effort to reform the practices of corporate boards (Jackson, 2006). Legislators believed that the SOX Act could improve accountability and transparency practices through mandatory auditing and, more importantly, the creation of independent boards (Fogel & Geier, 2007). Leaders determine values, culture, and shape organizational strategies, including their implementation and effectiveness (Germano, 2010), yet there is no universal agreement on the most effective leadership style (Amanchukwu, Stanley, & Ololube, 2015). However, researchers have identified some basic requirements for a leader to be effective, such as integrity, ethics, trust, transparency, and accountability.

When nonprofit leadership is ineffective, some NPOs can experience fraudulent activities from their leaders. For example, between 2012 and 2015, three nonprofit executive directors (EDs) in the state of Alabama were indicted on charges of securities fraud, wire fraud, conspiracy, money laundering, and filing false tax returns (Oliver, 2016). Alabama was not alone. The lack of ethical financial operations diverted a significant amount of funds from NPOs. Since 2008, NPOs were required to report any diversion or unauthorized use of the organization's assets or funds totaling more than \$250,000. During that time, Flaherty and Stephens (2013) identified more than 1,000 nonprofits throughout the United States, including three Alabama NPOs, that reported

diversions from 2009-2013. Most of these diversions were due to theft or embezzlement (Flaherty & Stephens, 2013).

Losses due to fraudulent activities have a tremendous impact on the nonprofit sector because any losses directly affect the accessible resources used for tax-exempt purposes (Greenlee, Fischer, Gordon, & Keating, 2007). Waste occurs in NPOs when funds are misappropriated, there is a lack of management, or there is inadequate oversight by nonprofit EDs. On the other hand, abuse may not necessarily involve fraud or violation of laws or provisions but focus primarily on deficient behaviors that are inconsistent with sound fiscal financial operations and misuse of authority (Flaherty & Stephens, 2013). Regardless of the source, any mismanagement can result in drastic impacts on the nonprofit sector.

The available resources used to fund NPOs play an important role in preserving the sustainability of the organization. Understanding the common forms of fraud, waste, and abuse will allow the governing boards of NPOs to become more vigilant and increase reporting and prevention. The current study has the potential social significance of fostering ethical behavior, ensuring accountability and transparency, and promoting effective financial operations. By EDs taking preventive measures within their own NPOs, they help protect their organization and simultaneously make a valuable contribution in the fight against fraud, waste, and abuse.

In response to the Enron, WorldCom, and other corporate and accounting scandals, the SOX Act was passed in 2002 (Peavler, 2014). Although most of the provisions of the SOX Act applied only to for-profit organizations, the passage of this act

had implications for NPOs, as well. The act stated that if NPO leaders failed to secure effective governance of their organizations, the government would be forced to regulate nonprofit governance (Peavler, 2014). Seven provisions of the SOX Act required NPOs to establish procedures that ensured (a) an independent and competent audit committee, (b) written responsibilities of auditors, (c) all financial statements were certified by an independent auditor, (d) prevention of insider transactions and conflicts of interest, (e) disclosure of all internal control mechanisms and financial material, (f) protection for whistle blowers, and (g) proper document destruction (Peavler, 2014).

Chapter 1 includes the background, problem statement, purpose of the study, research questions and hypothesis, theoretical framework, nature of the study, definitions, assumptions, scope and delimitations, limitations, and significance. It ends with a summary and transition to Chapter 2.

Background

The key to success in a nonprofit organization is its ED and staff. The ED works for the board and is the board's primary staff person (Drucker, 1990). The ED is responsible for leading the staff and representing the organization. As the leader, the ED is also responsible for making ethical decisions regarding the financial operations of the organization. In this case, good leadership is key. According to Eldakak (2014), leadership is heavily researched in the 21st century because it is a complex phenomenon. To date, the existing research and literature has focused primarily on which behavior, characteristics, and skills make for a successful and effective leader.

Past research has investigated the behavior of leaders (Barnett, 2010). However, this work has predominantly focused on leadership in a vacuum. Researchers have not, consequently, considered the impact of the SOX Act on leadership style as a predictor of ethical financial operations.

According to the Urban Institute, National Center for Charitable Statistics, there are more than 1.5 million nonprofits in the United States (McKeever & Pettijohn, 2014). Although the bankruptcies of Enron and WorldCom contributed to the development and passing of the SOX Act in the corporate world, the accounting scandals and financial irregularities of the Red Cross and United Way were the reasons for the implementation of SOX in nonprofit organizations (Lenn, 2013). Public scandals within these two NPOs decreased the public's confidence in NPOs in general (Lenn, 2013). Specifically, the Red Cross scandal entailed the misappropriation of funds by the ED and his secretary (Lenn, 2013). Similarly, the United Way scandal involved financial mismanagement in which the ED of the organization took 1.5 million dollars in the span of 15 years (Lenn, 2013). In fact, charitable organizations such as The Foundation of New Era Philanthropy, National Association for the Advancement of Colored People, and the United Way have all experienced financial irregularities (Kisow, 2011). These incidents demonstrate the necessity for having a policy such as the SOX Act in place.

Researchers have addressed the relationships between leadership style, employee perception, employee motivation, organizational performance, and financial performance in NPOs similar to human service nonprofits (Sowa, Selden, & Sandfort, 2004). Jones (2013) addressed the correlation between leadership styles and financial performance

within rural electrical cooperatives. Specifically, Jones included a recommendation for future research comparing the influence of leadership style on financial performance of rural electric cooperatives with the influence of leadership style within similarly structured nonprofit organizations. Another recommendation for further study was to explore the relationship between leadership style and financial performance from a qualitative, phenomenological perspective (Jones, 2013). Researchers, such as Jefferson (2014), have highlighted the effect that the ED's leadership has on ethical operations and performance in NPOs, whereas others such as Godfrey (2013) have noted the positive effect of the SOX Act on ethical operations in NPOs. However, there was no research found on the possible relationship of an ED's leadership style (e.g. transformational, transactional, and laissez-faire leadership styles) and adherence to the SOX Act in a nonprofit organization to decrease the instances of fraud, waste, and abuse. These actions are illegal and may present financial and reputational damage when money intended for doing good goes elsewhere. The decrease in donations and funding due to fraudulent activity warrants a study to determine if an ED that uses a transformational leadership style is more likely to adhere to the SOX Act.

Role of Nonprofit Organizations

Nonprofit organizations serve the community without the accumulation of profit (Beal & Griffin, 2012). Society supports NPOs via charitable donations; however, NPOs should also provide some public benefit. There are numerous classifications of NPOs, such as arts, culture, humanity, education, environmental, and animals (GuideStar, 2017). The focus of my research project was human service organizations.

Human service organizations are agencies that address a wide range of individual and family needs. Social service assistance is provided at the federal, state, local, private, and nonprofit levels. These NPOs assist and promote self-sufficiency, health, community, and family relationships. Although many of these organizations have various functions from financial resources to counseling services, these human service organizations play a pivotal role in the lives of low-income families and devastated areas where such services are needed (Baapogmah, 2014). Also noted in Baapogmah's (2014) study on operational controls in nonprofit organizations, most nonprofits are 501C3 organizations and are exempt from federal and state income, local property, and sales taxes. These exemptions are given to relieve the government's burdens, to benefit society, and to support adherence to the provisions of the separation of church and state (Baapogmah, 2014). In conclusion, the ability for nonprofit organizations to be a necessity in society demonstrates there must be a need for such resources.

Forbes' (2016) study on the impact of nonprofit executive compensation giving and examples of NPOs explained that there were economic, historical, and political theories regarding the reason why nonprofit organizations exist today. Economic theories included market and governmental failure. According to Forbes' (2016), the market failure premise proposed that not enough people desire a service or program for profitable corporations to provide such services, whereas, the governmental failure premise was that the government would not provide a service because of increased cost or limited public interest. Ultimately, the government was less likely to act if only a small presence of constituents demanded a response from the government as compared to

a larger group of individuals; however, a smaller group of individuals could create a nonprofit organization to provide commonly desired services as opposed to attempting to persuade a greater part of citizens to support such efforts (Forbes, 2016). Taken together, these reasons demonstrate the need for various types of nonprofit organizations which have been created to provide services and resources to communities.

Problem Statement

In the United States, approximately 7% of annual revenue from nonprofits was lost due to lack of ethical financial operations from executive leaders each year (ACFE, 2014). According to the Association of Certified Fraud Examiners (ACFE), this figure represents \$85 billion in estimated annual losses in available operating funds (ACFE, 2014). From 2006 to 2013, there was an increase of NPO executive leaders indicted for inappropriate use of funds, corruption, and fraud (Kusnetz, 2013). Ultimately, the failure of a NPO's ED to establish transparent financial operations in nonprofit service organizations may increase the potential for ineffectiveness and unethical behaviors in human service organizations. Currently, there is no universal agreement on the definition of effective nonprofit leadership or how best to measure such leadership. For example, Ali, Babar, and Bangash (2011) and Mehmood and Arif (2011) investigated nonprofit effectiveness from the perspective of leadership style. Their findings indicated that there is a positive correlation between ED leadership styles and organization commitment (Ali et al., 2011; Mehmood & Arif, 2011). On the other hand, researchers, such as Baapogmah (2014), investigated effective leadership by studying ED accountability and transparency practices. Others, such as Nezhina and Brudney (2012), Yukl (2010), and Alexander

(2009), researched nonprofit leadership effectiveness by investigating the organizations' adherence to the guidelines of the SOX Act that was designed to ensure that the audit process of nonprofits provided an objective review of the organization's financial actions. None of the literature reviewed for this study considered both leadership style and the adherence to the SOX Act to determine if an ED with a transformational, transactional, or laissez-faire leadership style was more likely to embrace the use of a tool that would enhance the transparency and accountability of the organization to the funders and individuals served. The current study contributed to the literature by providing data on the feasibility of using the experiences of different leadership style with efforts to adhere to financial accountability requirements as a measurement of nonprofit leadership effectiveness.

Purpose of the Study

The purpose of this qualitative, phenomenological study was to understand the lived experiences of EDs who self-report the use of one of Burn's (1978) and Bass' (1985) three leadership styles and who do or do not apply the recommendations of the SOX Act to manage the ethical financial operations of their human services nonprofit organizations. The intent was to determine if the three leadership styles could be used as an indicator of the potential transparency in financial operations as measured by the extent to which the SOX Act is applied.

Research Questions

To explore and understand the lived experiences of EDs and their adherence to the SOX Act, this phenomenological study included two central research questions:

RQ1: What are ED experiences relative to adhering to SOX requirements related to nonprofit organization ethical behavior in financial reporting and management?

RQ 2: How does the level of use of the SOX Act recommendations differ and why, according to transformational, transactional, or laissez-faire leadership styles?

Theoretical Framework

The theoretical framework used in this study was Avolio and Bass's (2004) full range leadership model. Transformational leaders, according to Burns (1978), were the leaders who believed in engaging in higher levels of needs for both the individual and the organization rather than recognizing self-serving interests. Transformational leadership theories influenced individuals to follow a leader because that leader had a vision that individuals believe in or a goal that individuals can connect with to help the organization reach its goals (Burns, 1978). Avolio and Bass (2004) extended the theory of leadership by observing that transactional and transformational leadership were both present behaviors and were utilized in shifting the focus of leadership in organizations to reengineering individuals, groups, and organizations. Transactional leaders set goals and promised followers rewards for their performance, whereas transformational leaders motivated followers to work diligently towards their goals and move beyond self-interest (Avolio & Bass, 2004). Laissez-faire leadership, on the other hand, is a passive leadership style in which leaders avoided interaction with their followers by keeping long social distance (Krasikova, Green, & Lebreton, 2013). In addition, laissez-faire leadership is the avoidance of intervention, which was the leader's lack of commitment,

and this style of leadership has a negative impact on followers' organizational performance and productivity (Yahya & Ebrahim, 2016). Users of laissez-faire style did not focus on leader/follower involvement but, instead, gave individuals freedom to act as they chose (Yahya & Ebrahim, 2016). In contrast, transformational theorists focused on relationship implementation between leaders and followers whereas transactional theory emphasized the role of executives, organization, and performance (Burns, 1978). These contentions of the three leadership styles offer a convincing argument for the difference of opinions for the findings of this study. It is conceivable that the leadership style needed to operate effectively and ethically heavily relies on the strength of a NPO's executive director to implement their leadership style to effectively provide ethical financial operations within their organization.

Ethical behaviors influenced researchers to investigate which leadership style was more effective and sustainable in maintaining quality of performance. For my study, it was important to determine the correlation between leadership style and the SOX Act, which supported the research questions and premise that a transformational leader style, viewed by most experts as the most effective in motivating and performing with the highest standards (Adoma, 2016), would result in an individual more inclined to embrace practices that could improve ethical financial operations.

Nature of Study

A qualitative method using a phenomenological approach was most appropriate for this study because the study focused on an in-depth exploration into the essence of nonprofit EDs' perceptions in response to their lived experiences (see Padilla-Diaz,

2015). This approach assisted in understanding the experiences of EDs who are charged with ensuring transparent and ethical financial operations by adhering to the recommendations of the SOX Act. At the same time, this study used self-reported descriptors to understand how the differences in each style contributed to the differences in the extent each is used. To test this hypothesis, I used the national taxonomy of exempt entities (NTEE) to classify the tax-exempted organizations, identified the population of NPOs with human services specific codes, selected a sample, and investigated the experiences with the SOX Act based on the leadership style of the ED.

 Screener questions were used to select an equal number of self-described transformational, transactional, and laissez-faire leaders based on their responses to Burns' (1978) and Bass' (1985) criteria for each style who were aware of the SOX Act. The nonprofit organizations were identified using GuideStar's (2017) database to target NPOs with an NTEE code of P20. Specifically, organizations were selected if they are human service organizations whose mission is to provide a broad range of social services for individuals, families, and the community (National Center for Charitable Statistics, 2017). Once identified, I conducted twelve 30- to 60-minute face-to-face interviews with EDs selected randomly from 34 human services NPOs with the NTEE code P20. The P20 code, which consists of charities, includes nonprofits with the mission to serve individuals or families (National Center for Charitable Statistics, 2017). By using a phenomenological construct, these interviews focused on understanding a phenomenon from the lived experiences of the participants (see Englander, 2012).

Two instruments were used in this study: an interview guide and the SOX Compliance Checklist. Discussed further in Chapter 3, the interview guide assisted in obtaining the lived experiences and inhibitors and facilitators related to the SOX implementation effort of each of the EDs with self-reported transformational, transactional, and laissez-faire leadership styles. The SOX Checklist identified the number of protocols within the organization to improve ethical financial operations.

I used the modified van Kaam method by Moustakas (1994) to develop themes from the lived experiences participants shared during the interviews. The approach involved four extensive steps, discussed in Chapter 3, with the aim of showing the complete process of how the findings were established. I also employed MAXQDA Software to assist in the systematic organization of the codes to determine the thematic relationships of the formed themes.

Definitions of Terms

The terms used in this study are procurement related and reflect common usage in the nonprofit sector.

Laissez-faire leadership: Leadership that does not exemplify leadership characteristics; leadership that allows subordinates to have the freedom to act as they choose (Avolio & Bass, 2004). This leadership style avoids decision making and lacks motivation and individual influence (Avolio & Bass, 2004).

NTEE codes: The National Taxonomy of Exempt Entities is a system used by the IRS and National Center for Charitable Statistics (NCCS) to classify NPOs by mission focus (GuideStar, 2017).

Transactional leadership: Motivates followers by appealing to their self-interest (Avolio & Bass, 2004). A transactional leader motivates followers to perform as expected to own the rewards. Transactional leaders also define expectations, promote performances, and achieve their goals (Avolio & Bass, 2004).

Transformational leadership: Leadership that focuses on values such as liberty, equality, and justice (Burns, 1978). A transformational leader exceeds the basic recognition of need and moves the organization, as well as an individual, to achieve goals (Burns, 1978).

Transparency: Transparency is the practice of openly, truthfully, and fully sharing information about operations with clients, members, potential donors, neighbors, and many others (Neely, 2011).

Assumptions

One assumption in this study was that transformational leadership highlights the interconnectedness among leaders and followers which allows individuals to achieve desired goals. In this study, I assumed that individuals would be able to select their leadership styles from one of the formal definitions presented. Another assumption was that the participants would answer the questions candidly. The final assumption was that none of the participants would be classified as mentally or emotionally disabled.

Scope and Delimitations

The study included NPOs in the state of Alabama with an NTEE Code of P20. NPO EDs that did not identify with one of the three leadership styles were excluded.

NPO EDs that held the position of ED for at least 3years were included. NPO EDs also had to indicate an awareness of the SOX Act requirements to be eligible to participate.

Limitations

This study involved examining EDs' leadership styles and the adherence to the SOX Act requirements. In this study, the first possible limitation was the credibility of the research and the assurance that the study represented the intent of the data drawn from the participants. I addressed this possible shortfall via a pretest that tested the accuracy of the data instrument. Transcription review was also used to establish credibility. Scholars have agreed that transcription review is an important approach to promoting the credibility of research data, which also supports reliability (Cope, 2014; Creswell, 2013; Kolb, 2012; Maxwell, 2013). Another possible limitation was transferability of the research findings because the sample consisted of 10 human service nonprofit EDs from Alabama. The delineated sample criterion did not support generalizing the results beyond the opinions of the participants or other boundaries. Specifically, the study did not include a focus on other human service agencies other than NPOs with NTEE code P20. Other researchers can address this limitation through further research that targets each NTEE code in other states. The major limitation of the study was the possibility of a small response rate and the unexpected homogeneity of the leadership styles, which could limit the potential findings of the 12 samples used for the specific premise in the research. Some potential threats to validity in this study included people, places, and time. Leadership styles may not be mutually exclusive, which would allow opportunity for participants to alter their leadership styles to suit different

circumstances. Limiting the population to specific NTEE codes (i.e., NTEE code P20) also limits generalization in findings beyond these NPO classifications. To address bias and limitations, I placed the sample into groups according to their leadership styles. Placing the sample in groups allowed every possible combination to have an equal chance of being selected and to represent the population more clearly. According to Rubin and Rubin (2012), researchers who have used the phenomenological approach must consider the selected participants as a limitation.

Significance of Study

The enactment of the SOX Act was an effort by congress to institute new controls to prevent fraud and abuse and to enhance both the integrity of finance reporting and the quality of governance (Gupta, Weirich, & Turner, 2013). Going forward, my study may potentially offer several contributions to the knowledge base of nonprofit leadership. A study researching the relationship between executive leadership styles and ethical operations as determined by the ED's adherence to the SOX Act may influence researchers, practitioners, and NPO boards. The social significance of this study lies in the growing importance of the results possibly assisting NPOs in making effective decisions on financial transactions and audit procedures.

Potential for Social Change

As the effort to influence and sustain ethical financial operations intensifies for nonprofit organizations, establishing financial sustainability should be viewed by NPOs as a dynamically continuous process (Sontag-Padilla, Staplefoote, & Morganti (2012). Executive leaders of NPOs should view accountability and transparency as beneficial

elements of the organization and demonstrate that they follow the ethical provisions and best practices of the SOX Act. In addition to the collaborated effect of organizational accountability and transparency, this study may offer the nonprofit sector, primarily human service organizations, the opportunity to implement strategies and promote positive social change, resulting in improvement of quality leadership in EDs that may ultimately result in more efficient and effective ethical financial operation in NPOs.

Summary

Chapter 1 contained the research problem, the purpose, and the nature of the quantitative research study. This research study determined the leadership style of EDs and the correlation to the adherence to the SOX Act in a population of 34 social service nonprofit leaders in Alabama. Chapter 2 is a review of literature related to emerging perspectives and is a synthesis of research analyzed from peer-reviewed journals and from authors known as noted experts.

The literature review provides a current and historical timeline of information about the role of nonprofit organizations. A discussion of leadership theories (transformational, transactional, and laissez-faire), policy and governance, and SOX provisions as it pertains to SOX Act are also included. The research variables and methods were used to determine and evaluate if there is a relationship between leadership styles and adherence to the SOX Act in NPOs. Chapter 3 outlines the research design and approach for the study.

Chapter 2: Literature Review

Introduction

In the United States, approximately 7% of nonprofits' annual revenue was lost to lack of ethical financial operations among EDs (ACFE, 2014). According to the ACFE (2014), this figure represented \$85 billion in estimated annual losses in available operating funds. The ED's leadership style can negatively affect donor and client confidence, organizational performance, and the NPO's ability to accomplish its mission (Yahaya & Ebrahim, 2016). The purpose of this qualitative phenomenological study was to investigate the reasons an ED who self-reported the use of one of Burn's (1978) and Bass's (1985) three transformational leadership styles did or did not apply the recommendations of the SOX Act to manage the ethical financial operations of his or her human services' nonprofit organization.

According to the 2014 Global Fraud study by ACFE, 5% of all nonprofit revenues, on average, were lost each year to fraud, with 22% of the cases involving the loss of more than \$1 million. High profile scandals have tarnished the reputation of some NPOs, decreasing the public's trust and support (Bryce, 2015). The ethical behavior and leadership of EDs can prohibit such scandal as the EDs urge other executives to adopt provisions that will promote ethical operations.

Ethical behavior and operations are a complex composite of actions that reap the same benefits of organizational success but are effective only if performed appropriately, within the right situation, and to the degree needed by the individual, group, or organization (Goode, 2016). Following the ethical scandals from 2001 to 2011, it is

important to understand how to interpret the behavior of executive leaders which may also provide clarity on how ethical leadership improves ethics in NPOs, modern organizations, and organizational culture (Weber & Wasieleski, 2013). This revelation of ethical behavior will allow EDs to display and utilize characteristics such as accountability and transparency to influence perceptions of others and implement a shift in the leadership of NPOs.

One gap that remains in this area of research is the determination of which one of Burn's (1978) leadership styles (transformational, transactional, and laissez-faire) would EDs be more inclined to use to manage their financial operations in human service organizations. The ways in which leadership effectiveness and ethical operations have historically been measured and evaluated may be the cause of the lack of research in this area. Like definitions of leadership, concepts of leader effectiveness have differed from one writer to another. In general, the criteria selected to evaluate ethical operations largely reflected a researcher's explicit or implicit concept of leadership (Yukl, Mahsus, Hassan, & Prussa, 2013).

The following sections included the literature search strategy, theoretical framework, and a literature review related to key concepts.

Literature Search Strategy

When used individually, the words *leadership*, *nonprofit*, and *effectiveness* generated a plethora of hits from the search engine; therefore, I narrowed down the key word search to *leadership theories*, *ethical behavior/leadership*, *ethical operations*, *accountability*, *financial transparency*, *leadership styles*, and *Sarbanes Oxley Act of*

2002. The resources used for searching the literature were the EBSCO and ProQuest electronic databases. The search yielded more than 700 matches in the 5-year date range using the keywords *leadership* and *nonprofit*, more than 250 using the keywords *leadership behavior*, more than 13,000 using *leadership styles*, more than 511 using *effective leadership*, more than 1,200 using *ethical leadership*, and more than 150 using the keywords *leadership theories*.

Theoretical Framework

The theoretical framework for this study is Avolio and Bass's (2004) full range leadership model. The purpose of using this construct was to discover and analyze the effect of a transformational leadership style, in contrast to transactional and laissez-faire styles, of nonprofit EDs and the strength and likelihood of embracing the use of a tool that could enhance the transparency and accountability in human service nonprofit organizations.

Leadership Theories

A theory is a tested proposition that explains and predicts a phenomenon (McMillan & Schumacher, 2010). Leadership theory has focused on researching what makes successful leaders excel. There are many leadership theories developed since the 1940s. Kellerman (2012) counted about 40 overall leadership theories and presented a timeline on the development of four major theories: the trait approach (up to late 1940s), style approach (late 1940s to late 1960s), contingency approach (late 1960s to early 1980s), and the new leadership approach (since early 1980s). The leadership styles that I focused on are part of the new leadership theory. The main theories under this umbrella

are transformational, transactional, and laissez-faire leadership styles which fall under the full range model of leadership.

Transformational theory. Transformational leadership was shown to be inherent to EDs who primarily focused on the present conditions of an organization and made decisions based on short-term goals rather than the future (Voorn, Walter, & Stoker, 2013). The transformational theory emphasized the ability of the individual to engage in leadership activities and create a positive connection that resulted in a win-win situation for both leader and follower (Burns, 1978). Burns (1978) and Bass (1985) initially defined transformational leadership. Specifically, Burns (1978) stated, “Thus, transformational theory is normally viewed as a shared process, involving the actions of leaders at different levels and in different subunits of an organization, not just those of the chief executive” (p. 20). In sum, the goal of a transformational leader was to maximize the potential of his or her followers and implement positive social change.

Transactional theory. The transactional theory focused on the connection or exchange that transacted between leaders and followers and the incentives used to motivate effort, as well as the knowledge of what it took to be a successful leader. Bass and Avolio (1995) stated, "Transactional leadership emphasizes the transaction or exchange that takes place among leaders, colleagues, and followers" (p. 3). Bass (1985) viewed transformational and transactional theories as distinctly different processes; however, a leader could use both theories but with different scenarios.

Laissez-faire theory. Laissez-faire leadership theory was the opposite of transformational leadership. Bass (1985) believed that this theory was not customer-client

focused and had more of a negative impact on the nonprofit environment and the well-being and effectiveness of an organization. In addition, Bass (1985) believed that this theory had more of a negative impact on the nonprofit environment and the well-being and effectiveness of an organization.

Theoretical Propositions/Hypothesis and Applications of Theories

Leadership studies have developed to the point that more researchers explore whether the act of studying leadership has an impact on leadership styles and leaders' commitment to operating with quality value standards of accountability and transparency in their organizations (Ismail & Mahamad, 2011). A leader may employ different leadership styles, such as authentic, ethical, transactional, transformational, and laissez-faire (Reed, Vidaver-Cohen, & Colwell, 2011). Specifically, leaders influence organizational culture, norms, and performance through employment of leadership styles (Jyh-Shen & Tung-Zong, 2009). In this study, transactional, transformational, and laissez-faire leadership theories provided the theoretical foundation. Each style supported ethical behavior to some degree and could lead an NPO to transparency.

Research (Lowe, Kroek, & Silva, 1996) has shown that transactional leadership style generates a high level of productivity and organizational performance by building relationships between leaders and subordinates based on performance and rewards. A key element of a transactional leader is contingent reward as in when the leader and the subordinate agree on a predetermined level of performance in exchange for a reward (Skakon, Nielson, Borg, & Guzman, 2010). Bass and Avolio (1995) proposed transactional leadership consisted of three dimensions, namely contingent rewards and

management-by-exception (active/passive). These researchers contended that management-by-exception was the opposite of contingent reward in that leaders communicated negative feedback and criticized performance by highlighting the deficiencies rather than focusing on the improvements. Transactional leadership has been found to be more effective than laissez-faire leadership because transactional leaders were more focused on the operational-based relationship with their employees (Skakon et al., 2010). Werder and Holtzhausen (2009) added that a leader who operated under the enforcement of policies and standards provided less opportunity for relationship building. On the other hand, a transactional leader dwelled on the specific task-related exchange of activities and rewards and did not focus on long term goals (Tyssen, Wald, & Heidenreich, 2014). In this vein, Reed et al. (2011) contended that transactional leadership could potentially cause damage to an organization's morale and performance level, which could lead to dysfunctional behavior. They also noted that some of the strengths of transactional leaders were they require less extensive training, which created low cost. In addition, these individuals were found to be specific and to the point, which left little room for misinterpretation or ambiguity. Finally, these leaders were reliable motivators due to the tangible reward (Reed et al., 2011). According to Tyssen et. al. (2014), some of the weaknesses of transactional leaders, on the other hand, were rigid expectations, lack of accountability, and the fact that motivations were driven by employee performance.

Transformational leadership acknowledged subordinate's needs, provided vision, and motivated individuals to exceed expectations (Rafferty & Griffin, 2004). A

transformational leader exemplified self-motivation, provided hope, and motivated individuals to go beyond their self-interest (Bahrami, Hasanpour, Rajaeepour, Aghahosseni, & Hodhodineghad, 2012; Muhl, 2014). Unlike transactional leadership, Rafferty and Griffin (2004) also noted that transformational leaders transcended their own interests for the benefit of the organization via commitment and building morale. Ismail, Mohamad, Mohamed, Rafiuddin, and Zhen (2012) added that transformational and transactional leaders were equally important in organizational performance. In an examination of leadership and organizational commitment, transformational leadership increased in relevancy and was becoming the style of choice (Top, Akdere, & Tarcan, 2015). On the other hand, transactional leaders motivated followers via compromise and control (Brown & Trevino, 2006) Although transformational leaders relied on vision to inspire individuals, one of the weaknesses of this leadership style was the lack of detail orientation, which required the support of organized and detail oriented individuals to assist with the possible small oversights that could derail long-term goals (Brown & Trevino, 2006) Another limitation of transformational leaders was their strong emotions and passion that could block them from the reality and truth of their organizations (Brown & Trevino, 2006). These characteristics could restrict transformational leaders from their ability to perform logically when faced with organizational challenges. Research has shown that some leaders used transformational and transactional leadership styles, and both styles can be effective; however, researchers found that transformational leadership was used more often and was the most effective in NPOs (Breevaart et al., 2014; Zhu, Sosik, Riggio, & Yang, 2012).

Laissez-faire leadership was defined as being hands off and avoiding decision-making and subordinate responsibility (Chaudhry & Javed, 2012). Cemaloglu, Sezgin, and Kilinc (2012) described laissez-faire leaders as poor communicators who provided minimum strategic direction for an organization and gave their subordinates limitless freedom. Laissez-faire leaders did not engage in public displays of destructive behavior, and were, therefore, silent in leading an organization's decline (Aasland, Skogstad, Notelaers, Nielson, & Einarsen, 2010). Aasland et al. (2010) also revealed that over 21% of respondents used this form of leadership. Their study also revealed that laissez-faire leadership had few benefits and many shortcomings. One example indicated that laissez-faire leadership was most effectively used in organizations that had skilled and self-motivated individuals. Another benefit of this style was the opportunity that was given to team members to display their knowledge and skill in particular subjects (Aasland et al., 2010). Aashland et al. also revealed that some of the shortcomings of laissez-faire leadership style were lack of cohesiveness due to the leader's un-involvement, and goals and deadlines were rarely met.

Previous applications of the theoretical framework. Leadership styles and the influence that it can have on organizational and financial stability have been popular topics of research (Slater, 2015). The full range of leadership (e.g. laissez-faire, transactional, and transformational leadership) has been applied in ways similar to my current study. For instance, in prior research regarding the theory of leader effectiveness and leadership style, Aboyassin and Abood (2013) found an inverse relationship existed between laissez-faire leadership style and organization performance, whereas a positive

relationship existed between transactional leadership and organization performance. Effective leaders ensured that their subordinates were given extra effort to provide a pleasant workplace (Aboyassin & Abood, 2013) Redick, Reyna, Scaffer, and Toomey (2014) used the laissez-faire, transformational, and transaction leadership styles and employees' perceptions in predicting their extra effort, satisfaction, and effectiveness of the leaders. The research indicated that transformational leadership had the most influence on employee's perception of leadership effectiveness and extra effort to provide job satisfaction. The participants of this study preferred working with transformational leaders overall. Add summary and synthesis.

EDs' leadership may stimulate organizational success and commitment. (Northhouse, 2015). The full range leadership paradigm has been used in prior studies to determine EDs' key to success in NPOs, their commitment, and survivability in the nonprofit and for-profit sectors. For example, Mohammed, Othman, and D'Silva (2012) used leadership theory to determine the link between the transformational, transactional, and laissez-faire leadership styles and organizational commitment. In this study, transformational leadership behaviors were found to be linked to organizational commitment through their key dimensions, such as providing direction and encouragement via inspirational motivation (Mohammed et al., 2012). Kottke and Pelletier (2013) noted that the presence of ethical leadership was more encouraging in an environment where employees felt loyal to the organization. Their research confirmed that ethical leaders provided positivity to organizational commitment. This finding was also supported by Bull (2016); research findings on ethical leadership indicated that it

was positively related to organization commitment. Bull (2016) noted, “Ethical leaders create an environment where subordinates understand the importance of ethical conduct and reward those who adhere to it” (p. 28). Taken together, the previous studies demonstrate that various research studies have been conducted on ED leadership styles, and these styles have been shown to influence organizational performance and subordinate motivation; however, there have not been any research studies on the influence that the SOX Act may have on leadership styles when dealing with financial ethical operations.

Rationale of Theory

Conclusions about the three chosen theories are significant to leadership development and effectiveness in NPOs. Chaudhry and Javed (2012) theorized that laissez-faire leadership style was destructive for NPOs and led to less than optimal performance. Favorable transactional leadership theory is a prerequisite to transformational leadership theory. Transactional leadership theory focused on employee driven tasks and rewarding employees contingent on their performance (Kinicki & Kreitner, 2009). When compared to transformational leadership theory, transactional leadership theory was distinct but not mutually exclusive.

The differences in the three theories discussed in this literature review will demonstrate the need to understand the importance of effective leadership styles as it relates to ethical financial operations. The selected theories related to the present study in seeking to identify an effective leadership style via the perceptions of EDs’ experiences. In developing the theory of transformational leadership, Burns (1978) suggested that

transformational leadership was not only effective but also ethical leadership. Transformational leaders appealed to higher ideals, such as accountability and transparency, and both ED and organizations were raised to higher levels of motivation and morality (Burns, 1978). Although transformational leadership motivated followers and increased their performance at a higher level than transactional leadership, effective leaders used these approaches collaboratively (Burns, 1978). Even if ethical financial operations are correlated with both transformational and transactional leadership, it is still debatable as to which one style is perceived as more ethical than the other. Alternatively, perhaps collaborative efforts of the two styles caused a leader to be perceived as being the most ethical. This study focused on determining if one leadership style is more or less ethical than another. Research Question 1 focused on the ED's perception and helped to expand on which leadership styles were more inclined to use the SOX Act as a tool to enhance transparency and promote ethical financial operations in NPOs. Research Question 2 was built upon the existing theory by depicting which leadership style was used the most and how experiences with the SOX Act differed among EDs with transformational, transactional, and laissez-faire leadership styles.

Literature Review Related to Key Concepts

Financial Accountability and Transparency

A significant theme in the literature was the relationship between accountability and transparency. Accountability is an obligation to accept responsibility or to account for actions (Naidoo, 2011). Leadership studies developed to the point that more researchers are exploring its effectiveness in relation to leadership styles and leader

commitment to operating with quality value standards of accountability in their organizations. Accountability is an important goal for both management and performance in the nonprofit sector due to the recent increase in scandals and the misappropriation of funds in numerous NPOs (Yallapragada, Roe, & Toma, 2010). Developing accountability within NPOs may produce a tool of reinforcement that generates positive behavior among management, board members, and stakeholders.

An organization cannot be accountable without transparency. Transparency is the process of leaders truthfully providing an environment of openness in an organization (Naidoo, 2011). This process can function as a deterrent of corruption and may also improve governance and promote accountability. Accountability, transparency, and ethical compliance were the focus for the SOX Act's push to restore public confidence and demand higher accountability from executive leaders of NPOs (Behn, DeVries, & Lin, 2010). The combined effect of nonprofit transparency and financial accountability may assist in strengthening numerous NPOs across the United States as well as worldwide. Implementing such practices may help reduce NPOs' financial risk, improve public image, and build constructive public policies in society.

A review of the existing body of academic literature regarding the relationships between leadership style and ethical financial operations, accountability, and transparency was part of the foundation for this study. Beal and Griffin (2012) and Baapogmah (2014) identified research gaps in the literature regarding the correlation between leadership style and ethical financial behavior, providing an opportunity for future research. The thematic literature review included an examination of accountability

practices; specifically, Beal and Griffin (2012) provided a comparison of financial reporting between nonprofit human service health care entities that implemented the SOX Act. Beal and Griffin's approach was a qualitative, case study approach in which they used face-to-face interviews and email correspondence with accountants that worked for a nonprofit health care organization. The researchers also conducted an in-depth interview with the Vice President of Finance and Accounting Service. They used the seven provisions of the SOX Act pertaining to NPOs and developed interview questions to determine the positive and negative aspects of voluntarily adopting SOX provisions. The purpose of their research was to gain insight on SOX regulations in relation to nonprofit health care entities and to determine the negative or positive impact of the SOX Act. Beal and Griffin's approach provided a logical way to test their premise that the SOX Act can have a negative or positive influence on organizational performance.

Baapogmah (2014) conducted a study on the challenges of financial accountability and operational controls in NPOs. The qualitative phenomenological study explored the experiences of coping with challenges of accountability in 22 participants who managed six NPOs in Delaware. The data was collected using open-ended interview questions, and Baapogmah used the MAXQDA application to organize the data. In this study, Baapogmah also analyzed the implementation of the SOX Act and its provisions related to internal controls over financial reporting to NPOs. The findings in this study indicated that managers of smaller NPOs struggle to implement effective internal control, despite their high awareness of controls and accountability. There has been little research on ED leadership style and its correlation with ethical operations and financial

transparency within human service NPOs. This literature review contributes to the existing literature and partially bridges the identified research gaps.

Accountability is an important goal for both management and performance in the nonprofit sector. Studies on leadership have become popular in that researchers are conducting research on the effectiveness of leadership in relation to accountability, commitment to operating standards, and transformational leadership style. Brown (2015) described accountability as a requirement for organizational leaders to take responsibility for their decisions and behaviors.

Kaserer, Mettler, and Obernberger (2011) posited that lack of accountability and transparency were the root causes for fraudulent activities, such as the situation with Enron. “The deepest concern about nonprofit accountability is due to a section of Sarbanes-Oxley Act of 2002, which was created in the highly publicized wake of Enron, Tyco International and WorldCom downfall” (Brigham & Ehrhardt, 2014). The SOX Act required a board to monitor and take more responsibility for financial transactions and auditing procedures. The actions of these leaders resulted in their agencies’ unsuccessful enforcement of SOX; however, data showed that 40% of nonprofit employees who observed misconduct failed to report it, largely because they believed that reporting would not correct the actions, and they feared retaliation from peers or subordinates (Rhode & Packel, 2009). For example, the New Hampshire Charitable Foundation took the need for best practices into their organization to assist them in reaching a higher level of productivity (Rhode & Packel, 2009). The charitable foundation reviewed the SOX provisions, formalized the policies that were already in place and compiled them with key

provisions of SOX. This section of SOX enforced higher accounting and reporting standards; however, only two sections of this act specifically applied to nonprofits. Although some nonprofit leaders were uncertain about how to engage and promote nonprofit accountability within their organizations, there were potential contributors to nonprofit accountability, including commitment to operating standards, code of ethics, and transformational leadership.

Nezhina and Brudney (2012) conducted a study exploring the cost and benefits of implementing the SOX Act in NPOs. The researchers found evidence that improved financial controls generated decreased risk of fraud. A similar study conducted by Neely (2011) investigated the influence of the Nonprofit Integrity Act of 2004 and found that requiring NPOs to implement governance structures, such as the SOX Act, to improve accountability increased expenses and diverted funding without improving financial accountability. Without policy and governance, such as those supported by operating standards or a code of ethics, there was a lack of validity when measuring accountability within an organization. Willford and Small (2013) stated that without an effective leader, there was no practical way to ensure the adherence to the guidelines. Research on the relationship among operating standards, transformational leadership, and accountability in nonprofit organizations revealed organizations that have these established standards demonstrate effective and ethical decision-making and accountability.

Rationale for Selection of the Concepts

The key concepts discussed in the study included the SOX Act, leadership styles, ethical behavior, accountability, and transparency. Each of the above studies related to

my proposed study in that they correlated leadership styles with the effectiveness of organizational performance and in the ways the researchers approached the problem; however, there has not been much research on if SOX can measure ethical operations and the relationship between ethical operations and leadership style.

Studies Related to the Key Concepts and/or Phenomena

Leadership style. Leadership style was shown to be one of the most predominant elements that influence organizational stability and sustainability (Slater, 2015).

Nonprofit achievement refers to the ability of the leader to influence and inspire others to do what is right (Wongyanon, Wijaya, Mardiyono, & Soeaidy, 2015). The specific leadership styles that the present study examined were transformational, transactional, and laissez-faire. Leadership styles determine values, culture, and change tolerance and affect efficiency, effectiveness, and organizational performance (Huang, Hsu, & Chiau, 2011). According to Wongyanon et al. (2015), transformational, transactional, and laissez-faire leadership styles have a significant and positive influence on the success of NPOs. The reviewed literature highlighted definitions of distinct leadership styles, and the majority of the reviewed studies supported that leaders often operate at the extreme of transformational leadership.

The examination of leadership styles started with philosophers, such as Bass, Avolio, and Burns, who established a relationship between leadership styles and the moral duties leaders have toward their followers (Bass, 1985; Burns, 1978; Bass & Avolio, 1995). Descriptors of leadership refined and narrowed the described behavior in which leaders implemented a leadership style. For example, leaders could be accountable,

authentic, ethical, and responsible in employing a transformational, transactional leadership style (Reed et al., 2011). The premise for this study was that transformational leadership style is the most effective leadership style for EDs in NPOs.

Prior recorded conduct of EDs provided ample evidence that transformational leaders could have a positive influential effect on financial operations in NPOs. Scholars, such as Eady-Mays (2016) and Bell (2016), examined the relationship between leadership styles and ethics. Eady-Mays (2016) reported that transformational leaders had significant effects on the outcomes of an organization. Bell (2016) noted that this significant effect influenced educated decision-making, and restored public confidence and trust in NPOs.

Leadership styles affect the manner in which an NPO operates and how it motivates employees and assists consumers, as well as the influential impact it has on operating costs and financial performance (Thomas & Bendoly, 2009). Jones' (2013) quantitative study examined leadership styles and financial performance within Rural Electric Cooperatives. The findings indicated that a significant, positive relationship existed between leadership style and financial performance. In fact, Hassell's (2013) study on the perceived leadership style dissimilarity and leader turnover at a nonprofit healthcare organization demonstrated the influence of transformational leadership on reducing subordinate staff turnover. Although most studies indicated the benefits of a transformational leader and the influence this leadership style had on ethical behavior in NPOs, Thiel, Bagdasarov, Harider, Johnson, and Mumford (2012) stated, "The ethics rules of the organization as well as of society guide the behaviors of a leader of integrity.

Ethical behavior may be pertinent to NPOs' operations, but is not a sufficient protection from unethical behavior (Thiel et al., 2012). The Thiel et al. (2012) study on leaders' ethical decision-making in organizations contended that prior recorded behavior of political and executive leaders provided sufficient evidence that visionary, transformational leaders acted in destructive, irresponsible, unethical manners on occasion.

Sarbanes-Oxley Act as an Indicator of Ethical Financial Behavior

The SOX Act was the initial action taken by the United States federal government to reform the public accounting profession since the Securities and Exchange Act of 1934 (Moeller, 2004; Public Company Accounting Oversight Board (PCAOB), 2006; Securities and Exchange Commission (SEC), 2005; 2006). There were approximately 60 provisions of the SOX Act; however, GuideStar, in collaboration with BoardSource (2018) and Independent Sector (2018), developed a report on the effects of the SOX Act on nonprofits. There were seven major provisions in the SOX Act with relevance to nonprofit organizations and to the current study. With respect to the ethical leadership and management of NPOs, these provisions could help NPO leaders ensure that audit committees had financial competency, conduct an objective review of the organization, and allow leaders to make sound decisions. If the NPOs were implementing such actions, they were most likely adhering to the provisions of the Sox Act. A summary of the seven provisions follows.

Independent and competent audit committee. This provision discussed the requirement that each member of the company's committee be a member of the board of

directors and be independent. *Independence* was defined as not having any relationship with the NPO and not receiving any compensation. In addition, NPOs had to have a member who qualified as a financial expert serving on the audit committee. This provision was important for NPOs because it ensured that the audit committee had the financial competency to understand, evaluate, and make sound financial decisions.

Responsibilities of auditors. This provision required that all critical accounting policies and practices were reported to the audit committee and discussed with management. In addition, the act required that the lead and reviewing partner of the auditing committee rotate every five years.

Certified financial statements. This provision required that all financial statements (i.e., form 990) were accurately submitted and represented the financial condition and operations of the organization. This provision was important to NPOs because it showed the organizations' understanding of certifying document integrity.

Insider transactions and conflicts of interest. In the provision, the Act prohibited loans to any directors or executives of NPOs. The provision also required that NPOs have a conflict of interest policy with disclosure.

Disclosure. This provision required NPOs to provide financial information (i.e., form 990) and material changes timely, accurately, and completely.

Whistle-blower protection. This provision protected employees who risked their jobs by reporting illegal activities within the organization. The act recommended that NPOs establish a confidential and anonymous way to encourage employees to report any suspicious or inappropriate activities within the organization's financial management

without the fear of retaliation.

Document destruction. This provision made it a crime to alter, cover up, falsify, or destroy any document to prevent its use in an official proceeding (e.g., federal investigation). NPOs were required to develop a written document retention and periodic destruction policy. With the SOX Act in place, the SEC's regulatory and statutory powers had the ability to pursue criminal and punitive actions against EDs and other executives who deliberately submitted inaccurate financial reports (Financial Accounting Standards Board (FASB), 2004; Hall & Liedtka, 2007; SEC, 2006). Section 404 essentially outlined the demand for organizational leaders to document and test internal controls that were developed to implement financial information and reports (SEC, 2006). Prior to the passing of the SOX Act, shareholders and stakeholders were only able to pursue criminal prosecutions and punitive actions through private litigation (Hall & Liedtka, 2007); however, with section 404, the SEC could bring punitive actions against them as well, due to the requirement that leaders be accountable and transparent.

The focus of the current study was on the influence of the Sarbanes-Oxley Act and its relevance to ethical operations. According to the SOX Act, organizations must implement and maintain greater procedural controls over financial reporting. Sections 302 and 404 force responsibility on EDs to review and attest to reported information and maintain internal controls over the content of financial statements (PCAOB, 2006; SEC, 2006). If enforced, these sections would make EDs financially accountable.

Sarbanes-Oxley Act and NPOs

To implement governance reform, congress enacted SOX, which derived from the names of Senator Sarbanes and Representative Oxley. To measure effective leadership in NPOs, I defined the degree of compliance with the 2002 SOX Act. The degree of compliance refers to the adoption and implementation of SOX provisions as they pertain to NPOs. The essence of this act was the foundation of accountability and transparency by governing boards in overseeing financial transactions and auditing procedures. The overall effectiveness of SOX was the concept of independence. SOX suggested that an NPO should have a performance evaluation conducted by an independent outside auditing firm. The act also called for the development of an independent board with board members who would not cause a conflict of interest.

The SOX Act's major intent for the board was its liberty to ensure the execution and effectiveness of an ED's actions and goals. The connection between the use of the SOX Act and the leadership of the NPO had been attempted before. For example, Nezhima and Brundney (2012) conducted a quantitative research study on NPOs and the impact of the SOX Act. The researchers collected data through face-to-face surveys with the EDs and the Chief Financial Officers (CFOs) of six NPOs in a southern city – two small, two medium, and two large. The participants in the study provided insights about the adoption of and the option to opt out of SOX guidelines by their NPO (Nezhima & Brundney, 2012). The findings were mixed, with some indication that the adoption of SOX in NPOs did not have a tremendous impact on the organization. Typically, nonprofit leaders behaved conservatively and maintained the status quo, as well as followed

existing accountability standards regardless of the SOX Act (Nezhina & Brudney, 2012). However, other participant responses from the survey revealed that the implementation of SOX Act influenced their organizations, whereas others did not find that SOX recommended anything that they were not already doing.

Studies Related to the Research Questions

Ethical behavior. Definitions of ethical behavior can provide some context about the challenges facing EDs as it relates to ethical behavior. Currently, there is a need for the improvement of ethical behavior and leadership in the nonprofit sector. The commitment to ethical behavior within NPOs is under intense investigation by persistent media coverage. In fact, based on recent public lapses in EDs' decision-making, once well-respected NPOs find themselves in precarious situations (Mayer, Kuenzi, & Greenbaum, 2011). Nonprofit EDs must become more accountable and dedicated in adhering to the ethical standards that encompass the attributes of integrity, honesty, and financial responsibility (Ferrell & Ferrell, 2011).

Goode (2016) conducted a study on employee perception, focusing on improving the understanding of how the perceived behaviors of EDs in NPOs influence the behavior of employees. Goode (2016) identified ethical behavior as a critical element of the leaders' work experience. Goode contended that if EDs conducted themselves counterintuitively to what the ethical policies and standards exemplify, the atmosphere for employees and stakeholders could destroy the integrity of the organization. In another research study conducted by Godfrey (2013), he stated that ethical behaviors in NPOs were influenced by the ED's leadership style. Godfrey's research was based on the

transformational leadership theory and revealed that this theory was beneficial to the organization's ability to perform with integrity and high ethical standards. Godfrey contended that the ED's ethical behavior was imperative in formulating the individual's own ethical decisions. The result of this study proposed that leaders could alter their ethical behavior based on costs and rewards related to the ethical dilemma, and, once the ethical and moral values were broken, the decisions were made on the next behavior (Robins & Judge, 2008).

The ED's ethical behavior did not only influence the behavior of employees, but also nonprofit volunteers. Umezurike's (2011) study on the behavior of NPO leaders and the retention of volunteers argued that NPO leaders who demonstrated ethical behaviors created a clear foundation for volunteers to work diligently towards diminishing society's economic instability. EDs who discussed the importance of ethical behavior with their volunteers created rapport and expectation of fairness. Although laws and regulations governed ethical behavior, the accountability of EDs to engage in moral practices was often dependent upon the ethical examples and standards that influenced their individual opinions.

In the above three studies, there were two studies that revealed the perceptions of the ED's ethical behavior in an NPO. Goode's (2016) study depicted the employee's perception of ethical behavior of the leadership within an NPO, whereas Umezurike's (2011) study showed how nonprofit volunteers perceived EDs who attracted, motivated, and retained volunteers. Godfrey (2013) was the only study that examined the influence that ethical behavior had on effective leadership in NPOs. Similar to my study, this study

also reflected on the influence leadership style had on determining the ED's ethical behavior. This study also used the same theoretical framework of transformational leadership as its premise for effective leadership and ethical behavior. The application of the Godfrey (2013) study was to explore how leadership style influenced ethical behavior such that accountability and transparency in NPOs could be improved. Bhandari (2010) stated, "Ethical conduct, whether it is for-profit or nonprofit, is highly expected of all organizations" (p. 35). In sum, ethical leadership was perceived as being both a moral individual as well as a moral manager.

In some situations, unethical leadership occurred when leaders did not have their followers' best interests at heart. The entire process of being a leader was to be aware of the needs of one's organization or country and to put the mission of the organization and the benefits to constituents first. Leaders who did not have concern for their followers were not only unethical, but also ineffective. Implementing policies and procedures effectively could also mean being ethical, and being highly ethical could simultaneously mean being more effective (Bhandari, 2010).

The unethical and illegal acts associated with for-profit organizations, such as ENRON, and individuals, such as Bernie Madoff and Martha Stewart, are common in for-profit organizations; however, according to Bhandari (2010), NPOs are not immune to such unethical acts. "In fact, nonprofits could be considered more susceptible to unethical behavior than for-profit, due to the absence of the agent-principal dichotomy of agency theory framework in nonprofit organizations" (p. 36). In other words, principles

of NPOs are not as concrete as for-profits because nonprofits do not have shareholders, which increases the likelihood of unethical behavior among their leaders.

The authenticity of ethical leadership became a problem in nonprofit human service organizations in Alabama. It was important that ethical policies, such as the SOX Act's implementations and applications, defined what was morally right and what was morally wrong in the decision-making process (Ferrell & Ferrell, 2011). The ethical challenge of leadership was that there were nonprofit leaders in Alabama who were found guilty of charges ranging from securities fraud, wire fraud, conspiracy, and filing false tax returns. These ethical challenges had been a growing trend in human service organizations. There was an increase in NPO leaders who were indicted for inappropriate use of funds, corruption, and fraud. Although there were major cases of unethical conduct in Alabama, such as the Health South Corruption Case, the biggest scandal in nonprofit history surfaced in 2010 inside the New Jersey Red Cross. The chief executive of the Hudson County Chapter and his bookkeeper stole over \$1 million in Red Cross funds and squandered it on gambling and each other. This type of leadership affected the recipients of the services provided as the mismanagement and misappropriation of funds reduced the nonprofit organization's ability to complete its mission.

There were many factors that contributed to this problem, including leaders appointed without any formal leadership training, the lack of understanding between leadership versus management, and the inconsistency in policy and governance. Bhandari (2010) concluded that the primary reason for unethical leadership in nonprofits was the lack of a principal paradigm, a passive board of trustees, indifferent benefactors, and a

weak regulatory environment. The remedy for such behaviors included monitoring and mitigating such practices by nonprofits, identifying and empowering surrogate principals, and establishing a new regulatory agency similar to the SEC (Bhandari, 2010). However, data showed that the NPOs that integrated SOX requirements and best practices into their organizations reached higher levels of productivity and factors that increased ethical financial operations.

Determining a clear definition of leadership, its various styles, and the characteristics of ethical and effective leadership is the key to finding the factors that may resolve the problem. This lack of knowledge of what constitutes effective and ethical leadership may contribute to the gap in research of what influenced NPO leaders to engage in ethical or unethical practices. O'Connell and Bligh (2009) used newspaper articles to present a quantitative analysis across three periods by exposing scandals and its emergence as a common theme in the nonprofit sector. Their way of analyzing such activities highlighted the media's role in changing the perception of unethical leadership actions as well as changing the reputation of an organization. O'Connell and Bligh stated, "Leaders are influential in setting the tone at the top of an organization and act as both symbolic and real representatives of the organization to the outside world" (p. 214). Setting an ethical tone at the top could generate a positive environment as well as make scandal less likely. O'Connell and Bligh contended that leaders had the option to create a positive or a negative ethical organizational climate, which increased the need for leaders to establish social legitimacy at the defamation of an organization's reputation.

Rhode and Packel (2009) discussed the prevalence in unethical behavior in nonprofit organizations and the resolution to the dilemma. Rhode and Packel examined the factors that influenced effective leadership and moral conduct and discussed various ethical issues that arose in NPOs as well as ways to implement ethical behavior within organizations. Overall, addressing the concerns of ethical misconduct in NPOs required a greater comprehension of the influences that accommodate ethical judgment and the most effective reaction to resolve such issues. Rhodes and Packel (2009) focused on the increased body of research related to organizational culture in NPOs specifically. To understand the cause of unethical behavior and what influenced effective leadership, one would have to review the primary forces that misled ethical judgment in NPOs, analyze the issue, and then suggest ways that NPOs could prevent unethical behavior and promote effective leadership and institutionalize moral values in all realms of organizational culture.

Ethical issues arise in every organization, whether for-profits, nonprofits, or governments; however, these issues share a common relationship between individual character and organizational influences. Some of the challenges faced by NPOs include criminal and civil violations, such as fraud, misrepresentation, and misappropriation of funds. The most popular issues have been misallocation of resources, inadequate accountability, and lack of transparency. Rhode and Packel (2009) identified the following four crucial factors that influenced ethical conduct: (a) moral awareness, recognition that a situation raised ethical issues; (b) moral decision making, determining what course of action was ethically sound; (c) moral intent, identifying which values

should take priority in the decision; and (d) moral action, following through on ethical decisions.

Rhode and Packel (2009) also discussed the six divisions in which ethical issues occur in NPOs: compensation, conflicts of interest, publications and solicitation, financial integrity, investment policies, and accountability and strategic management. Individual salaries should not be discussed among employees, especially in NPOs with sustainability issues. Such practices could cause donors and volunteers to stop donating their funds and time. For example, a New York Public Library donor ceased her contribution of funds when the NPO gave its president and ED a raise of several hundred thousand dollars to increase his salary to \$800,000 per year (Rhode & Packel, 2009). Salaries were not the only widespread issue; executive officers and board members felt that they deserved additional benefits within the organization, such as misappropriating funds to support lavish lifestyles. A highly publicized example involved the former ED of the United Way of America, William Aramony, who served six years in prison for misuse of the charity's funds (Rhode & Packel, 2009). Unethical tactics like this demanded greater transparency of NPO ED salaries and prompted the implementation of IRS form 990, which was an annual reporting form that federal tax-exempt organizations had to file. This form provided information on the filing organization's finances, mission, and programs.

Nonprofit organizations are often threatened with conflicts of interest. A conflict of interest could happen when board members, volunteers, or donors served on the same board of two organizations in the same realm or a competitor or when a board member was also a beneficiary of the organization, or when a family member of an executive held

an important staff position (Rhode & Packel, 2009). Although such transactions do not seem as harsh as others, this quid pro quo collaboration could ruin an organization's reputation and character. To prevent such acts from occurring in NPOs, Rhode and Packel, (2009) recommended nonprofits implement a detailed conflict of interest policy that included the disclosure of executives, employees, and board members' financial interests in companies affiliated with the organization.

Nonprofit organizations also approached ethical dilemmas with transparency, especially when it pertained to publications and solicitation concerns, such as administrative cost, fundraising funds allocations, and appropriation of funds. A highly publicized solicitation scandal was that of the Red Cross during the 9/11 terrorist attacks. Donors contributed more than \$564 million to the American Red Cross for the 9/11 tragedy in hopes of assisting victims and family; however, the Red Cross used more than half of the \$564 million for operations and reserves for the NPO (Rhode & Packel, 2009). More transparency would make organizations accountable, and stakeholders would be able to monitor the organization's performance.

One of the most recent issues with publication and solicitation was misreported fundraising costs. Hargrove and Naeem (2012) reported, "Thousands of nonprofit organizations in the United States misreport how they solicit billions of dollars in donations, making it impossible for Americans to know how their gifts are used" (p. 1). According to Hargrove and Naeem, 41% of all 37,987 charities and NPOs collected at least \$1 million; however, about 15,389 NPOs indicated on annual tax returns that

fundraising expenses, such as advertising, telephone solicitations, and face-to-face pleas for contributions. were zero.

Hargrove and Naeem (2012) found that 22,598 NPOs did not report fundraising expenses that totaled \$14.3 billion, which was \$.07 for every dollar they raised.

Transparency was important when it pertained to solicitation, grant proposals, and donor agreements because it affected the NPO's integrity, character, and rankings. NPO fundraising tactics had to be transparent, conducted with integrity, and not misguided or produce unexpected violations of resources.

Nonprofits' financial integrity was also at stake if their leaders failed to consider the reputation and ethical stance of their donors (Rhode & Packel, 2009). For example, if they accepted donor funds from organizations like the Playboy Foundation, there could be a significant conflict in the ethical values of the NPO and those of the donor. In most cases, financial integrity issues could lead to investment policy problems. This problem occurred when the NPO's portfolio was not consistent with their values. In order for a nonprofit to maintain its investment value, it had to divest from organizations whose values did not mirror the NPO's mission.

The final area in which ethical issues arose in NPOs was accountability and strategic management. This issue occurred when a donor gave a nonprofit organization a large amount of funds and the executive and board did not implement objectives and specific measures of the allocation of the funds and lacked strategic focus (Rhode & Packel, 2009).

There are no simple answers to these ethical issues; however, there are effective ways of addressing them. Rhode and Packel (2009) highlighted, "One of the most critical steps nonprofits can take to promote ethical conduct is to ensure that they have adequate ethical codes and effective compliance programs" (p. 34). These ethical issues may also be addressed by implementing a foundation of policy and governance, which may provide strength for NPOs.

Policy and governance. In order for NPOs to survive, they must have principles of policy governance as well as an understanding of the policy being governed (Yang, 2011). This concept is called knowledge governance which Yang (2011) defined as understanding the structures and mechanisms that can influence the process of knowledge, creation, sharing, integration, and retention. Policy and governance are important to nonprofit boards because it lays the foundation for the board of directors. The ED and the board members must have open communication, which requires each program director to inform the team of directors about any conflict that may arise. This kind of communication allows the organization to come together as a team and resolve the challenging conflict (Yang, 2011). It was required that the bylaws of NPOs were reviewed every 5 years, and the board voted in the amendments. The governance of an NPO has proven to be strength of the organization. Yang (2011) explained, "Governance of NPOs is determining the structure in which an organization should select to create sustainability and knowledge transferred among employees, managers, and leaders" (p. 155). My study explored the use of a tool (SOX Act) that may assist nonprofits with governance and the implementation of policy, by giving them the knowledge and training

they need that may potentially enhance effective leadership and decision-making within their NPO.

Summary and Conclusion

The over-arching theme in nonprofit organizations was how leadership affected an organization's performance. This theme emphasized why ethical financial operations was such a critical element. Methods and instruments for measuring ethical operations have been developed, such as the Leadership Behavior Description Questionnaire (LBDB, Stogdill & Coons, 1957), Multifactor Leadership Questionnaire (MLQ, Avolio & Bass, 2004), and Least Preferred Coworker (LPC, Fielder, 1967). Rowold and Rohmann (2009a; 2009b) explained how researchers, such as Avolio, Bass, and Jung (1999), Burns (1978), and Lowe and Kroeck (1996), have also studied leadership style. The proposed study used a research design, method, and data analysis technique that was supported by Creswell (1998, 1999, 2003), Brown (2005), Avolio et al. (1999), and Babbie (2004). This study begins to bridge the gap between the leadership style and the use of SOX Act and the effect that leadership styles have on executive leaders and ethical financial operations.

This bridging process begins with examining the nonprofit ED's leadership capabilities, such as leadership style, effectiveness, accountability and transparency, and its relationship to nonprofit sustainability. Chapter 3 is a description of the research design and approach, justification for using the design and approach, the setting and sample used, along with the instruments and materials, data collection and analysis, and measures taken for protection of participants' rights.

Chapter 3: Research Method

Introduction

The purpose of this qualitative phenomenological study was to investigate the reasons EDs who self-report the use of one of Burn's (1978) and Bass's (1999) three leadership styles do or do not apply the recommendations of the Sox Act to manage the ethical financial operations of their human services' nonprofit organizations. As described previously, this study sought to understand the behaviors and styles of leaders and the influence that the SOX Act has on ethical financial operations. This research design highlighted the actions, behaviors, and processes that influence ethical operations. Understanding the behaviors and experiences of nonprofit leaders could provide insight into their leadership (Cooper & Roper, 2009; Rafik, 2009). I conducted this research through semistructured interviews with EDs at human service NPOs. Although human service NPOs are nationally established, participants for this study were located in Alabama.

The remainder of this chapter includes information about the research design and rationale, role of the researcher, methodology, issues of trustworthiness, and concludes with a summary and transition to Chapter 4.

Research Design and Rationale

The following research questions guided the study:

RQ1: What are ED experiences relative to adhering to SOX requirements related to nonprofit organization ethical behavior in financial reporting and management?

RQ 2: How does the level of use of the SOX Act recommendations differ and why according to transformational, transactional, or laissez-faire leadership styles?

The central phenomenon of this study were the perceptions and lived experiences of human service EDs in their pursuit of implementing the SOX recommendations of the Sox Act to manage the ethical financial operations of their human services' NPOs. According to Moustakas (1994), five primary qualitative approaches supported the qualitative tradition of the research. Each tradition could present an exploratory dimension to scientific inquiry but selecting one approach over another remains dependent on the purpose of the research.

The research study used a qualitative methodology. I chose a qualitative approach after exploring the benefits and drawbacks of conducting the study with a quantitative or mixed-methods approach. The quantitative research was not suitable because the quantitative techniques in an open-ended inquiry construct would not capture the exploratory data necessary to investigate nonprofit ED's leadership styles and experiences (see Ingham-Broomfield, 2015). According to Ingham-Broomfield (2015) and Pietkiewicz and Smith (2014), a quantitative design was only beneficial to a study that focused more on general findings, in contrast to a study that sought a deeper exploration into the meaning of a given phenomenon.

A mixed-methods design was also rejected for this study. Venkatesh, Brown, and Bala (2013) noted that mixed-methods research techniques were a practical way of exploring when there was a need to use quantitative and qualitative designs within the

parameters of a study. However, the pertinent need to investigate the leadership styles and the lived experiences of nonprofit EDs in the context of a specific phenomenon eliminated the need to conduct the study using mixed methods. A qualitative method would better help me to understand the phenomenon and gain new perspectives on aspects already known, or to gain more in-depth knowledge that would be difficult to explain in a quantitative method (see Creswell, 2007). The qualitative approach also allowed the use of multiple sources of data, such as interviews, observations, and documents (Venkatesh et al., 2013). The fundamentally interpretive characteristic of the qualitative approach also allowed me to reflect on my role, the role of the reader, and the role of the EDs in shaping the study (Creswell, 2007). In-depth interviews formed the basis of my data collection strategy.

The qualitative design was a phenomenological approach. Alternative designs that I rejected included grounded theory, narrative, ethnographic, and case study. None of these designs effectively met my research goals.

The grounded theory approach is useful when one was inductively exploring a given phenomenon to form a theoretical model to explain a phenomenon (Creswell, 2013; Gambetti, Graffigna, & Biraghi, 2012). The grounded theory approach was inappropriate for this current study because my focus was not to understand the phenomenon, but to understand the subjective realities of people and their interpretations. My focus eliminated the need for an inductive mode of exploration. The narrative design is useful in capturing stories of research participants for the purpose of data collection (Holly & Colyar, 2012) but was not appropriate for the current study because the focus of

this research was to explore and understand ED's experiences in the context of a specific phenomenon.

Ethnographic design involved extensive data collection and is useful in exploring the experiences of a cultural group or an organizational setting with similar values (Creswell, 2013; Samnani, & Singh, 2013). Here, the ethnographic design was not appropriate because nonprofit EDs have diverse socioeconomic backgrounds, and the cultural dynamic was not my focus (Bressler, Bressler, & Bressler, 2013). The case study design was useful for exploring a phenomenon within the realm of a single or a smaller number of cases (Creswell, 2013). The case study could be favorable to this study because of its ability to explore a phenomenon through interviews, observation, and document review (Creswell, 2013; Patton, 2002). However, the case study design was not appropriate based on my research need for multiple participants who would provide a more in-depth and qualitative understanding of the phenomenon. The rationale for selecting the phenomenological design for this study was because the focus of the research purpose surrounded the essence of the lived experiences of nonprofit EDs.

Role of the Researcher

In this qualitative phenomenological research approach, I functioned as a participant observer for collecting data via semistructured interviews. In my role as participant observer, I ensured the establishment of rapport and trust with each of my participants. My professionalism was maintained consistently throughout the interview process (see Englander, 2012; Patton, 2002). The interview was a data gathering process, and I ensured that my conduct was an integral part of the research outcome (see Collins

& Cooper, 2014). Purposeful sampling was employed to ensure that only participants who had at least 3 years of experience as an ED were included. Once the larger group of participants was gathered, I placed the list of NPOs in alphabetical order. I moved through this list until I have received acceptance from the participants. I made initial contact with participants via telephone, email, and face-to-face encounters as necessary and appropriate.

I conducted the interviews, transcribed, coded, analyzed, and interpreted the experiential interview data. To mitigate bias, I remained objective in my analysis of the research findings. I used the bracketing technique to assist with putting predisposition to bias throughout the data gathering and data analysis process (Chan, Fung, & Chien, 2013). These safeguards are integral because Englander (2012) emphasized that it is important for a researcher to be consistently systematic in the development and execution of scientific research.

I work for Greenville (Alabama) Water Works & Sewer Board. My employment was not a factor that may influence a participant's responses. To safeguard against the potential of influence, participants were made aware of my employment with an understanding that I would be conducting the study as a Walden University student. I did not have any relationship with any of the NPO EDs chosen for the study. I was fully aware of the pertinence of accountability and transparency mechanisms as it related to the effectiveness in an ED's leadership style and ethical operations and believed it was vital that NPO EDs adopt a framework of accountability. Each of the participants in the study was presented with an informed consent form prior to participation.

Methodology

Participation Selection and Sampling Strategy

Participants in this study were EDs from human service organizations in the state of Alabama. I determined the targeted population size by querying GuideStar, an online database of financial information and IRS 990 forms for over 1.8 million United States NPOs (GuideStar, 2017). GuideStar's database allowed me to search for NPOs by financial status, geographic location, and NTEE codes. The sampling technique for this study was purposeful sampling followed by random sampling. Purposeful sampling was more suitable for this study because it fulfilled the need for me to explore the day-to-day experiences that were central to the research questions and allowed me to obtain valuable information from individuals (see Anney, 2014; Creswell, 2013; Patton, 2002; Robinson, 2014). Once individuals were identified through purposeful sampling, I used random sampling to give each NPO that met the purposeful selection criteria an equal chance to participate and eliminate any potential bias in the selection process (see Robinson, 2014).

The first criterion was selecting NPO ED participants with at least 3 years of NPO work experience working in the state of Alabama. The 3-year minimum criterion was important to get the maximum number of participants possible to increase my chances of meeting saturation. The ED of the NPO also had to indicate a leadership style of interest and an awareness of the SOX Act. The selection criteria also included that the NPO must have an NTEE code of P20, with a minimum of 3 years of experience. To ensure that each ED met the criterion, I developed prescreening interview questions (Appendix A) to determine which individuals qualified for the study.

The goal was to secure 12 NPO executive leaders for the study. I used GuideStar (2017) database to obtain the contact information of the NPO and ED. I made phone calls and sent out emails to potential participants. The email contained an introductory letter (Appendix B) that explained the purpose of the study and the participation criteria. I also sent an email to potential participants with an invitation to participate (Appendix C). An informed consent form was also sent to the ED via email; the form ensured that the recipient acknowledged that returning the consent form indicated that he/she agreed to participate in the study. I checked responses daily and conducted follow-up calls and emails to those who had not returned the informed consent forms. This process continued until I secured 12 consent forms. At the receipt of each consent form, I called each participant and used my screener questions to determine if the individual met the criterion. The screener collected information on awareness of SOX Act and years of experience as an ED. In addition, a description of each transformational leadership style was read to the individual, and potential participant was asked to select the one that most closely identified his or her leadership style. If individual met all inclusion requirements, I set up a date and time to conduct interviews.

Saturation is important in determining most of the qualitative sample size. Failure to reach data saturation may affect the quality of the research and prohibit content validity (Kerr, Nixon, & Wild, 2010). When conducting a qualitative study, one must address the question of how many interviews are enough to reach data saturation (Guest, Bunce, & Johnson, 2006). The relationship between saturation and sample size is that the sample size is a prerequisite for saturation. One must choose a sample size in order for

the researcher to have a greater opportunity to reach data saturation; however, it is not about the number chosen, but about the depth of the data collected (Burmeister & Aitken, 2012). A large sample size will not ensure data saturation, neither will a small sample size; rather, it is what constitutes the sample size (Burmeister & Aitken, 2012). Creswell (2012) determined sample size by the valuable data extracted from the sample. In the proposed study, I collected data via interview. My rationale for selecting this method was because interviews are one method by which one's study can reach saturation (Bernard, 2012). My goal was to collect enough data from the interviews to replicate the study.

Multiple researchers reported that identifying the most appropriate sample size to achieve saturation in a qualitative phenomenology study is a debatable criterion associated with the flexibility that is pertinent to qualitative research methods and is important for quality research data (Marshall, Cardon, Poddar, & Fontenot, 2013; O'Reilly & Parker, 2012; Robinson, 2014). Although researchers have contended there are no rules to determine the sample size of a qualitative research study, the sample size must have sufficient data to support an evidence-based outcome (Marshall et al., 2013; O'Reilly & Parker, 2012; Pietkiewicz & Smith, 2014). Given the growing level of the NPO sector in the state of Alabama, my goal was to fill a gap in the literature by interviewing 12 EDs of large human services NPOs. In this process, I reached saturation at 12 interviews.

Instrumentation

Basis for instrument development. Two instruments were used to collect data for this study. The first instrument was a researcher developed interview guide (Appendix

D) consisting of open-ended interview questions used during individual face-to-face interviews. The basis for development of the questions for the personal interviews stemmed from the research questions as well as the literature review in Chapter 2 of this study. To determine internal and external validity and reliability, I tested the interview protocol on individuals who were not participants in the study but met the criteria of NTEE code P20, were aware of the SOX Act, had at least 3 years of experience as well as identified with at least one of the leadership styles. This test determined if the questions asked generated responses that helped in answering the research questions. Probing was used, as needed, to gain clarity on responses and allow detailed dialogue of areas needed to answer research questions, without leading the interview. This instrument allowed the researcher to go in-depth into a topic that aimed to elicit rich and detailed information from the interviewee. Hosking (2011) stated that interviews are used as a personal guide in which people discuss their own views of their lived experiences or some aspect about them which was imperative for this study. The instrument that was used to answer Research Questions 1 and 2 was self-designed. The second instrument, the SOX checklist (Appendix E), was adapted by the researcher and based on the seven provisions listed in the SOX Act and used to determine the number of recommended provisions used in the NPO and administered during the same interview. The study included a semistructured format with pre-established questions generated from the SOX checklist. Permission to use the Sox Compliance Checklist was received.

In a qualitative phenomenological study, researchers must record concepts that are more perceptions than facts regarding the phenomena (Moustakas, 1994). These

concepts were difficult to translate into useful data for factual measurement; however, as Savage-Austin and Honeycutt (2011) stated in their study, by directly observing the participants and via the information collected through the interview, perceptions became clearer and more concise. Given that this is a phenomenological study, the participant's experience and knowledge regarding the study's topic made the opened-ended interview questions an appropriate strategy (see Plakhotnik, 2012). The interview questions provided the necessary foundation for the interview to operate smoothly and analyze the themes and patterns by thematic coding. The source that supported my research questions was the work of Nezhima and Brundney (2012). Their study focused on the NPO's impact on the SOX Act, and the participants provided insight on their experiences of adopting the SOX guidelines. In addition, Beal and Griffin's (2012) and Baapogmah's (2014) studies also assisted in the development of my research questions. Beal and Griffin (2012) used the seven provisions of the SOX Act to develop their interview questions, which were used to determine the positive and negative aspects of adopting the SOX provisions. On the other hand, Baapogmah (2014) discussed the correlation between leadership styles and ethical financial behavior and used interview questions to explore the phenomenon pertaining to the barriers and facilitators in implementing the SOX Act. With having similarities with other researcher's questions, I felt confident that my research and interview questions was appropriate for the data needs.

Content validity. The questions that were developed by researchers when seeking data on leadership style, the SOX act, and ethical financial behavior were similar in nature. Hassell (2013) asked about the dissimilarity with regard to leadership style

between higher-level leaders and subordinate leaders in NPOs, whereas Waritay (2015) and Godfrey (2013) asked specifically about organizational leader's leadership style and how it related to integrity, honesty, and trustworthiness.

Given that these interview questions were my first development in this study, ensuring that the data were as reliable and valid as possible was important. The study of ethics is a sensitive subject, and I expected cautious answers from participants who wanted to refrain from any negative ethical perceptions of them. In addition, I anticipated that some of the questions would not generate enough detail as desired. I ensured that I was transparent during the interviews so that I avoided leading the participants to any conclusions that could potentially compromise the validity of the study (Pluye, 2013). To establish content validity, I conducted a pretest using the matrix in Table 1. I conducted this test with at least three nonprofit EDs who were not part of the study. I scheduled a conference call with each ED, and I followed the process of the interview guide. I presented each interview question to the participants, ensuring that it generated the proper response needed to support each research question. After each of the pretests, I gathered my notes and made the appropriate adjustments to the interview guide. The results from this pretest determined whether changes were necessary in the interview questions and was used to refine the instrument as needed. In addition, to ensure that I captured the data accurately for reliability and validity purposes, a recorder was used. A pen and paper approach were also used to capture additional high-level notes to ensure the accuracy of the audio recording.

Establishing Sufficiency of Data Collection Instrument

I established sufficiency of the data collection instrument by using the matrix table below. The matrix was used to map each participant's interview question to the appropriate research question. This process eliminated unwarranted questions that did not generate answers to the research questions (see Table 1 for illustration). I asked four interview questions and two probing questions that answered Research Question 1. Research Question 2 focused on the SOX checklist.

Table 1

Research Questions

	What are ED experiences relative to adhering to SOX requirements related to nonprofit organization ethical behavior in financial reporting and management?	How does the level of use of the SOX Act recommendations differ and why, according to transformational, transactional, or laissez-faire leadership styles?
Interview	What does the SOX Act mean to your organization?	Questions were asked according to the SOX compliance checklist.
Questions for ED	<p>PQ1: Can you explain how your organization implemented the ACT?</p> <p>PQ2: Explain any written guidelines implemented in your NPO in regards to financial operations.</p> <p>Describe your NPO's guidelines for financial transparency prior to implementing the SOX Act.</p> <p>PQ3: Tell me about your decision to implement or to not implement the guidelines of the SOX Act.</p> <p>Describe your experience with implementing the SOX Act, and how it may influence NPOs that have not implemented the SOX Act?</p>	

Procedures for Recruitment, Participation, and Data Collection

The technique for data collection for this qualitative phenomenological study began after I export the data from GuideStar (2017) into an Excel spreadsheet. Each

name was assigned a participant number using randomly generated numbers. I sent an e-mail announcing the study approximately two weeks prior to sending the invitation to participate. I sent each ED a letter of invitation to participate and an informed consent form via email. The letter briefly described the research, as well as information on use and confidentiality of the personal identifying information and the data collected during the study. Once the informed consent forms were received from the EDs, I annotated the data into an Excel spreadsheet by assigned code. I sorted the final list by the organization's name and assigned an alphanumeric code starting with the organization's first name. For example, if the first organization's name was Family Guidance Center, the code assigned was family-001. All the participants were selected and recruited based on meeting the criteria and passing the screening. The first calls were made to EDs who expressed interest and who returned the informed consent forms. I completed the screening application for each person over the phone and recorded details in the Excel spreadsheet. I made a follow-up call 10 days after mailing the invitation to individuals who had not responded to encourage participation and verify receipt of the letter. All screening applications were kept in a password-protected folder on my laptop where only I had access. In each of the groups' spreadsheets, I indicated *yes* if the applicant passed the screening or *no* if the applicant did not pass.

Once I reviewed the ED's consent form and screening results for variation, I placed a second phone call, notifying the participant that the individual qualified and would be recruited for the study. Also, at this time, I scheduled an interview with the participant. The telephone number and e-mail address of the researcher, committee chair,

and Walden contact, as required by Walden's IRB process, was included on the consent form.

Data Collection

The data collection method was semistructured, open-ended interview. I collected data in the field at the sites where the ED's experienced the issue or problem under study. The interviews were conducted via telephone in a remote secured office setting. I collected data from 12 EDs. I used the interview guide to ensure that each participant was asked the same questions in the same order, which promoted congruency when implementing data analysis (Jacob & Furgerson, 2012).

Data was collected on a weekly basis with 30- to 60-minute recorded interviews with each ED. A requirement to be recorded was a condition of participation and was included in the informed consent form. With the participants' permission, the interviews were audio recorded using a voice recording phone application. I followed up with participants for clarity of their comments.

To detect overemphasized and underemphasized points, vague descriptions, bias, and other common errors in the collected data, I uploaded all notes and recordings into MAXQDA, as well as to my thumb drive, at the conclusion of each interview. In addition, the EDs were asked if they had any questions at the end of the interview, and then I informed them that once the interview recordings were transcribed, I would contact them and allow them 30-45 minutes to review the transcription for accuracy. If any changes were needed, they would be completed at that time. Once changes were completed, debriefing occurred.

Data Analysis Plan

A qualitative data analysis is an interpretive plan that requires an ability to bring clarity to word patterns, pictures, and documents in a way that descriptively highlights the phenomenon of the study (Pietkiewicz & Smith, 2014). Data collection was conducted via semistructured interviews after I received IRB approval. The interview questions correlated with the central research questions and the sub research questions, with interview questions one through five focusing on determining ED's leadership style and questions six through 10 focusing on the ED's experience with using the SOX Act to improve ethical financial operations. I set up an informal meeting with the EDs of the selected NPOs to obtain background information on the types of services and programs they provide.

After the participant interviews were completed, I began the transcription process. The next step involved preparing the transcribed data for coding, using axial coding, and Braun and Clarke's (2006) Thematic Analysis. I used the software MAXQDA for coding the interview data and developing themes that correlated with the theory-based research questions (Finfgeld-Connett, 2014; Ishak & Baker, 2012). The process involved making sense of the themes and patterns across data sets that are important to the description of the phenomenon and clarifying the meaning of the research outcome (Finfgeld-Connett, 2014; Patton, 2002).

According to Moustakas (1994), a phenomenological data analysis allows the researcher to cluster the statements into themes, which prevents overlapping and repetitive statements. The approach that I took to analyze the data was the modified Van

Kaam method by Moustakas (1994). Data analysis followed four steps: preliminary grouping, reduction and elimination, clustering, and thematic identification.

Preliminary grouping. As a first step in my analysis, I performed horizontal procedures that required me to list and perform preliminary grouping of the lived experiences of nonprofit EDs. I grouped the participants' responses according to their demographic profiles. The groups were in accord with the lived experiences of 12 NPO EDs who had at least 3 years of experience.

Reduction and elimination. My second step was taking the preview of experiences that emerged from the listing and preliminary grouping of experiences and testing each experience by two requirements: Relevancy and sufficiency for understanding it, and if the experiences could be abstracted and labeled. If an experience did not meet the above two requirements, it was eliminated along with those that may be overlapping, repetitive, or use vague language.

Clustering. This step involved synthesizing information for clustering and developing themes from the participants' responses to the interview question. According to Moustakas (1994), the core themes of a study were generated from clustered participant groups. I sorted out pertinent information for clustering and developing themes of the group participants identified by step two. This process allowed me to clearly see the themes by reviewing the description of the lived experiences of the NPO EDs.

Thematic identification. This step involved finalizing the identification of the grouped participants and themes and providing supporting evidence for the

phenomenological experiences via the responses in the interview transcripts. This process involved following Moussakas' review questions: "Are they expressed explicitly in the complete transcription? Are they compatible if not explicitly expressed? If they are not explicit or compatible, they are not relevant to the participant's experience and should be deleted" (p. 121). The results section included a description of each participant's textual and structural description of the meanings and essence of the experience, representing the group.

Issues of Trustworthiness

This section includes validity and reliability of qualitative data and ethical procedures. I indicated ways in which validity and reliability took place as supported by noted researchers. Qualitative researchers judge the credibility of their work by its transparency, consistency, and communication ability. Below, I described how I addressed the issues of trustworthiness of this research study.

Internal and External Validity

The focus of trustworthiness in a qualitative study is to justify the quality of the findings. Researchers who have used qualitative study to explore phenomena maintain societal rapport by implementing methods that denote credibility, transferability, dependability, and confirmability (Sousa, 2014; Yilmaz, 2013). In this qualitative phenomenological study, I addressed credibility, transferability, dependability, and confirmability throughout the research design and implementation process.

Credibility means that the study represents the intention of the data drawn from the participants' original data (Lincoln & Guba, 1985). I used two techniques to ensure

credibility. First, I used triangulation, a powerful strategy for enhancing the quality of the research, especially credibility (Knafl & Breitmaye, 1989). The types of triangulation methods are interviews and audiotape recording. The triangulation that was used in this study was the analysis of leadership constructs of practices collected through interviews which was compared to the overall perception of collective data from interviews. A pretest was performed to test the credibility of the data instrument with revisions made according to the results of the pretest. Credibility does not depend as much on the size of a sample, but more on the richness of the information collected (Patton, 2002).

Transferability is an external validity and occurs when the findings of one study is transferred and applied to other situations (Merriam, 1998). Transferability was addressed via the criteria used to identify EDs with the phenomenological experience under study. The detailed descriptions that was developed through the analysis of the interview data (Cope, 2014; Sousa, 2014) also promoted transferability.

Dependability addresses the issue of reliability. I maintained dependability by maintaining an audit trail with documented procedures used to develop and conduct the research (Anney, 2014). I kept the hard copy and electronic documents in a secured file for a minimum of five years as required by federal regulations and Walden University's IRB (Protection of Human Subjects, 2009). Having an auditable trail to establish dependability will allow other researchers to follow how the decisions were implemented. Lincoln and Guba (1985) suggested that an audit of the research could enhance both the dependability and confirmability of the study. Another strategy for establishing dependability is code-recode technique. This technique requires that researchers code a

segment of data, then implement a waiting period and return and recode the same data and compare the results. Once researchers complete this technique, dependability can be enhanced through triangulation. This method ensured that the weakness of one method of data collection are complemented by the use of other optional data collection methods (Lincoln & Guba, 1985).

Confirmability is the qualitative counterpart of objectivity. This strategy is important because it allowed auditors to follow the decision trail and derive at comparable results given the same data and research context (Wahyuni, 2012). Wahyuni (2012) and Anney (2014) highlighted the importance of an audit trail in supporting confirmability of the research. I also relied on my interactivity with my dissertation committee. The interaction with my committee allowed a thorough review of the research design and acted as an additional measurement in addressing conformability (Wahyuni, 2012). Reflexivity was useful to highlight the major influence that the researcher had on the data. In addition, to ensure that the study does not lack sufficient analytical knowledge, I promoted inter-coder reliability by using Van Kaam method for a thematic analysis, which is applicable to my phenomenological research.

Ethical Procedures

This section addresses ethical procedures and concerns related to the treatment of participants, data collection and storage, recruitment materials, and confidentiality. Ethical practices were my focus while conducting the study. Before data collection, I gained permission to work with participants from Walden University's Institutional Review Board (IRB).

After I received approval from Walden University's IRB, I began the research data collection. During the data collection process, I remained cognizant of the need to secure Walden University IRB approval to ensure that the methods proposed adhere with the standards in Title 45 C.F.R. Pt 46 (Protection of Human Subjects, 2009). My adherence to the methods throughout the research helped in mitigating participant risk (Aluwihare-Samaranayake, 2012). I ensured that informed consent was secured before the data collection process began. The data collection began with an email announcing the survey. The letter briefly described the research and contained information on use and confidentiality of the data, the telephone number and e-mail address of the researcher, the committee chair, and the Walden contact, as required by Walden's IRB process.

I informed participants of the opportunity to opt out of informed consent and withdraw from the study at any time, as stated in the written informed consent form. I did not anticipate any harm to participants during the data collection process; however, if a participant displayed a harsh response or displayed any negative action during the process, I would end the interview immediately and advise the participant to seek the appropriate professional assistance. I protected participants' identities with the recordings, transcriptions, and documentations of the research findings by maintaining confidentiality. In support of confidentiality, the recordings were destroyed once participants validated accuracy. In addition, transcripts and data analysis were secured in a locked file for a minimum of five years; at that time, documents will be destroyed. There was not any conflict of interest between the participants and myself, and participants did not receive any incentives for their participation.

Summary

The purpose of this qualitative phenomenological research study was to investigate the attributes of 12 executive leaders to determine whether they were transformational, transactional, or laissez-faire leaders, and if their leadership style was more inclined to use the SOX Act as a tool to ensure transparency in ethical financial behaviors and operations in nonprofit service organizations. The study included semistructured interviews with active EDs with a minimum of 3 years of experience.

Data collection commenced upon approval of the Walden University IRB. The initial step in data collection was a search in the GuideStar (2017) database for NPOs who met the selection criteria and maintained an office in the state of Alabama. Data collection proceeded without adversity and with active participation.

Chapter 3 included an introduction, research design rationale, role of researcher, methodology, issues of trustworthiness, and summary. In chapter 4, I present my findings and conclude with implications for social change and recommendations for future research.

Chapter 4: Results

Introduction

The purpose of this study was to understand the lived experiences of EDs who self-report the use of one of Burn's (1978) and Bass's (1985) three leadership styles and who do or do not apply the recommendations of the SOX Act to manage the ethical financial operations in their human service's NPOs. I also sought to determine if the three leadership styles could be used as an indicator of the potential transparency in financial operations as measured by the extent to which the SOX Act is applied.

There were two central research questions in this study:

1. What are ED experiences relative to adhering to SOX requirements related to nonprofit organization ethical behavior in financial reporting and management?
2. How does the level of use of the SOX Act recommendations differ and why according to transformational, transactional, or laissez-faire leadership styles?

This chapter presents the findings from participant interviews as they relate to the research questions. This chapter is organized into seven sections: setting, demographics, data collection, data analysis, evidence of trustworthiness, results, and summary.

Setting

The results of this study were not influenced by personal or organizational conditions between my interpretations and the participants' experiences. Information known at time of data collection was that participants were active EDs in human service

NPOs in the state of Alabama for a minimum of 3 years. Each participant, a total of 12, responded to the consent email with “I consent.” Each participant was also informed via consent form that there were minimal risks involved with the interview and that the participant could opt out or have questions clarified at any time during the interview. A total of 12 interviews were conducted for this study. Each interview was conducted via telephone.

Demographics

This study evaluated the lived experiences of 12 EDs regarding leadership effectiveness and the influence of the SOX Act. Table 2 displays the demographic information for participants which included gender, years of experience, race, and size of NPO. Two African-American EDs were included in the study, both women. There were 10 European-Americans EDs, 7 which were women and 3 were men.

Table 2

Demographic Characteristics of Participants

Gender	Quantity
Male	3
Female	9
Ethnicity	
African American	2
Caucasian	10
Years of Experience	
1-5	5
6-10	1
11-15	1
16-20	2
20-25	2
26-35	1
Size of NPO	
Small	0
Medium	3
Large	9

Data Collection

At the receipt of each consent form, I called each participant and completed a prescreen interview. This consisted of their awareness of SOX Act, years of experience as an ED, and the full range model leadership style (transformational, transactional, laissez-faire) that best described them. If individuals met all inclusion requirements, I set up a date and time to conduct interviews. Interviews were conducted with the qualified participants over a 4-week period from March 19 to April 13, 2018. Each participant was

interviewed once. My criterion for meeting saturation was to target EDs with NTEE Code P20 (interviewing both men and women with different ethnicities), and EDs with diverse annual income and years of experience. I remained knowledgeable of the richness of the data during collection. Once I reached the point where I was not receiving any new data, saturation was met, and I stopped sampling data and rounded off my analysis. The data from the phone interviews were recorded using a digital voice recorder and a voice recorder app on my cellular phone. The proposed size of the nonprofits included was expanded to include agencies with a minimum of \$100,000 annual income, down from \$500,000 to improve response rates. Four open-ended interview questions were posed to 12 ED participants. The phone interviews lasted 12-30 minutes.

Data Analysis

Inductively moving coded units to a more detailed model of categories and themes included the following process:

Data Preparation: This step involved preparing the transcribed data for coding, using axial coding, which was the basis of this study's thematic analysis. This step included breaking down the responses into core themes and revealing codes and categories that will develop a constant comparison between data.

Identifying and managing input: This step involved comparing handwritten notes and software output (MAXQDA), consolidating, and coding data from each group, then compiling the information to confirm the consistency and effectiveness of the data interpretation. The confirmation process helped to accomplish validity and involved triangulation, which consisted of matching the participants' interview results to their

audio transcripts to ensure that I accurately captured what the participant's intended to communicate. To enhance reliability, I also gave the participants the opportunity to review and verify their response to the interview questions via their transcript. The participants reported no change to their interviews.

Organizing data: This step involved entering the transcripts into MAXQDA, a qualitative and mixed methods data analysis software that is designed to assist researchers with processing and organizing qualitative research data (Burns, 2016). MAXQDA helped me to code the interview data and develop themes that correlated with the theory-based research questions. I identified all themes and phrases that could be associated with the theme. I inserted the phrase that was developed into the search field. Once MAXQDA identified the phrase, I copied and pasted the entire sentence and placed it under the theme. This process took place for each phrase that was developed.

Categorizing: In this step, using the analysis from MAXQDA and handwritten notes, I created a table of codes that included categories and themes (listed below) that were developed from the transcripts to assist with recording responses from the participants.

Constructing and organizing data: In this step, I used the information from the spreadsheet and the analysis to further develop interpretations and descriptions of the data by comparing my notes and software output. I remained aware of the importance of the richness of the collected data. I ensured that the EDs lived experiences were compatible and explicitly expressed in the complete transcription via the code and recode technique. I enhanced dependability through triangulation.

My role as a researcher was to listen and understand the lived experiences with EDs working in nonprofit human service organizations, while completing an in-depth exploration into the essence of nonprofit ED's perceptions regarding ensuring transparent and ethical financial operations and by adhering to the recommendations of the SOX Act. The interview protocol used in this study was pretested by interviewing several participants that were not included in the study but met the criteria needed to participate in the study. The pretest was used to test the credibility of the data instrument with revisions made according to the results of the pretest. The population targeted for the study was selected based on their job classification and number of years of experience. Since the inclusions were met by the participants in the study, the data obtained were within the scope of the research objective. Focusing solely on the data gathered from interviews, my bias or influence on the research study was limited by strictly gathering information from each of the interview transcripts.

The specific categories and themes generated the following information from the data. Based on the structural and thematic coding, the following seven categories were developed: (a) perception of financial operations/management, (b) adherence to SOX Act, (c) use of prior guidelines, (d) motivation to use SOX Act, (e) perceptions of ethical operations, (f) leadership styles, and (g) levels of use of SOX Act.

EDs' Perceptions of Financial Operations/Management

The specific code that emerged from the data regarding the EDs perceptions of financial operations/management within the organization was activities of being transparent. The responses included (see Figure 1) independent/competent audit

committee, responsibilities of auditors, certified financial statements, prevention of insider transactions and conflict of interest, internal control, whistle blower protection policy, and document destruction policy. Based on the responses from the EDs, the category was transparency and was further broken down into the concept of governance, as each ED explained what might enhance the likelihood of using the SOX Act in nonprofits that had not implemented the SOX Act and the benefits of utilizing the seven provisions.

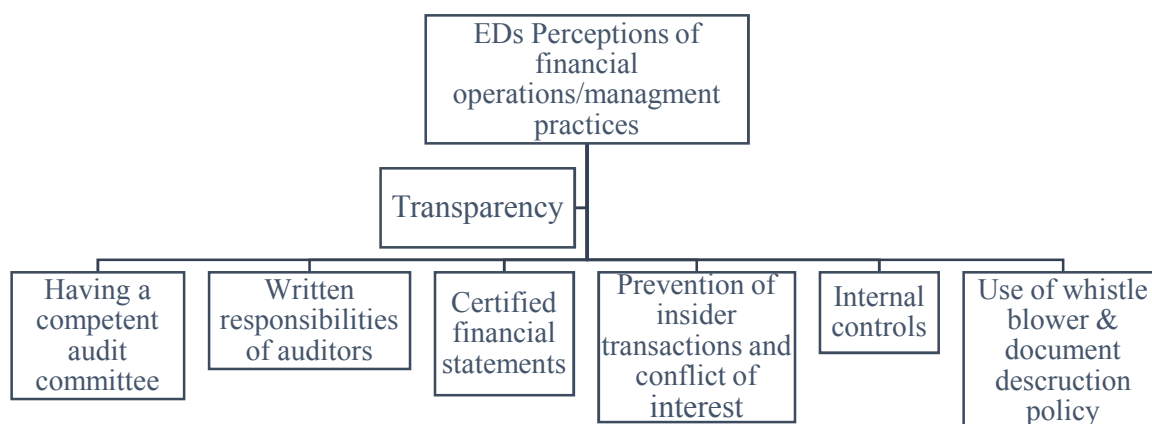


Figure 1. EDs' perceptions of financial operations/management

EDs' Understanding of Adherence to SOX Act Provisions

The specific codes that emerged from the data regarding the understanding of EDs' adherence to SOX Act provisions were activities of being accountable. The responses obtained were independent audit committee, financial expert accountant, board members, annual audits, disclosure of financial statements, and auditor rotation. Based on these answers, the category of accountability was developed and further broken down into the concept of governance and providing ethical financial operations to others. As

shown in Figure 2 below, each of the 12 participants indicated that their perception of efficacy of accountability practices was directly related to improving leadership and ethical financial operations in human service organizations.

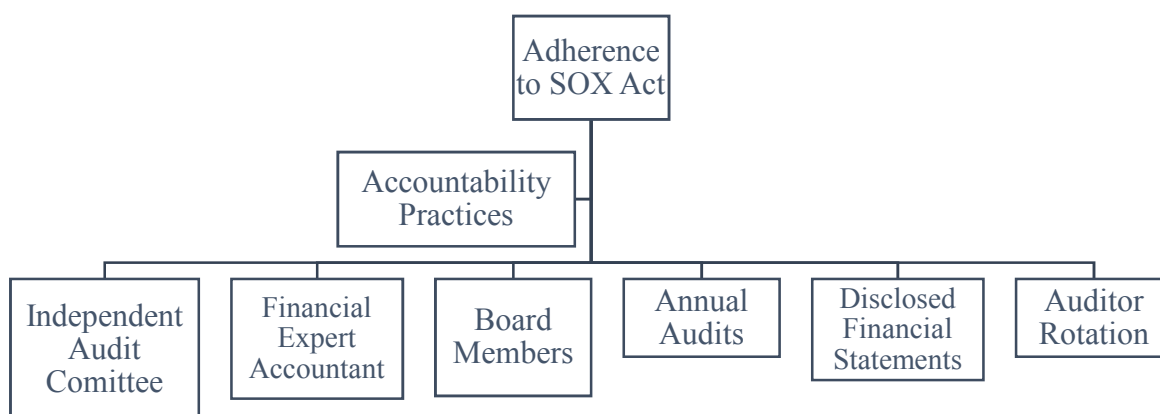


Figure 2. Adherence to SOX Act

Use of Prior Guidelines

The specific code that was generated from the data referencing the use of the SOX Act was implementation of provisions. Each participant was asked the following probe: “When did your organization implement the SOX Act?” The responses (see Figure 3) ranged from 6 months after the SOX Act was created to the NPO already having similar guidelines in place prior to the SOX Act. Based on these responses outlined in the figure below, the category remained accountability and was further broken down into the concept of management practices, as each participant indicated that adherence to

financial accountability requirements and the interconnectivity with other management practices are beneficial to their nonprofit leadership effectiveness.

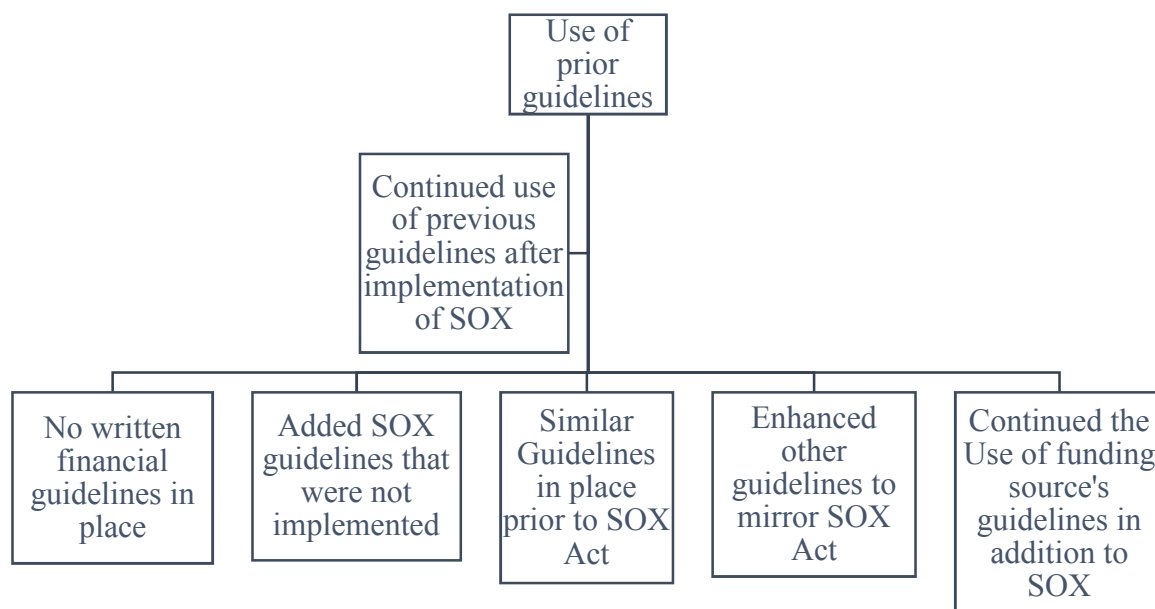


Figure 3. Use of prior guidelines

EDs' Perceptions on Motivation to Use the SOX Act

The specific code that emerged from the data regarding the perception on the motivation to use the SOX Act in NPOs that had not yet implemented it was reasons to implement the SOX Act. The responses included (see Figure 4): enhancement of prior guidelines, education, training, knowledge of success, and continued funding. Based on the responses from EDs, the category was motivation to adhere to the SOX Act. Each ED gave valid reasons for all NPOs to adopt and implement all seven provisions of the SOX Act. One ED stated that education and training might increase the likelihood for NPOs to adopt the SOX provisions. Another ED stated just the mere fact that it could result into continued funding for the nonprofit as well as providing compliance and transparency.

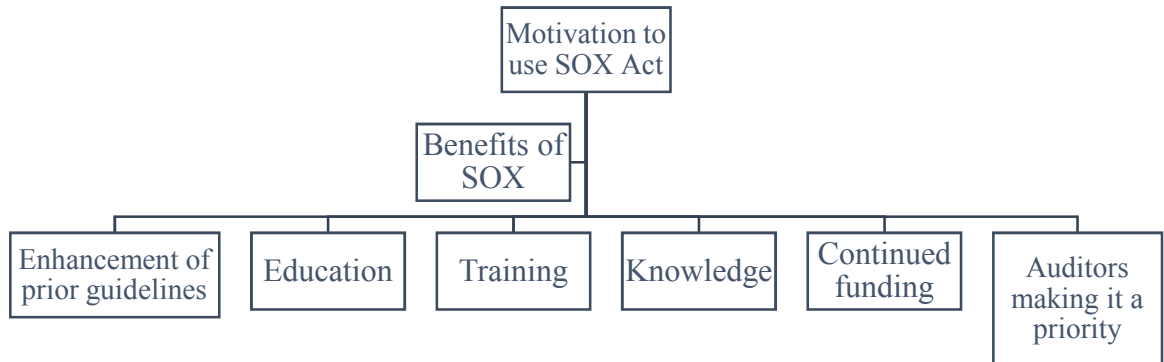


Figure 4. Motivation to use the SOX Act

EDs' Perceptions of Ethical Operations

The specific code that emerged from the data regarding EDs' perceptions of ethical operations was the meaning of being ethical. The response included (see Figure 5): Christian values, honesty, integrity, being good stewards over funds, operating in a way that is transparent to donors, trust, and donor confidence. Based on the response from the participants, the category was key moral principles and was further broken down into the concept of behavior characteristics and skills as each participant described what he or she believed the position and duties were in regard to making ethical decisions regarding the financial operations of the organization.

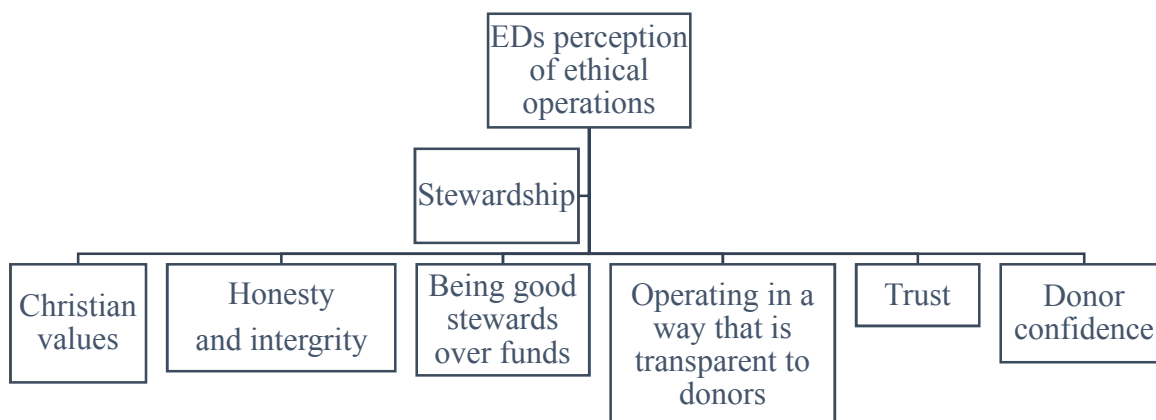


Figure 5. EDs’ perceptions of ethical operations

Leadership Styles Characteristics

The specific codes that emerged from the data regarding EDs’ leadership were leadership styles practices. The response obtained were stewardship, governance, empowerment, exceeds expectation of needs, and focused on the process. Based on the responses from the EDs, the category was leadership characteristics and was further broken down into the concept of influence of leadership styles as each ED indicated his or her leadership styles and the influence that it has on organizational and financial stability. One ED stated the importance of exceeding the expectations of needs. Two other EDs talked about the importance of stewardship of the funds, whereas another ED focused more on the process rather than the personality or motivation to others. He stated, “If the process works, everything else will be efficient.”

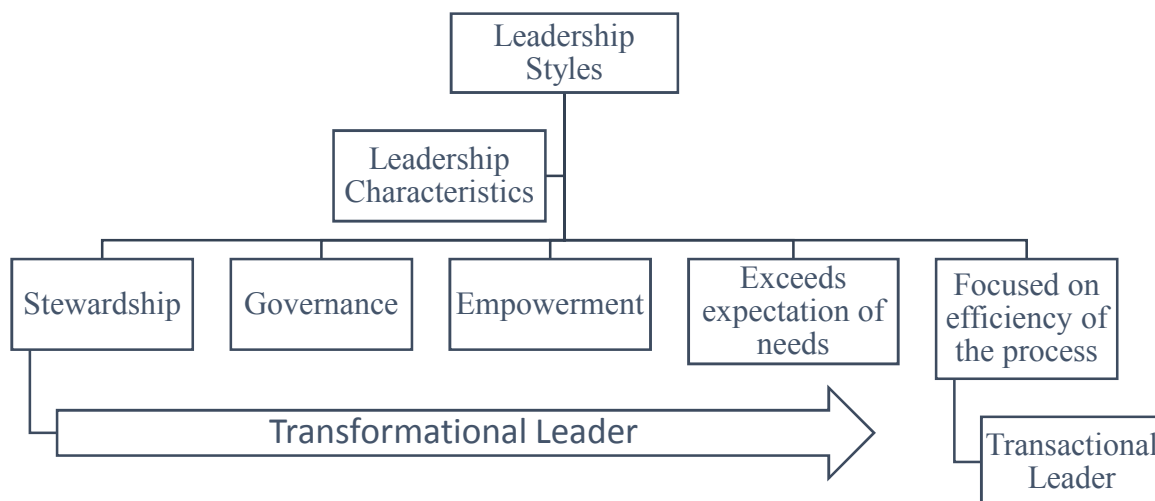


Figure 6. Leadership style characteristics

Levels of Use of the SOX Act

The specific code that was generated from the data regarding the level of use of the SOX Act was implementation of the SOX Act because each response revealed which provisions were adopted and why their organization adopted the seven provisions. The responses included (see Figure 7): adopted all 7 provisions, enhanced/ added previous guidelines, sustainability, donor/community confidence, fulfill the needs of the community, and requirement from other funders. Based on the responses from the EDs, the category was commitment and further broken down into the concept of passion and trust and wanting to fulfill the needs of the community as well as keeping the confidence of the donors.

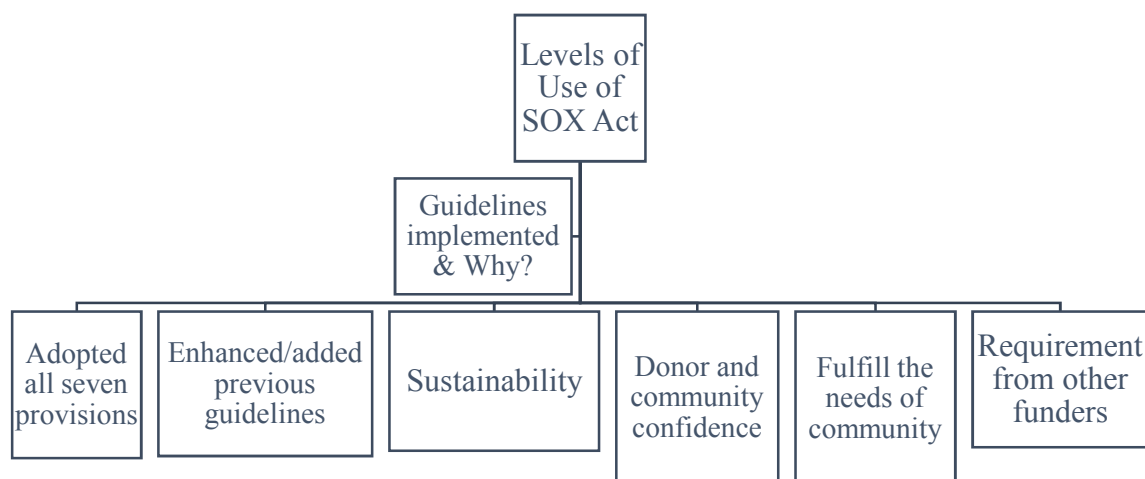


Figure 7. Levels of use of the SOX Act

Treatment for Discrepant Cases

Researchers should first address the issue of missing data and non-response errors. Peugh & Enders (2004) suggests two techniques of dealing with missing data, i.e., pairwise deletion and list-wise deletion. Research participants had the opportunity to opt out of the research at any time (Patton, 2002); however, no participant requested to withdraw from the study. Recognizing and analyzing discrepant data is key in validity testing, as any data which cannot be explained through interpretation can present defects in results of the study.

Evidence of Trustworthiness

To provide evidence of trustworthiness, as demonstrated in Table 3, interview transcripts, a codebook, handwritten notes, audio recordings, and triangulation were used to ensure accurate validation and captivity of the intended communication. Credibility and transferability were achieved with direct quotes. Direct quotes assisted with

providing perceptions to each interview question. Transferability was also obtained by purposeful sampling and providing thick description in the form of direct quotes so that readers could make generalizations. Dependability was provided via the interview transcripts, which provided evidence of the exact words from each participant. In addition, the hard copy and electronic documents will be secured in a file for five years. Confirmability was achieved by providing a copy of the transcript to each participant to confirm accuracy of response, and to ensure confirmability. Intercoder reliability via thematic analysis was also used to ensure confirmability.

Table 3

Criteria for Trustworthiness of Qualitative Research

Criteria	Evidence
Credibility	Direct quotes from participants, interview transcripts, triangulation
Transferability	Purposeful sampling, thick description
Dependability	Audit trail
Confirmability	Interaction with dissertation committee, inter-coder reliability (thematic analysis), providing participants with a copy of interview transcript

Results

The research question in this study explored the lived experiences of EDs and their adherence to the SOX Act. The following research questions guided this research study:

1. What are ED experiences relative to adhering to SOX requirements related to nonprofit organization ethical behavior in financial reporting and management?
2. How does the level of use of the SOX Act recommendations differ and why according to transformational, transactional, or laissez-faire leadership styles?

Answering the research questions could provide useful information to improve leadership qualities in EDs and efficiency and effective ethical financial operations in NPOs.

I classified the themes into two categories according to their relationship to the research questions. The first category related to Research Question 1, and the other category related to Research Question 2. The first category of themes included:

I. *Transparency/Accountability Practices*

Each ED explained that using the SOX Act meant being transparent and accountable, and abiding by such provisions as having a competent audit committee, disclosed certified financial statements, conflict of interest and insider transaction prevention, internal controls, and written whistle blower and document destruction policies. Eleven of the 12 EDs stated that their organizations used the SOX Act. ED3 explained that the organization was more of a faith based nonprofit organization and did

not have any written guidelines for financial transparency. ED3 stated, “We use Christian values in hopes to be ethical, open and honest, so there is no need for any guidelines” (ED3, personal communication, April 4, 2018). When asked when the NPO implemented the SOX Act, ED6 stated, “Probably 6 months to a year after SOX came out, but we have been doing some of those things before” (ED6, personal communication, March 20, 2018). Each ED whose NPO used the SOX Act explained the accountability practices used in their NPO. Each ED referred to using an independent audit committee, expert financial accountant, board members, and rotating auditors. ED11 indicated that his NPO rotated auditors every 5 years. He also stated “Our 990 form and tax forms are reviewed and approved annually” (ED11, personal communication, April 4, 2018).

II. *Use of Previous Guidelines*

Each of the EDs stated that their NPOs had prior guidelines in place for financial transparency; however, ED3 stated that her NPO did have “financial transparency” (i.e. disclosure of financial statements, board approval for spending, annual audits, and an accountant that keeps up with every dime that is spent), but does not have any written financial guidelines in place. She further discussed that they were different from other human service NPOs, because their funders were various churches, and they expected the funds to be spent. There were various responses to whether the NPOs continued to use prior guidelines after implementing the SOX Act. Whereas others stated that they continued to use prior guidelines after the implementation of SOX, ED7 stated, “We added the whistle blower policy, and it increased internal controls as far as financial management” (ED7, personal communication, April 5, 2018). ED2, ED5, and ED8 stated

that their NPOs updated their guidelines along the way to mirror the SOX Act. ED10 and ED11 discussed how SOX enhanced their previous guidelines.

The following category of themes represents participants' responses in relation to Research Question 2.

I. Benefits of the SOX Act

Each ED explained the importance of NPOs using the SOX Act. The majority of the responses centered around education, board training, continued funding, enhancement of previous guidelines, knowledge of the requirements, and auditors making it a priority. ED1 focused on training and education, by stating that board training will allow NPOs to know what requirements are appropriate and not appropriate. ED11 stated, "The requirements are out there, so the auditors have to make it an absolute priority" (ED11, personal communication, April 4, 2018). ED12 explained that if board members are familiar and comfortable with and accustomed to dealing in a business setting, NPOs are more likely to follow the SOX guidelines. ED10 stated, "Training and education might get them to start using the SOX guidelines. Just the mere fact of the funding sources, if you can't produce your financial manual or 990, you can't get continued funding and could lose funding" (ED10, personal communication, April 5, 2018). ED7 also referenced the benefits of using the SOX Act is to have continued use of funds and public donations. He further stated, "Then they need to be good stewards by being transparent, having checks and balances, and maintaining audits" (ED7, personal communication, April 5, 2018). ED9 explained the importance of using the SOX Act as a tool to increase funding and strengthen internal controls. ED4 stated, "Adopting the SOX Act will

enhance NPOs” (ED4, personal communication, March 29, 2018). ED2 explained that the importance of using the SOX Act is having policies and procedures in place to be accountable to donors and those who give. ED2 further stated the using SOX “keeps down the increase of misappropriated funds and makes you have a stronger NPO” (ED2, personal communication, April 3, 2018).

II. *Levels of use of SOX Act by Leadership Styles*

Among the 12 EDs that were interviewed, 11 EDs reported a preference for transformational leadership, and 1 ED reported a preference for transactional leadership. ED1 reported a preference for transformational leadership and stated that her NPO used all seven provisions. She further discussed why by stating, “We have to show them how well their money is being used and that we are good stewards of the funds” (ED1, personal communication, April 11, 2018). ED2, who reported a preference for transformational leadership, indicated that her NPO used all seven provisions. She also added that they have a board of directors with a treasurer and a budget committee, along with an annual external financial audit. Her reason for using SOX was the fulfillment to the community. ED3 reported a preference for transformational leadership. Although she does not adhere to the responsibilities of auditors, whistle blower protection/document destruction policy, she based her choice of using most of the SOX provisions on donor and community confidence, as well as a requirement from donors. ED4, who reported a preference for transformational leadership, contributed her NPO decision to using the SOX Act with enhancement to the organization. She stated, “Transparency is trust”

(ED4, personal communication, March 29, 2018). She further explained that the goal as an NPO leader was to fulfill the need of the community. ED5, who reported a preference for transformational leadership, indicated that her NPO used all seven provisions of the SOX Act. She contributed their decision to sustainability and requirement of funders. She stated, “When you are an NPO and you are dealing with people’s money, it is due diligence to handle it properly” (ED5, personal communication, March 29, 2018). ED6, who reported a preference for transformational leadership, explained generally wanting to have good financial standards, which goes hand in hand with SOX, as the reason for using the seven provisions of the SOX Act.

ED7, who reported a preference for transactional leadership, indicated that his NPO follows all of the seven provisions of the SOX Act. His reasoning for following these guidelines was donor’s confidence. He further explained another reason - trust. He stated, “The greatest commodity is trust. If people don’t trust your NPO they will not donate” (ED7, personal communication, April 5, 2018). ED8, who reported a preference for transformational leadership, explained that using the seven provisions of the SOX Act helps make governance a top priority in her NPO and credits its potential to uplifting the quality of NPOs and increase across the board. ED9, who reported a preference for transformational leadership, indicated that her NPO used all seven provisions of the SOX Act. Her reasoning for using these provisions was the passion to do the right thing and maintain integrity. She further explained that SOX is a good way to hold NPOs accountable. ED10, who reported a preference for transformational leadership, adheres to the seven provisions of the SOX Act and credits that not only is it a requirement from

fundamentals, but also it ensures good internal controls are in place, such as reliable financial reporting and adherence to policies and procedures. ED11, who reported a preference for transformational leadership, indicated his NPO's adherence to all the provisions of the SOX Act by explaining that his NPO used these provisions long before the SOX Act was implemented; however, adopting these provisions enhanced their guidelines and put them into a semi-concise document. He stated, "It made it easier to hammer it home for the people involved" (ED11, personal communication, April 4, 2018). ED12, who reported a preference for transformational leadership, credited her reason for using the seven provisions of the SOX Act to accountability and transparency.

Discrepant cases were addressed by using pairwise deletion technique. This involved partial deletion of the missing entries in the participant responses. Although the selected participants were given the option to opt out of the study at any time, none of them requested to withdraw.

Summary

The purpose of this study was to contribute information about EDs' perceptions of ethical financial operations in nonprofit organizations. This study was intended to demonstrate that EDs who reported a preference to transformational leadership were more likely to adhere to the seven provisions of the SOX Act pertaining to NPOs. My premise was that effective leadership in NPOs are most represented by transformational leaders. I contended that leadership styles are interrelated to the influence of the SOX Act. I specifically focused on the lived experiences of EDs who reported a preference with transformational, transactional, and laissez-faire leadership styles and their

perceptions of the SOX requirements related to nonprofit organization's ethical behavior in financial reporting and management.

The data for this study was gathered using the four questions on the interview guide. The first three questions provided information about the lived experiences of transformational leaders relative to adhering to the SOX Act. The first interview question asked EDs whether their NPOs used the SOX Act. Each of the 12 EDs related their answer back to the theme of transparency/accountability practices. Each ED described the SOX Act as a tool for ethical financial transparency. A probing question asked when the NPO implemented the SOX Act, and the responses ranged from 6 months after SOX was created to SOX providing enhancement to similar and previous guidelines. From the interviews, I learned that EDs in human service NPOs are good stewards over the funds that they receive from their donors/funders. They are also likely to use the seven provisions of the SOX Act for internal controls, transparency, and accountability. The EDs understood the importance of donor confidence, trust, integrity, and governance.

The accountability practices theme was also derived from EDs' responses on question one regarding the use of the SOX Act. The EDs responded by indicating their financial obligation to adhering to the SOX Act (i.e., rotation of auditors, disclosed financial statements, and independent audit committee). Accountability was also indicated by some of the responses that SOX enhanced the guidelines that were already in place prior to the SOX Act.

The continued use of previous guidelines theme was developed as I learned from this research that each NPO had previous guidelines in place for financial transparency,

and continued to use them even after SOX was implemented. The responses provided to the question of “Prior to implementing the SOX Act, did your organization have any guidelines in place for financial transparency?” were: no written financial guidelines, which generated from an ED of a faith-based NPO who received funds from various Christian churches and relied on ethical and Christian values as a means for transparency and accountability; enhanced previous guidelines to mirror SOX provisions; and continued use of funding sources requirements in addition to the SOX Act.

The benefits of using SOX Act theme was derived from the EDs’ responses on question three regarding what might enhance the likelihood of using the SOX Act in NPOs that had not implemented the Act. The EDs responded with enhancement of prior guidelines, having the education and training on the various requirements, and the knowledge of why it is important for ethical financial transparency. Several EDs’ responses focused on continued funding and auditors making the provisions a priority for NPOs.

The stewardship theme was developed as I learned from this research study that each ED perceived ethical financial operations as operating in a way that is transparent to donors. Leadership characteristics was developed as a theme through conversation with EDs who reported a preference for transformational and transactional leadership. Leadership characteristics such as governance, empowerment to individuals, exceeding expectations of needs, and the focusing on the efficiency of the process led to the difference in how many of the seven provisions were implemented by each leadership style and why that NPO decided to implement those provisions in their NPOs. Literature

suggested there was a lack of empirical evidence on leadership styles and the influence it has on the adherence to the SOX Act. The responses revealed that whether the ED's preference was transformational or transactional, each of them adhered to the ethical behaviors of the SOX Act recommendations. Although the transactional leader focused more on the efficiency of the bottom line, ensuring ethical financial transparency was still paramount. However, to confirm my premise that transformational leaders are more likely to adhere to the seven provisions of the SOX Act, this research study revealed that 11 out of 12 EDs identified with being a transformational leader and the other identified as a transactional leader.

This chapter included the research setting, demographics, data collection methods, data analysis, evidence of trustworthiness, and the results of the study. In chapter 5, I reiterate the purpose and nature of the study as well as why it was conducted. In addition, I discuss the interpretations of the findings, limitations of the study, recommendations, and implications for further study.

Chapter 5: Discussion, Conclusions, and Recommendations

Introduction

This qualitative study was conducted to explore the lived experiences of EDs who self-reported a preference to transformational, transactional, or laissez-faire leadership, and whether the SOX Act had an influence on ethical financial operations. I explored how EDs in NPOs leadership styles related to the NPOs' adherence to the seven provisions of the SOX Act. This exploration was achieved by examining their understanding of transparency and accountability practices in the organizations for which they work.

Data from the interviews showed that transformational leadership is widely used in human service NPOs and NPOs were more inclined to use the SOX Act to manage their financial operations. This finding was supported by additional research by scholars such as Jones (2013) and Thomas and Bendoly (2009), whose studies examined leadership styles and financial performance. The current results indicated that transformational leaders can have a positive influential effect on financial operations in NPOs. The EDs understood transparency and accountability practices to include showing donors how well their money is used and that they were good stewards over funds and maintaining strong internal controls. The EDs also described transparency and accountability as exceeding the needs of the community. Likewise, EDs described their understanding of transparency and accountability as doing the right thing and maintaining integrity. Lastly, EDs felt that adhering to the SOX Act helped their organizations to have

continued funding and ensured that their accounting and auditing department understood their role and responsibility.

Interpretation of the Findings

My starting point with this study was recognizing a need in NPOs to improve ethical financial operations and a gap in the literature researching EDs leadership style and the use of SOX Act and the effect that leadership styles have on executive leaders and ethical financial operations. The exploration process began with examining the nonprofit ED's effectiveness, style of leadership, and capabilities accountability and transparency, and its relationship to nonprofit sustainability. This study has added to nonprofit literature by documenting EDs of human service NPOs lived experiences with transparency and accountability practices and their interpretation of gaps that exist between leadership styles and the use of the SOX Act.

The research question asked, among nonprofit EDs who reported preferences for transformational leadership styles, what were the lived experiences of these leaders relative to adhering to SOX requirements related to nonprofit organizational ethical behavior in financial reporting and management? The phenomenological approach selected to guide this research aided in gathering information on issues congress outlined as standards to improve transparency and accountability to ensure the effectiveness of ED's actions and goals. Avolio and Bass's (2004) full range leadership model helped to discover and analyze the effect of a transformational leader, in contrast to transactional and laissez-faire leaders.

The full range leadership paradigm has been used in prior studies to determine EDs' key to success in NPOs, along with their commitment and survivability. For example, Redick et al. (2014) used the transformational, transactional, and laissez-faire leadership and NPO employees' perceptions in predicting their performance efforts, their satisfaction, and effectiveness of the leaders. The findings indicated that transformational leadership had the most influence on NPOs perception of leadership effectiveness and organizational performance (Redick et al., 2014). Their research supported my premise that transformational leadership had the most influence on leadership effectiveness and EDs' efforts to exceed expectations in their NPO's. The participants of this current study preferred leading with the transformational leadership style.

In another study conducted by Mohammed et al. (2013), the full range leadership model was used to determine the link between the transformational, transactional, and laissez-faire leadership styles to determine the link between those leadership styles and organizational commitment. This study found that transformational leadership was linked to organizational commitment through their key characteristic of providing direction and encouragement via inspirational motivation.

It was important to determine the correlation between leadership style and the SOX Act, which helped to support the research question and premise that a transformational leader style was viewed by most experts as the most effective in motivating and performing with the highest standards (Adoma, 2016). Other authors who made this contention included Bahrami et al. (2012) and Muhl (2014) who contended that transformational leaders go beyond their self-interest to reach

organizational performance goals. Hassell's (2013) study supported the influence of transformational leadership on reducing staff turnover. Breevaart et al. (2014) found that transformational leadership is used more often and is the most effective in NPOs. Top et al. (2015) simply stated that transformational leadership has become more relevant and is becoming the most popular style of choice. Eady-Mays (2016) and Bell (2016) examined the relationship between leadership styles and ethics. Eady-Mays (2016) revealed that transformational leaders have a significant influence on the outcomes of an organization. Bell (2016) contended that this significant influence could enhance educated decision-making, restore public rapport and confidence in NPOs.

This study provides qualitative information from the perspective of the EDs regarding the strength and likelihood of embracing the use of a tool that can improve ethical financial operations. The specific standards focused on were leadership styles, financial transparency, accountability, ethical operations, and use of SOX Act. Findings of this study focused on reported perceptions, best practices, knowledge and attitudes about ethical financial operations to determine if practices performed by EDs, in their opinions, focused on transparency, and accountability, leadership styles, and levels of use of the SOX Act.

The specific standards were supported by the literature review and included researchers such as Beal and Griffin (2012) and Baapogmah (2014) who conducted studies on the challenges of financial accountability and operational controls in NPOs. Both studies focused on financial transparency and internal controls over financial reporting. Kaserer et al. (2011) indicated that the lack of transparency and

accountability were the root cause of the decrease in ethical operations. Nezhina and Brundney's (2012) study found that NPOs who implement governance structure, such as the SOX Act, improves accountability and transparency and can also demonstrate effective, ethical decision-making.

Leadership Styles

To explore which leadership style was more inclined to use the SOX Act as a tool to enhance transparency and promote ethical financial operations in NPOs, I chose the full range leadership model. This construct was used to discover and analyze the effect of transformational leadership style, in contrast to transactional and laissez-faire styles. I began my prescreened interview questions by getting EDs to identify which leadership style best described them. Out of the 12 interviews conducted, 11 EDs reported a preference to transformational leadership and one reported a preference to transactional leadership. There were no EDs who reported a preference to laissez-faire leadership. Whether transformational or transactional, one of the main topics that the EDs highlighted was the importance of stewardship, trust, accountability, and transparency. Examples of their responses included "We have to show them how well their money is being used and that we are good stewards of the funds" (ED1), "Leadership is about accountability" (ED2), "I am known as a motivator, and I want you to be all that you can be, but I also would like to see the organization move forward as well" (ED3), "Transparency equals trust, and we have to be transparent for donors to give to us" (ED4), "Our first priority is focusing on exceeding the needs of people that you are working for" (ED5), and "I want to do the right thing and maintain integrity, and SOX is a

good way to hold NPOs accountable” (ED9). The ED’s response is supported by O’Connell and Bligh’s (2009) study on surviving from an ethical scandal. They contended that leaders set the tone at the top of an organization and is very influential towards the reputation of an organization. O’Connell and Bligh continued by stating that setting an ethical tone produces a positive environment and decreases the potential of scandal. Williford and Small’s (2013) research on the relationship of operating standards, accountability, and transformational leadership revealed that NPOs with these standards implemented can provide effective ethical decision-making and financial operations. The EDs’ responses and the support given by the literature indicates the importance of using the SOX Act as a tool to measure leadership effectiveness, and the influence that it has on ethical decision-making and financial operations within NPOs.

The recurring focus by EDs on effective leadership demonstrates that ethical behavior in leaders are morally synthesized actions that produce the same benefits of organizational success but must be performed properly within the degree needed by the individual or organization to be effective (Williams & Seaman, 2016). In addition to the focus, it is also important to note that the full range leadership model defined leadership style as one of the predominant elements that influence organizational stability and sustainability (Slater, 2015). According to Wongyanon et al.’s (2015) study that focused on the influence of leadership style of chief executives to organizational performance in NPOs, the results indicated transformational, transactional, and laissez-faire leadership styles had a major influence on the success of NPOs with transformational being the strongest. Transactional leadership was rated as moderate and laissez-faire leadership was

declared the weakest (Wongyanon et al., 2015). The reviewed literature highlighted definitions of three distinct leadership styles, and the majority of the reviewed studies support that leaders often operate NPOs at the extreme of transformational leadership.

Transparency/Accountability

The EDs in this study understood the differences in the three leadership theories discussed in the literature review and the importance of effective leadership styles as it relates to ethical financial operations. Through this study, I found that transformational leadership was linked to organizational commitment through key dimensions, such as implementing accountability and transparency as well as inspirational motivation. The EDs in this study understood accountability practices used in NPOs as a tool of reinforcement that generates ethical behavior for management and board members. An organization cannot be accountable without transparency. EDs were asked about their transparency and accountability practices used in their NPOs. Transparency and accountability were measured by the levels of use of the SOX Act within the NPO. Research Question 2 built upon the existing theory by depicting which leadership style was used the most and how their experiences with the SOX Act differed among EDs with transformational, transactional, and laissez-faire leadership styles. All the EDs responses indicated an importance in operating with policy and governance to sustain transparency and accountability. Findings of the current study confirms knowledge that the SOX Act can be useful in finding the correlation between leadership style and ethical financial operations. In an exploratory study on determinants of transparency in NPOs, Behn et al. (2010) found that ethical compliance along with accountability and transparency were the

primary goals for the SOX Act to restore confidence and rapport and increase accountability standards for executive directors in NPOs. ED7 stated that maintaining accountability and transparency within NPOs gives donors confidence that the NPO is using funds appropriately. He contended that if policies and procedures are not in place then it leaves the leaders and the organization suspect. ED7 informed me that “The greatest commodity is trust” and if people do not trust the NPO, then they will not donate. ED7 continued to say that if the NPO would like to continue to receive funding, NPOs must do what they can to show transparency and accountability. Taken together, the importance of ethical operations and transparency in NPOs is clear.

Ethical Operations

While unethical behavior in executive leaders is magnified by not making sound decisions, in regard to ethical financial operations in nonprofit organizations, it is important to explore the ethical standards that encompass the attributes of integrity, honesty, and financial responsibility. EDs were asked about their adherence to the SOX Act and their purpose for using it. The EDs’ responses reflected the purpose of maintaining trust and confidence from donors as well as the community. ED2 responded that it is all about accountability to the public and the people served. ED5 responded that people want to know where their funds are going, and if NPOs want to have donors and community support then being ethical offers a level of comfort to people. Goode’s (2016) study on employees’ perception of ethical behavior of the leadership within NPOs provided findings that if EDs are conducting themselves counterintuitively to what the ethical policies and standards exemplify, the atmosphere for employees and stakeholders

could destroy the integrity of the organization. One of my pre-interview questions required EDs to identify which one of the Full Range Model leadership style best described them. Eleven out of 12 reported a preference for transformational leadership. In a case study by Godfrey (2013) on effective leadership and the factors that influence leaders' ethical behaviors in decision-making, the researcher found that ethical behaviors in NPOs are influenced by the ED's leadership style. Godfrey's study examined the influence that ethical behavior has on effective leadership in NPOs. Similar to my study, Godfrey's study used the same theoretical framework of transformational leadership as its premise for effective leadership and ethical behavior.

Levels of Use of SOX Act

Therefore, research into the levels of use of the SOX Act is important because vital decisions regarding ethical financial operations are based on the levels of use of the SOX Act to ensure financial accountability and transparency. The level of compliance within this study refers to the NPOs adoption and implementation of the seven SOX provisions. To determine the difference in how many of the recommendations have been implemented by EDs who report a preference to transformational, transactional, and laissez-faire leadership and why, EDs were asked which of the provisions their organizations use. The responses indicated that 11 out of 12 EDs used all of the provisions of the SOX Act. ED3 stated that her NPO is a faith-based organization, which means that it is totally Christian based. Her response to adhering to the SOX Act was that her NPO used Christian values in hopes to be ethical, open, and honest and did not see a particular need for guidelines. For non-faith based NPOs, SOX's major intent is its

liberty to ensure the execution and effectiveness of ED's action and goals relative to financial operations. Based on the literature and current findings, there is a need to address articulation of accountability and transparency practices at the EDs level to ensure governance and the implementation of policy. For instance, Godfrey's (2013) study indicated that ethical behaviors in NPOs are influenced by ED's leadership styles. His study was based on the transformational leadership theory and revealed that transformational leadership has an influence on an organization's ability to perform with integrity and high ethical standards.

In conclusion, findings of this study indicated that transformational leaders are more inclined to use the SOX Act as a tool to ensure ethical financial transparency in NPOs. Based on the findings of this study, EDs understand and perceived effective leadership in NPOs to be an influence of the use of policies and procedures such as the SOX Act. EDs perceived the importance of ethical financial operations in their awareness of accountability and transparency practices. EDs understand the value of implementing the seven provisions of the SOX Act because each ED ensured that audit committees have financial competency, conduct an objective review of the organization, and allowed leaders to make sound decisions. If EDs are implementing such actions, they are being influenced by the provisions of the SOX Act.

Limitations

There were several limitations to this study. First, the study did not produce generalizable data as is typical for phenomenological research. Second, not all participants effectively answered the questions due to the operations of a faith-based

NPO. There were a limited number of participants with faith-based operations to represent a sample of why all seven of the SOX provisions are not implemented within the organization.

The data was not generalizable because the sample used to obtain the data was small with varied levels of experience. Participants were provided with a screener guide to determine if they were eligible for participation. The participants had to have worked as an ED for at least 3 years, have an NTEE code of P20, and reported a preference for transformational, transactional, or laissez-faire leadership. Second, because of the varied levels of experience and the differences in organizations, not all questions were answered effectively during the interviews. As I was transcribing and coding the interview transcripts, I noticed the individuals with longer work history were more knowledgeable about the SOX Act and the influence it had on effective leadership, and had better developed perceptions to articulate and gave more meaning to their responses. Lastly, I chose participants from small, medium, and large NPOs with various funding sources and greater diversity because it generated more participants with a diverse response to interview questions. Limitations could have been overcome by not limiting the population to a specific NTEE code.

Recommendations

Based on the aforementioned limitations, I would recommend using a sample of participants with at least 10 years of experience as an ED to obtain a deeper level of knowledge. Based on my experience with the participants of this study, those having over 10 years of executive leadership experience were able to compare and contrast their

guidelines used prior to the SOX Act with the enhanced guidelines implemented after the SOX Act was adopted. This recommendation will allow participants with 10 years or more experience to effectively verbalize their perception based on the vast experience working in NPOs had provided them. Van Maanen (2017) contended that the importance of a phenomenological exploration is focusing on how a specific phenomenon is lived out in the consciousness. The experienced ED had clearly developed perceptions about efficacy and was able to discuss other experiences that helped them to be more successful with providing ethical financial operations with the NPO.

I would also recommend expanding the research to NPOs with other NTEE codes. This would make the data more generalizable and provide more diverse level of experience. I would suggest participants in a medium to a large NPO. This will generate more NPOs that adhere to the SOX Act; whereas, smaller NPOs may decide to adopt specific provisions of the SOX Act and may have specific operational and financial guidelines to adhere to from their funding sources.

I would also recommend including NPOs that do not adhere to all seven provisions of the SOX. This will allow researchers to see if there is a difference in the influence of adhering to only specific provisions of the SOX, versus all seven provisions.

Implications of Social Change

The research findings contributed to social change by adding knowledge on implementing strategies that will result in the enhancement of quality leadership in EDs that may ultimately result in more efficient and effective ethical financial operations in NPOs. Sontag-Padilla et al. (2012) stated establishing financial sustainability should be

viewed by NPOs as a dynamically continuous process. This study's focus on a small number of EDs who had been working for a minimum of three years warrants attention in interpreting the findings. However, with the consistency in results, implications can be drawn on the understanding EDs have about how their individual contributions promote the goal of ethical financial operations based on an examination of their understanding of accountability and transparency practices and performance measurements.

Implied in the findings is the notion that EDs desire support and funding from various funding sources to help sustain their missions and financial operations. Based on the participants' perspectives in this study, I conclude that integrating SOX requirements and best practices into NPOs has the potential to improve efficacy in ethical financial operations and help them to reach higher levels of productivity. By applying the perspective of the EDs, researchers, practitioners, NPO boards, and others can use the information to design tools and initiatives surrounding inefficiency in ethical decision making, financial transactions, and audit procedures. For example, NPOs' independent auditing firms should make the SOX requirements an absolute priority. As long as the auditors are ensuring that the NPOs are following these guidelines, operations should flow smoothly. EDs could take note that more time should be spent on educating and training their staff on accountability and transparency practices and how these practices affect NPO sustainability and reputation.

Empirical findings were mixed with some indication that the adoption of SOX in NPOs did not have a tremendous impact on the organization. The findings stated that, typically, nonprofit leaders behaved conservatively and maintained the status quo as well

as followed existing accountability practices regardless of SOX Act (Nezhina & Brundney, 2012). However, other participants' responses revealed that the implementation of SOX Act did have an effect on their organizations. Nonprofit employees are not given monetary compensation for performance measurements as private employees would be, but findings suggested that increased education and training on the benefits of continued accountability and transparency practices will keep the staff abreast of policy and governance. The survival of NPOs depends on the implementation of policy and governance as well as the knowledge of the policy being performed (Yang, 2011). Yang (2011) stated, "Governance of NPOs is determining the structure in which an organization should select to create sustainability and knowledge transferred among employees, managers, and leaders" (p.155). Data indicate that many of the EDs that participated in this study understood that best practices and the SOX Act are used in their NPO because it allows them to show their funders/donors that they are good stewards over the money that they are being given. It also helps to gain commitment and trust from funding sources and the community.

Geer, Maher, and Cole (2008) asserted that effective leaders are more inclined to adhere to guidelines. Research reveals that NPOs that implement transformational leadership operating standards and accountability proves that ethical decision-making and transparency can be demonstrated more effectively.

Conclusion

My research into 12 NPOs revealed great support for what the literature purports. Successful NPOs do require sound ethical financial practices, active funding sources,

sound decision making and the capacity to innovate to be financially sustainable.

Achieving ethical financial operations is challenging without best practices, policy, and governance; however, the value that NPOs provide is unquestionable. The essence of this study is for EDs, board members, volunteers, auditors, and other staff to have the knowledge and training of their NPO's vital influence and support it has on their communities. Another key essence of this study is the potential to change the perception of nonprofit governance. This proactive approach will go a long way in preserving the reputation of nonprofits and increase accountability standards while still continuing to service their community.

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Appendix A: Pre-screen Interview Questions

Potential interview participants will be contacted by phone and initially asked the following four questions to screen in or out potential interviewees.

1. How long have you been executive director of this NPO? (If less than 3 years, the participant will not qualify)
2. If participant response is 3 years or longer, then I will define the SOX Act to them, and ask them their familiarity with the Act.
3. If the participant is familiar with the SOX Act, I will ask the question from the SOX Compliance Checklist.
4. I will define each of the three leadership styles that the study is investigating (transformational, transactional, laissez-faire). I will ask participant which style best describe them. If none describes them, then the participant will not qualify.

After each participant is deemed qualified, I will immediately email them a consent form. Once the consent for is returned, I will schedule an interview. This process will continue until saturation or 12 participants are met.

Appendix B: E-mail Announcing Research Study

Dear Executive Director:

In the next two weeks, you will receive an invitation to participate in a statewide nonprofit organization research study to interview executive directors, identify their leadership styles, and get their perceptions of the usefulness of the SOX Act provisions to their organization. This research project is related to requirements for my Ph.D. dissertation, and your interest in understanding the experiences nonprofit organization executive directors have with using the SOX Act provisions and any barriers/facilitators to implementing.

The invitation will outline the parameters of the study and provide the details to help you decide on participating. No personal identifying information will be collected and all findings will be reported in the aggregate.

I thank you in advance for your time and consideration of the request.

Sincerely,
Stephanie Powell
Doctoral Candidate
School of Public Policy and Administration

Appendix C: Introduction Letter to Solicit Participation

Name,
Organization
Street Address
City, State, Zip Code

Dear (Last Name):

I am a Ph.D. student in the School of Public Policy and Administration at Walden University, conducting research on leadership styles of executive directors in a nonprofit organization. I invite you to participate in my study by completing a simple survey of 10 questions, which will take approximately 15 minutes. Due to your important role of executive director of a nonprofit organization, I selected you as a possible candidate to participate in a statewide nonprofit organization survey designed to identify leadership styles of executive directors of human service organizations. My selection was made by filtering nonprofits organizations registered with GuideStar by NTEE category and their income level.

If you are willing to participate in the study, please read the following information regarding the interview process. If you complete the interview, you automatically grant permission for me to use your answers.

There are no risks associated with participating in this study and there are no short- or long-term individual benefits to participating. However, it is anticipated that the research may collectively benefit the nonprofit sector.

The records of this study will be kept private. In any report of this study that might be published, I will not include any information that will make it possible to identify you or your organization. Research records will be kept in a locked file, and only the researcher or research assistant will have access to the records. If you have questions, please contact me via e-mail at XXX or telephone XXX. My Dissertation Committee Chair is Dr. Hilda Sheppard,

Thank you for your consideration

Stephanie Powell

Appendix D: Interview Guide

- Welcome participant and introduce myself.
- Explain the general purpose of the interview and why the participant was chosen.
- Explain the presence and purpose of the recording equipment.
- Explain general ground rules and interview guidelines to ensure that the interview topics can be covered in the time allotted.
- Review break schedule and where the restrooms are located for face-to-face interviews.
- Address the importance of confidentiality.
- Inform the participant that information discussed is going to be analyzed as a whole and that participant names will not be disclosed in the analysis of the interview data.

Interview Purpose

The purpose of this qualitative phenomenological study is to investigate the reasons an ED, who self-reports the use of one of Burn's and Bass's three transformational leadership styles, does or does not apply the recommendations of the Sox Act to manage the ethical financial operations of their human services nonprofit organization.

Interviewer will explain:

You may withdraw your application at any time and your confidentiality will remain my ethical responsibility. Before we proceed, please provide the following:

Demographic information:

- How long have you been executive of this NPO?

General Instructions

It is important that you answer each question and if you do not understand a question, I will explain. I may ask you to offer additional clarification, if the need arises; if you are ready, we will begin.

Interview Questions

I will use the following interview questions to help answer the research questions, as well as to understand the attributes ethical operations and the challenges faced by executive directors:

RQ1: Among nonprofit executive directors who report a preference with transformational leadership styles, what are the lived experiences of these leaders relative to adhering to SOX requirements related to nonprofit organization ethical behavior in financial reporting and management?

1. Does your organization use the SOX Act?

PQ1: If yes, when did your organization implement it?

PQ2: If no, does your organization have any written guidelines in regard to financial operations?

2. Prior to implementing the Sox Act, did your organization have any guidelines in place for financial transparency?

PQ1: Did you continue the use of the previous guidelines after the implementation of the SOX Act?

3. What might enhance the likelihood of using the SOX Act in nonprofit organizations that has not implemented the Act?

RQ2: Among nonprofit executive directors who report a preference with transformational, transactional, or laissez-faire leadership style, and who adheres

to the ethical behaviors of the SOX Act recommendations, what is the difference in how many of the recommendations have been implemented and why?

1. According to the seven provisions on the SOX Checklist, which provision(s) does your organization use?

Conclusion

That is the last and final question, which concludes the interview. Do you have any questions? I would like to remind you that once the interview recording has been transcribed, I will contact you so you can review the transcription for accuracy. If any changes are needed, you can let me know at that time. I thank you for your participation in this very important research study.

Appendix E: Sarbanes Oxley Compliance Checklist

Sarbanes-Oxley Act and Implications for Nonprofits

Created to rebuild public trust in the corporate community in the wake of corporate and accounting scandals, the federal legislation that has become known as the Sarbanes-Oxley Act requires publicly traded companies conform to new standards in financial transactions and audit procedures. As state officials explore ways to apply elements of the law to the nonprofit sector, BoardSource and Independent Sector offer the publication, *The Sarbanes-Oxley Act and Implications for Nonprofit Organizations*, which provides nonprofit leaders practical recommendations on promoting effective oversight of their organizations.

Independent Sector and BoardSource recommend that nonprofits voluntarily incorporate certain provisions of the Act that make good governance sense.

A checklist for nonprofits and foundations includes:

1. Insider Transactions and Conflicts of Interest

- Understand and fully comply with all laws regarding compensation and benefits provided to directors and executives (including "intermediate sanctions" and "self-dealing" laws).
- Do not provide personal loans to directors and executives.
- In cases in which the board feels it is necessary to provide a loan, however, all terms should be disclosed and formally approved by the board, the process should be documented, and the terms and the value of the loan should be publicly disclosed.
- Establish a conflict of interest policy and a regular and rigorous means of enforcing it.

2. Independent and Competent Audit Committee

- Conduct an annual external financial audit (the boards of very small organizations, for which the cost of an external audit may be too burdensome, should at least evaluate carefully whether an audit would be valuable).
- Establish a separate audit committee of the board.
- Board members on the audit committee should be free from conflicts of interest and should not receive any compensation for their service on the committee.

- Include at least one “financial expert” on the audit committee.
- The audit committee should select and oversee the auditing company and review the audit.
- Require full board to approve audit results.
- Provide financial literacy training to all board members.

3. Responsibilities of Auditors

- Rotate auditor or lead partner at least every five years.
- Avoid any conflict of interest in staff exchange between audit firm and organization.
- Do not use auditing firm for non-auditing services except tax form preparation with pre-approval from audit committee.
- Require disclosure to audit committee of critical accounting policies and practices.
- Use audit committee to oversee and enforce conflict-of-interest policy.

4. Certified Financial Statements

- CEO and CFO should sign off on all financial statements (either formally or in practice), including Form 990 tax returns, to ensure they are accurate, complete, and filed on time.
- The board should review and approve financial statements and Form 990 tax returns for completeness and accuracy.

5. Disclosure

- Disclose Form 990 and 990-PF in a current and easily accessible way (also required of all nonprofit organizations by IRS law).
- File 990 and 990-PF Forms in a timely manner, without use of extensions unless required by unusual circumstances.
- Disclose audited financial statements.
- Move to electronic filing of Form 990 and 990-PF.

6. Whistle-Blower Protection

- Develop, adopt, and disclose a formal process to deal with complaints and prevent retaliation.
- Investigate employee complaints and correct any problems or explain why corrections are not necessary.

7. Document Destruction

- Have a written, mandatory document retention and periodic destruction policy, which includes guidelines for electronic files and voicemail.
- If an official investigation is underway or even suspected, stop any document purging in order to avoid criminal obstruction.

Appendix F: Code Book

Code Book: Effective Leadership & Influences of the SOX Act

Code Word	Definition
Transparency	Transparency practices- having a competent audit committee Written responsibilities for auditors, certified financial statements, insider transaction/conflict of interest prevention, whistle blower & document destruction policy, internal controls
Accountability	Accountability practices- annual audits, rotation of auditors, public access to form 990, competent board members
Use of prior guidelines	Continued use- no written guidelines in place, added new guidelines, enhanced prior guidelines, similar guidelines already in place, continued to use guidelines required by funding sources in addition to SOX.
Benefits of SOX	Enhancement of likelihood of using SOX- SOX will enhance prior guidelines, education, training, knowledge, continued funding, requirement by auditors, competent board members.
Stewardship	Meaning of stewardship- Christian values, honesty/integrity, trust, donor confidence, operating with transparency.
Leadership characteristics	Stewardship, governance, empowerment, exceeding expectations of needs, focused on efficiency of the process.
Provisions implemented & why	Adopted all seven provisions, sustainability, donor/community confidence, to fulfill the needs of community, requirement of funding source, to enhance original guidelines.