

Accountability Online: The Web as an Accountability-Building Tool for Nonprofit  
Organizations

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# **Accountability Online: The Web as an Accountability-Building Tool for Nonprofit Organizations**

## **ABSTRACT**

Nonprofit organizations' responsibility to the larger public interest has resulted in calls for greater transparency, oversight, and accountability. We posit that the Internet carries tremendous potential for permitting nonprofit organizations to respond to this accountability challenge and bolster the public's trust in their activities. In this paper we explore the prevalence of the use of the Internet as a tool to enhance organizational accountability along three key dimensions—finances, performance, and participation—through an examination of the content of 117 diverse community foundation websites. We further examine the organizational and contextual determinants of web-based accountability tools along these three dimensions. The study carries significant potential to inform both the academic and practitioner literatures on how to successfully utilize Internet-based technologies to achieve a truly accountable organization.

### **Keywords:**

Accountability; Internet-base technologies; Community foundations

The organizational accountability movement is increasingly affecting the performance and governance of organizations in the public, private, and nonprofit sectors alike (Adams and Perlmutter 1995; Ryan 1999; Burt & Taylor 2003). In the nonprofit sector, this has had particularly strong effects on public trust and donors' and volunteers' willingness and preferences for charitable giving. In this paper we examine a promising strategy for pursuing accountability—web-based organizational transparency. Not only have the Internet and other forms of advanced information and communication technologies (ICTs) given nonprofit organizations an increasingly effective tool with which to connect actual and potential constituents to their mission (Smith 2003)—through service provision, publicity, information gathering, recruitment, community building, research, training and education, and engagement in community activities and organizational decision-making—but the Internet also has tremendous potential as an accountability- and public trust-building tool.

This paper reports the results of the first comprehensive study of nonprofit organizations' utilization of the Internet as a tool for enhancing organizational accountability along three major dimensions: finances, performance, and participation. We first analyze the content of 117 communication foundation websites in the United States to learn how accountability is addressed through the communication of the organizational mission and impact-related data, disclosure of financial statements, evidence of adherence to national standards, solicitation of stakeholder input, and the relaying of investment-, ethics-, and privacy-related policies. We then employ a statistical analysis to investigate the relationships between online accountability along the three above-mentioned dimensions and various organizational and contextual factors—including size of service area; percentage of permanent unrestricted funds; compliance with national standards; organizational age; asset size; and annual revenue.

This study represents an important first step toward understanding the role of information technology in enhancing public accountability of, and bolstering public trust in, philanthropic communities. Our findings demonstrate that community foundations vary greatly in the extent to which they are using the Internet as a tool to enhance accountability along the financial, performance, and participation dimensions. Community foundations' websites are, it appears, mostly "brochureware;" they provide few interactive services to facilitate input from key stakeholders beyond the presentation of basic information on organizational activities. The accountability-as-participation dimension is hence almost non-existent. We therefore present a summary of best practices and provide guidelines for how community foundations in particular and the nonprofit community overall can better utilize Internet-based technologies to meet this critical accountability challenge.

### **THE ACCOUNTABILITY CHALLENGE AND NONPROFIT ORGANIZATIONS**

This idea of holding organizations and their leaders accountable for their actions has long been a matter of concern in the public, private, and nonprofit sectors alike. In the past few years the debate over accountability has hit the nonprofit community particularly hard, in the wake of high-profile scandals involving the United Way's CEO, the Red Cross' spending of donations to the September 11<sup>th</sup> fund, and widespread reports of phony charitable organizations taking money (especially online) from donors to the 9/11, Tsunami, and Hurricane Katrina disaster-relief efforts. Media exposés of these accountability lapses have spurred calls for reform and captured the attention of the public, scholars, and policymakers alike, culminating in recent high-profile hearings in the Senate Finance Committee (April 5, 2005) on "Proposals for Reform" for charitable organizations. Nonprofits have also been impacted by "spillover" reform efforts in the

private sector, with Sarbanes-Oxley increasingly affecting how nonprofits are run.<sup>1</sup> Overall, nonprofit leaders are sensing that if they do not take action themselves to enhance their accountability, policymakers will do it for them.

While it is doubtlessly imperative for nonprofit organizations to make efforts to improve their accountability, they are challenged to address two fundamental questions: For what are nonprofits accountable? and To whom are they accountable (Kearns 1996)? In terms of the first theme (i.e., “accountability for what?”), a review of the public administration literature reveals the multi-dimensional nature of accountability. Two dominant dimensions emerge from the existing scholarly and practical discussions: 1) accountability for finances and 2) accountability for performance (Behn 2001, 2005; Brinkerhoff 2001; Caiden 1988). According to Brinkerhoff (2001), accountability for finances “concerns tracking and reporting on allocation, disbursement, and utilization of financial resources, using the tools of auditing, budgeting, and accounting” and “deals with compliance with laws, rules, and regulations regarding financial control and management”; by contrast, accountability for performance “refers to demonstrating and accounting for performance in light of agree-upon performance targets,” with its focus on “the services, outputs, and results of public agencies and programs” (p. 10). Leaders have since the beginning of the accountability movement been tasked with the first issue, presenting evidence that they have undertaken judicious use of the money for which they have been given responsibility. In recent years, the emphasis has shifted toward outcome-based performance management for increasing governmental accountability (Heinrich 2002; Page 2004). For example, “performance” and “results” have emerged as key words for the National Performance

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<sup>1</sup> More and more nonprofits are voluntarily adhering to the Sarbanes-Oxley standards in an effort to stave off further regulation of the sector. In a sample of 191 organizations in the Johns Hopkins Listening Post Project, 26% of boards had “extensively” discussed the implications of the Federal Sarbanes-Oxley Act (Salamon and Geller 2005).

Review, as well as for various OECD reports on public sector management reforms that have been initiated in such countries as New Zealand, Australia, and Great Britain.

A similar trend toward accountability for performance has also been found in the nonprofit sector, particularly in the area of philanthropy. Leaders of the sector have called for “development of sites by nonprofits to tell the story of their organizations beyond the dry financial categories” (Pratt, 2004) and for provision of information by foundations “on their priorities and programs” beyond the IRS’s 990 form (Lee, 2004). There are two sides to the nonprofit performance equation: first, the targets and goals that the organization sets and is trying to reach; and second, the organization’s actual outputs, outcomes, and impacts relative to those goals. For nonprofit organizations, mission provides “a verbal link between the presumably deeply held promises and the conduct of those representing the nonprofit” (Lawry, 1995, 14) and thus a basis for judging organizational performance and progress (Ebrahim, 2003, 199).

However, there appears to be an “accountability dilemma” in the form of a tradeoff between accountability for finances and accountability for performance (Behn 2001, 2005). On the one hand, the effort to create accountability for finances and fairness might severely constrain accountability for performance. On the other hand, the promised efficiencies and economies through enhancing accountability for performance is often questionable due to the uncertainties and costs associated with measuring outcomes in public systems. Hood (1998: 18), for example, pointed to the risk that “a movement intended to empower public service managers can instead turn out to empower middle-level ‘bean-counting’ regulators, with performance auditing systems turning into paper trails that stifle performance and creativity.” In a similar vein, Rentschler and Potter (1996) suggested that accountability should not be confined to just the financial. The risk is that if accountability is seen in purely financial terms then the issues of

effectiveness and quality of service will be ignored, as these are dimensions that are difficult to quantify.

The accountability dilemma associated with the “*for what?*” question is exacerbated by the “*to whom?*” question. Today’s public administrators find themselves managing the diverse expectations generated within and outside the organization and being asked to answer for their conduct and performance under multiple standards of accountability (Radin & Romzek 1996; Romzek & Dubnick 1987). The multiple-constituency nature of the nonprofit sector (Herman & Renz 1997) and the lack of hierarchy and formal authority make the accountability dynamics even more complicated. It is widely held that nonprofits “are accountable to numerous actors (upward to patrons or donors, downward to clients, and internally to themselves and their missions)” (Ebrahim 2005: 60), and that they are ultimately accountable to the larger public as they are enjoying the benefits of tax-exempt status and receive tax-deductible donations (Brody 2002; Pollak and Lampkin 2001). Given that clients are the “moral ownership” on whose behalf a nonprofit organization exists (Carver 1997; Miller 2002) but are often relatively powerless constituents whose concerns tend to be ignored, Ebrahim and other scholars (Edwards and Hulme, 1996; Kearns, 1994, 1996) are increasingly stressing the need for greater “downward accountability” to clients and other affected constituents, particularly the need for organizations to strive for responsiveness in their accountability mechanisms by ensuring that governance arrangements and strategic-level decisions accord with the demands of a broad range of stakeholders (Weber 1999).

In particular, community foundations’ response to the “To whom” question is complicated by a debate between two schools of thought about whether community foundations should be community-focused or donor-focused (Carson, 2003; Gronbjerg, 2004; Hammack,

1989; NCRP, 1994). The community-focused model emphasizes community leadership, participation in community collaborative initiatives, and raising unrestricted funds in order to target high priority needs. The donor-focused model, on the other hand, focuses on fulfilling the charitable interests of individual donors and on managing donor advised funds. These two different models have led to differing views on understanding the accountability relationships of a community foundation. In line with the community-focused model, the community foundation should be accountable to the community where it operates and responsive to the needs and concerns of the community. In line with the donor-focused model, however, the community foundation should be accountable to its donors and facilitate each donor's individual charitable interests.

In light of the accountability challenge, there is an emerging call for the inclusion of intensive *participation*, “the process through which an organization enables key stakeholders to play an active role in the decision-making processes and activities which affect them” (Global Accountability Project Framework 2005), as a critical dimension of organizational accountability.<sup>2</sup> Overall, this broader conception of accountability-as-interaction/participation is a recognition not only of the multiple constituencies to whom an organization is accountable and of the importance of a direct, unmediated and participatory relationship between an organization and its constituents (Guo and Musso, forthcoming; Loewenberg and Kim, 1978), but also of the idea that accountability is an “ongoing process” rather than an “end-stage activity” (Global Accountability Project Framework 2005). Guo and Musso, drawing upon Arnstein's (1969) famous “ladder of participation” analogy, argued that participatory

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<sup>2</sup> In addition to stakeholder *participation*, the need to *evaluate* performance, and *transparency* with regard to key organizational information (especially finances), the Global Accountability Project Framework adds a fourth component of accountability efforts—“Complaint and Response Mechanisms”—which are important in the event that the “participation” component fails to address stakeholders' concerns. We fold this dimension into “participation” for the purposes of our analysis.

mechanisms can be viewed as a continuum with respect to the degree to which constituents and the community have the real power. For instance, the lower rungs of the ladder represent non-participation by manipulation (e.g., constituents are placed on rubberstamp advisory committees or advisory boards). The next rungs of the ladder represent tokenism and consultation (e.g., attitude surveys, neighborhood meetings), followed by higher levels of community power such as partnership and delegated power. The various participatory arrangements may promote a flow of communication between an organization and its constituents and ensure open and transparent decision-making processes, which in turn hold the organization accountable.

This participatory dimension of accountability parallels what Roberts (2002) calls “dialogue-based accountability,” where participants are accountable to each other and build relationships through mutual listening and learning. To make such accountability possible, powerful stakeholders must be willing to share decision making, expectations must be built slowly through deliberation and experimentation, and participants must acknowledge service decision perspectives as well as political, administrative and market perspectives (Whitaker, Altman-Sauer, & Henderson, 2004). Similarly, Whitaker, Altman-Sauer, and Henderson (2004) advocate for mutual accountability between partners as a process that “involves key stakeholders in dialogue to determine responsibilities, authorize discretion, establish reporting procedures, and create review processes for the relationship” (p. 115).

In the nonprofit sector context, there is evidence that the three previously discussed dimensions of accountability (i.e., financial, performance, and participation) may go hand in hand to engender larger organizational and societal benefits. For instance, a Benton Foundation report (Smith 2003) found that the Pew Charitable Trusts successfully created a grantee extranet (“Grantee Central”) that helped increase the social return on investment by extending grantees’

resources, by encouraging communication and collaboration among core constituents, and by facilitating the sharing of outcome-oriented challenges and best practices. Meyer (2003) suggested that improved organizational transparency might increase association membership recruitment, volunteer involvement, and fundraising dollars. Tecker, Frankel, and Meyer's (2002) research on associations showed that sharing background information on decision-making outcomes, providing clearer financial reporting, facilitating broader constituencies in decision making, and opening up access to governing documents and financial statements can significantly improve organizational outcomes while simultaneously responding to the growing demand for transparency.

### **THE WEB'S POTENTIAL AS AN ACCOUNTABILITY-BUILDING TOOL**

The rapid diffusion of advanced Internet-based technologies<sup>3</sup> throughout the nonprofit sector has brought with it considerable potential for organizational change (see Turner 1998; McNutt & Boland 1999; Schneider 2003) and, specifically, has helped create the framework for the emergence of a more accountable era characterized by increasingly inclusive and transparent nonprofit organizational practices.

There are both demand and supply forces at work in this development. On the supply side, the technology is a great facilitator of open information-sharing; the Internet, in fact, is turning out to be a tremendous driving force of organizational transparency and the democratized information processes that are beginning to impact all organizations. This has led, specifically, to an increased ability of organizations to *share information* related to the "performance" and "financial oversight" dimensions of accountability described above. An excellent example is the Guidestar web site, which provides easily accessible financial and operational information on

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<sup>3</sup> Indicative of the growth in web usage is how, between 1994 and 2004, Internet access jumped from 3.4% to 74.9% of US households (National Telecommunications and Information Administration 2004).

one million nonprofit organizations throughout the country. The core idea behind the site is that free, widespread, and easily accessible nonprofit information will “revolutionize philanthropy” through organizational transparency. The result is an inherently participative approach to philanthropy that exemplifies both the characteristics and the participatory potential of online activities: “Some 20,000 people a day are collectively insisting on transparency and accountability in the nonprofit sector. They inform and empower themselves to make educated decisions in philanthropy” (Guidestar 2004).

At the same time, the technology enables organizations to address the interaction/participation dimension of accountability through the use of interactive electronic networking capabilities that engage core constituents in the organization’s decision-making and governance activities. Since most stakeholders are not interested in attending meetings nor committing large amounts of time to all of their group affiliations, technology will come to serve a key role in facilitating such participation, particularly for younger generations.<sup>4</sup> Through the use of “humanware” solutions (Smith 2003) such as real-time consultation, centralized information-gathering, stakeholder extranets, e-relationships, virtual conferences, online training, web-enabled databases, virtual communities, discussion lists and bulletin boards, and online surveying, polling, and voting, avant-garde organizations can thus build their responsiveness and participatory capacities while becoming “accountable” to a broader range and new generation of donors and other key constituents.

On the consumer, or demand side, in turn, Internet-based technologies are providing citizens with the increasing ability and interest to gain access to any information they deem important. According to a Pew Internet study, as of June 2005, 68% of Americans use the

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<sup>4</sup> In “The Will to Govern Well,” Meyer (2004) argues that the next generation of leaders will have increasingly high expectations regarding the use of technology.

Internet (Fox 2005).<sup>5</sup> More and more people are getting their information from the web—and in such a way that is affecting how they interact with “offline” organizations. For example, in a recent *Research! America* (2004) health poll, 58% of respondents reported using the Internet to look for information on specific diseases. As a consequence, whereas in the past patients went to their doctor for a list of treatment options, they are now just as likely to arrive at the office with a list of their own preferred medications and treatment options. In a similar way, current and potential donors will be less likely to write a letter to an organization asking for a copy of its most recent IRS 990 form, and even less likely to drop by the office for such financial statements. Instead, they will look for—and expect to find—such information readily available on the organization’s website.

Beyond the financial statements (which they could also get from Guidestar), stakeholders want access to other types of pertinent information such as that related to the organization’s performance and overall impact. Just as importantly, they also want the chance to provide input. A growing proportion of citizens are simply assuming the right to be included in critical decision-making processes; and this shift in value orientation represents a significant driving force of increased participatory activity throughout the nonprofit sector. This demand for inclusion and organizational transparency is increasing even more as individuals raised in the Internet Age—who are least likely to tolerate management’s excuses given to justify organizational secrecy—rise to leadership positions (Meyer 2003). Paul Meyer, co-author of *The Will to Govern Well*, sums up how the sector is changing in this regard: “Today, stakeholders have access to more resources about associations and their operations. This results in more experienced, informed stakeholders of association operations with a higher demand for open

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<sup>5</sup> According to the Pew Internet study (Fox 2005), certain groups have continued to lag behind in Internet usage, especially those over 65 years of age (26% reported using the Internet), African-Americans (57%), those without a high school education (29%), and those with a disability (38%).

leadership practices. [And] as transparency and honesty increase in value, stakeholders will be less tolerant of secretive or manipulative behavior by staff and volunteer leaders” (Meyer 2003). Nonprofit managers must for this reason be prepared to assume more open forms of leadership that are less “manipulative” with regards to the withholding of information (Meyer 2003).

Despite the supply and demand forces associated with the use of the Internet to foster nonprofit accountability, a preliminary investigation of 140 “e-philanthropy” sites by the W.K. Kellogg Foundation (2001) concluded that, “...surprising – and somewhat troubling – is the slow and inconsistent acceptance by online entrepreneurs of the values of ‘transparency’ and full disclosure of details related to ownership, management, and effectiveness of sites (p. 5).” And in a more recent sample, only 9% of 191 organizations “reported posting their financial statements on the organization’s web site” (Salamon & Geller 2005: 5). This dovetails with general evidence showing the great untapped potential in nonprofit organizations’ utilization of the Internet; for most nonprofits, the website appears to remain on the “strategy periphery” (Spigelman & Evans 2004: 11).<sup>6</sup> Too many organizations still have sites that could best be referred to as “brochureware,” and where they deviate from this, it is too often with a revenue-generating “e-Biz” model (Spigelman & Evans 2004).

In short, the web holds great potential for democratizing organizational information, communicating performance-related data, engaging core stakeholders, and fostering increased accountability. The cyberspace is hence becoming another key battlefield where nonprofit organizations fight for public trust. One excellent example of such fights is the Nonprofit Cyber-Accountability forum, a discussion group that is committed to exchanging ideas by email about

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<sup>6</sup> For example, despite the fact that advanced information and communications technologies have fostered dramatic growth in stakeholders’ potential to participate in key organizational decision-making processes, a minority of nonprofits use ICTs to even relay basic information to these constituents, and only a very small minority employ techniques to facilitate significant stakeholder participation in internal decision-making or broader policy-making issues (Burt and Taylor 2000).

the possible uses of information technology to enhance nonprofit accountability. As another example, the National Association of State Charity Officials developed and disseminated for comment the Charleston Principles, which contributes to tackling the potential problems with the increased use of technology and the absence of regulatory or oversight mechanisms (see Melendez, 2001: 131). These recent developments, along with the congressional grumblings about nonprofit “accountability” and the increasing calls for greater control and oversight detailed above, make it particularly timely and vital to investigate how effectively nonprofit organizations are living up to their online accountability potential.

### **CASE SELECTION AND RESEARCH DESIGN**

The goal of our study is to explore how nonprofit organizations currently use advanced information and communications technology (ICTs), especially the Internet, to face the critical accountability challenge and to provide suggestions for how they can improve their responses. More specifically, we are interested in examining the following questions: 1) How do nonprofit organizations vary in their use of the Internet as a tool for enhancing their accountability along the financial, performance, and participation dimensions? and 2) What are the organizational and contextual factors associated with variation in web-based accountability practices?

To help answer these questions, we look at a sample of the 677 community foundations in the United States. One of the fastest growing segments of the foundation field, community foundations improve the quality of life in their communities by pooling funds from a wide range of donors, allocating grants to various program areas to meet local needs, and exerting leadership in identifying and addressing changing community problems.<sup>7</sup> As with all nonprofit organizations, they have a responsibility to the larger public interest in return for their tax-

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<sup>7</sup> For more on community foundations, see the excellent overviews in Hammack (1989), Shakely (1999), Carman (2001), Diaz and Shaw (2002), Carson (2003), or Gronbjerg (2004).

exempt status. And like that of the nonprofit community as a whole, their operating environment is growing ever more challenging: Today's community foundations are faced with more complex and fragmented communities, fewer resources, greater competition, increasing social demands, heightened scrutiny, and stronger expectations of accountability (Adams & Perlmutter 1995; Ryan 1999; Burt & Taylor 2003; Hamilton, Parzen, & Brown 2004). In short, community foundations are working in an environment that increasingly challenges "business as usual." Given their large size and almost exclusive reliance on individual donors, community foundations have a considerable need to be publicly accountable, and thus make excellent case studies of the role of transparent, web-based responses to the accountability challenge.

As part of a larger study, we reviewed the websites of 117 community foundations that completed a questionnaire and follow-up telephone interviews. We initially contacted chief executives of all of the 677 U.S. community foundations in May and June of 2004. Follow-up emails and telephone calls resulted in our final sample of 117, which is a response rate of 17 percent (see Appendix for some key characteristics of the community foundations in our final sample). Our original sample of 677 community foundations, obtained from the Council on Foundations website ([www.cof.org](http://www.cof.org)), essentially represents the population of community foundations in this country. The review of the websites was conducted and completed during September and October of 2005.

### **WEBSITE ANALYSIS RESULTS: THE PREVALENCE OF THREE ACCOUNTABILITY DIMENSIONS**

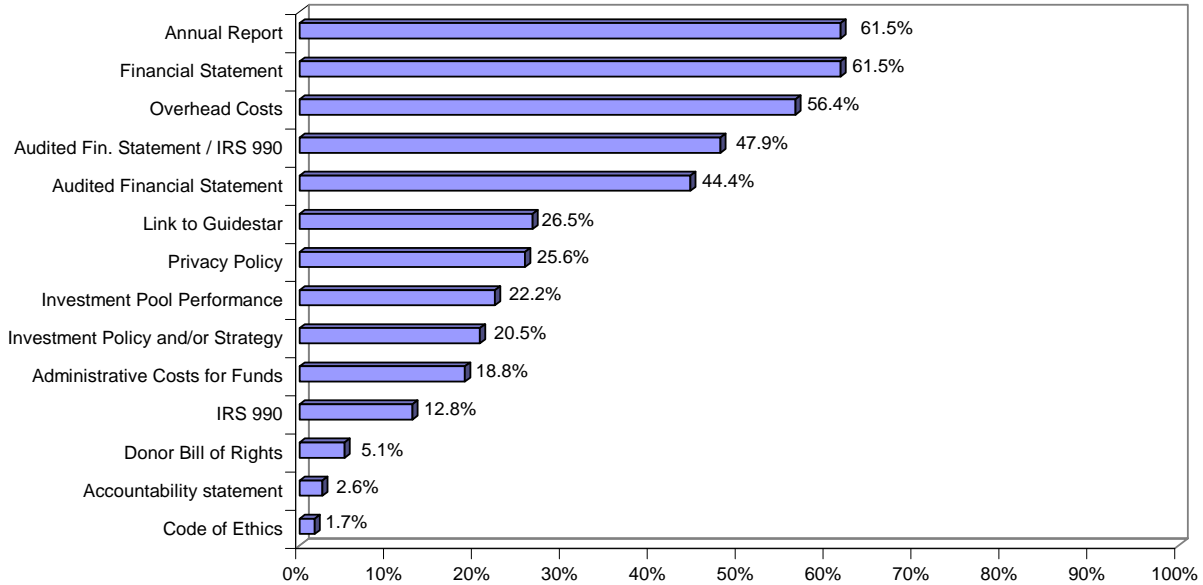
To examine the use of online "accountability mechanisms" by these community foundations, we undertook a thorough review and coding of relevant content in each of the 117 websites. Our coding process involved entering into an Excel spreadsheet first the URL and the

date the site was examined, and then discrete columns for each form of accountability-related content. In line with our above theoretical discussion, we specifically coded data on three primary dimensions of accountability—accountability for finances, accountability for performance, and accountability for openness and participation. Gathering and collating this information resulted in a spreadsheet with over 90 columns, each associated with a different piece of information corresponding to accountability mechanisms or stakeholder orientation.

### **Accountability for Finances**

We first examine the range and extent of accountability mechanisms on the financial dimension of nonprofit accountability. To code organizations' performance along this dimension, we looked for any information related to the organizations' finances and financial disclosure—including information on administrative fees for funds; fund investment, management and spending policies; investment philosophies; investment performance and asset growth; audited and unaudited financial reports; IRS 990 forms; overhead costs; annual reports; codes of ethics and conflict-of-interest policies; and adherence to best practice standards. As Figure 1 shows, there is great variability in the extent to which foundations avail themselves of these financial accountability mechanisms.

**Figure 1. Financial Transparency and Donor Trust**



We were able to identify several promising practices in the use of the Internet along the financial accountability dimension. Grand Rapids Community Foundation highlights the importance of financial transparency and donor trust through a distinct “Transparency and Trust” section of their website. This section presents the community foundation’s policies and procedures, including records retention, the audit committee, whistleblower policy, investment review committee, 990 posting and audit, conflict of interest policy, and foundation standards. It also provides links to the community foundation’s Donor Privacy Policy and its “Code of Ethics.” The Grand Rapids Community Foundation, along with a few other foundations (e.g. Capital Region Community Foundation, Maine Community Foundation, Johnson County Community Foundation), demonstrate the salience of donors in an online document entitled “Donor’s Bill of Rights.” As stated in their website, the community foundation declares the

rights of donors in order to “assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support” (Capital Region Community Foundation).

Also under the rubric of financial transparency and accountability, the Community Foundation for Southwest Washington provides a link on their website to a document that provides a summary of its investment policy. In addition, its page on financial information is well designed: The information is categorized into Finance & Audit Committee, Investment Committee, Professional Advisors, Administrative Fees, among others. The page also contains links to its annual reports, 990 forms, audited financial statements, and a summary of its investment policy. The Akron Community Foundation website similarly provides a link to its investment policy statement (under “Publications and Resources”).

### **Accountability for Performance**

The second primary dimension of accountability concerns the provision of evidence that shows the organization has delivered results. To facilitate our analysis, we have divided the discussion of performance along the “mission” and “impact” lines.

First, we examined the range of mission-related content on the community foundations’ websites. Relevant here is any information touching on what the foundation is trying to achieve. In addition to the display of the organization’s mission statement, history, vision, values, and goals, we also looked at whether the foundation posted a strategic plan or provided information on the aims of community foundations in general compared to other types of foundations and philanthropic organizations (usually in a “What is a community foundation?” section). Figure 2 below shows how widespread each of these accountability mechanisms is in our sample.

**Figure 2. Mission-Related Organizational Transparency - "What Are We Trying to Do?"**

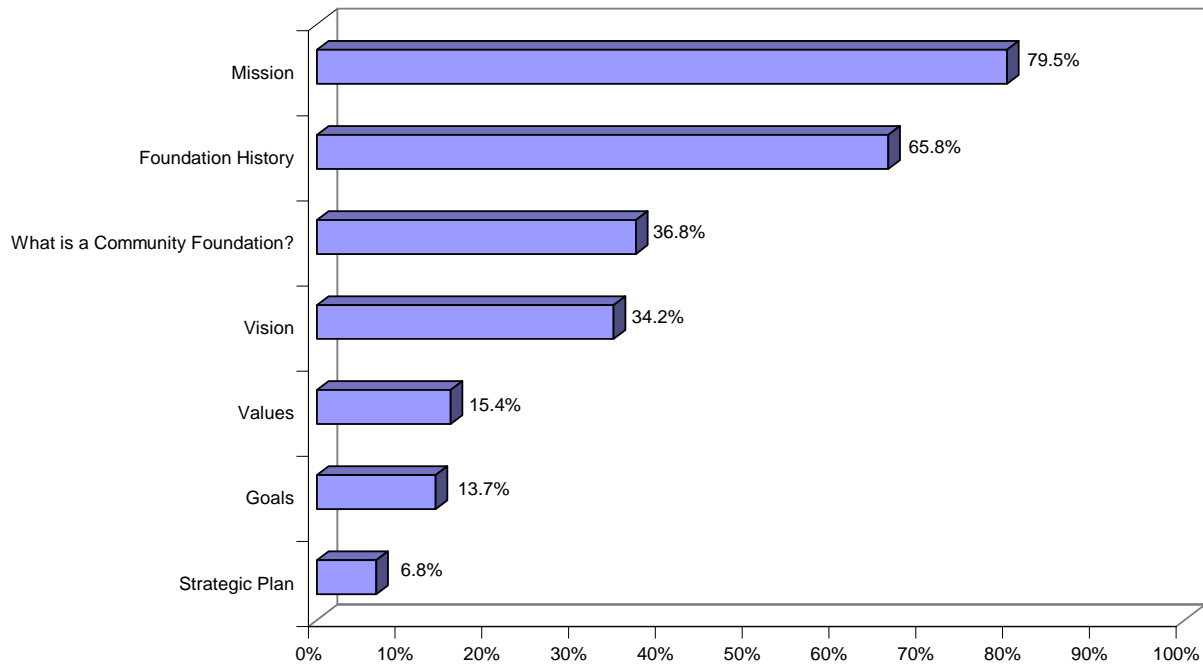
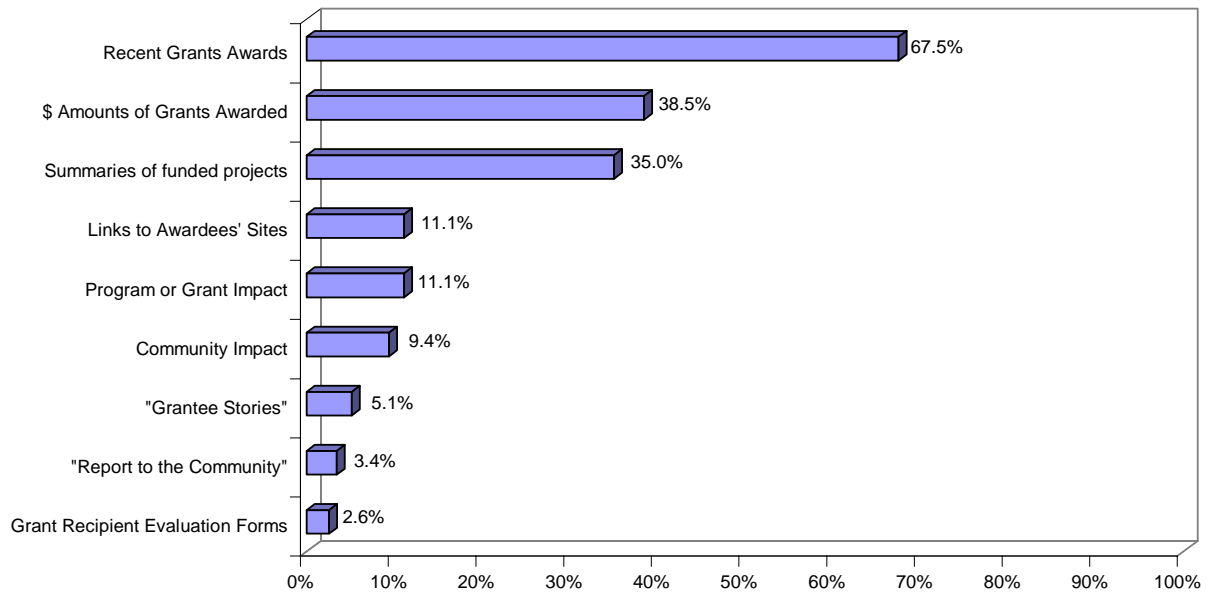


Figure 3 below, meanwhile, shows how the community foundations use their websites to convey information related to the *outputs* and *outcomes*, as well as broader community *impacts*, of their grantmaking activity. This information is not directed solely at grantseeking organizations; it also has great relevance for donors as well as the community at large. It demonstrates that the foundation takes interest in both organizational *transparency* as well as organizational *results*, and thus is valuable for all of the foundations' key stakeholders.

**Figure 3. Grantmaking - Impact-Related Information - "What Have We Done?"**



Several organizational practices along the performance dimension are noteworthy. In terms of grantee-oriented content, the Lexington Community Foundation of Nebraska provides a photo gallery named “Projects in Pictures” on its website. This regularly updated online gallery presents the images of various projects that have received foundation grants. Similarly, the Madison Community Foundation of Wisconsin has a main navigation bar named “Successes” where it presents the stories and pictures of successful projects that have received grants from the foundation. The stories encompass seven focus areas, such as the elderly, children, youth, learning, and community development.

The Community Foundation of Jackson Hole offers an excellent example of presenting information on grant making and related activities. It provides quarterly statistics of its grant-making activities, including the number of grant proposals received, number of grant proposals

funded, and average award size. It also provides a summary for each recently awarded project. In addition to grant making, the foundation offers online services to the local nonprofit community. As it states on its website, “[We do] more than make grants.” Through a designated main navigation bar called “Nonprofit Services,” it presents information on a variety of programs such as its community calendar, workshops, and Nonprofit Breakfast and Lunch Clubs (i.e., free, informal meetings for non-profit staff, board members and volunteers to meet one another, share ideas and news, and identify common needs).

Many community foundations also provide links to additional resources for grantees and the nonprofit community on their websites. For instance, the Community Foundation of Jackson Hole provides a page on “Nonprofit Services – Additional Resources,” where it lists a few websites and organizations available to provide information on subjects “including grant writing, planned giving, board development, fundraising and more.” Among these websites and organizations are the Foundation Center, Board Source, and Guidestar.

The Gulf Coast Community Foundation is also on the cutting edge with its use of a free, online outcomes-tracking program called *Impact Manager*. Bundled on the Foundation’s *Impact Manager* page are outcome workbooks, links to external sites, online technical assistance documents, Frequently Asked Questions (FAQs), an online library, and the “Top 11 Ways to Use Impact Manager.” Qualifying organizations can register for the software using an online form. There is also a link through which organizations can “Register your nonprofit’s information with United Way 2-1-1” (<http://www.uw211manasota.net/register.htm>): “By clicking on this link, you will be redirected to the registration page on the United Way 2-1-1 of Manasota Web site.”

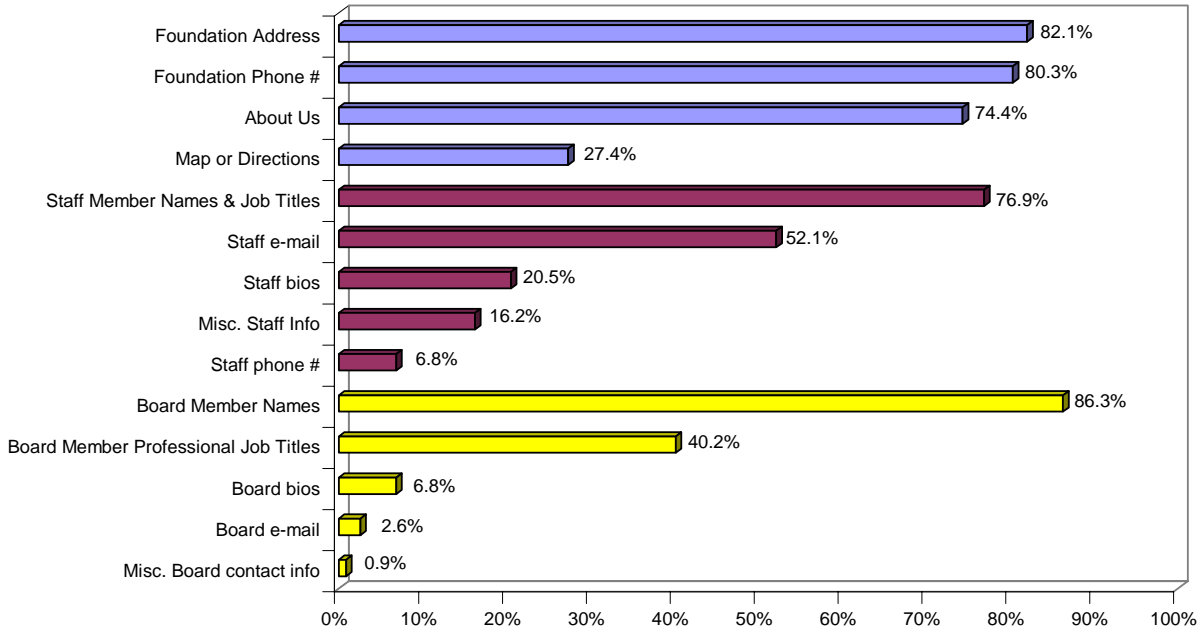
Project evaluation and outcome measurement represent another important area in which best practices emerge. The Maine Community Foundation serves as a good example. As stated

on its website, “The Maine Community Foundation strongly believes in the value of project evaluation as a learning instrument for grantees and Foundation staff. For grantees, project evaluation allows for a better understanding of the impact of programs, reasons for success, and areas for improvement. For MCF, data collected through project evaluation reports will help inform our grantmaking in the future and allow us to better identify best practices.” From the Foundation website a grantee can download a copy of a “Project Evaluation Report” to provide their results and feedback to the Foundation on what contributed to the success of their project, as well as reasons that made other aspects of their project more difficult or impossible to achieve. To help a grantee develop an evaluation plan for its funded project, it also provides a resource guide titled “Developing A Project Evaluation Plan” that assists the grantee in describing its project’s goals, objectives, strategies and evaluation methods.

### **Accountability for Openness and Participation**

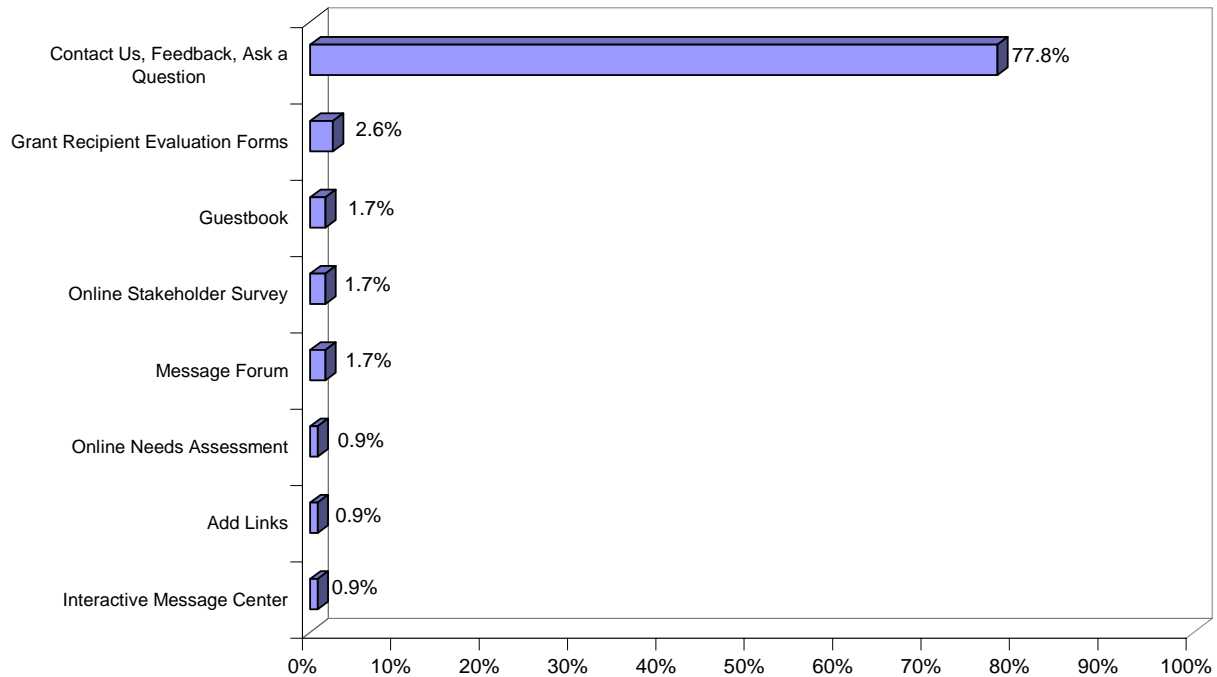
Lastly, we are interested in how our organizations use the Internet to be responsive to their key stakeholders’ needs and demands and attempt to solicit their participation in foundation decision-making processes. We first look at the general transparency of organizational information on the community foundations’ websites in order to ascertain how accessible the organization is to those in the community who may wish to make general inquiries or contact specific people in the organization tasked with specific programs or areas of responsibility. Of course, such inquiries are made more difficult if areas of responsibility are not provided online for staff and the board, so we also coded the availability of that information. Figure 4 below shows the range and prevalence of this “accessibility” component of accountability-as-responsiveness.

**Figure 4. "Accessibility" (General Organizational Transparency)**



Next, Figure 5 shows how the community foundations use web-based technologies to solicit feedback from their stakeholders, assess their preferences and needs, or engage them in discussions that will help the organization make important program-related decisions.

**Figure 5. Interactive Engagement and Solicitation of Stakeholder Preferences, Needs, & Demands**



We found a few exemplary practices along this dimension. An interesting service that the Community Foundation of Jackson Hole offers is the Non-Profit Listserve. This free on-line community allows local non-profit representatives to share questions and ideas, advertise events, list job openings and much more. It is the primary source of information sharing among non-profits in Jackson Hole. Local nonprofits can sign up for the list serve through email.

The Tipton Community Foundation provides a “Suggestion Box” on the front page of its website to allow donors, grantees, and any other stakeholders who might have concerns or comments to contact the foundation online. The Claremont Community Foundation likewise provides two main navigation bars on the front page of its website: “Your Input” and “Get Involved.” “Your Input” provides a user-friendly page for anyone who has questions or comments about the Foundation to submit his or her input. “Get Involved,” meanwhile, provides

an opportunity to involve “all concerned citizens in its fund development and grant distribution activities.” It allows those who wish to “give back” to the community a meaningful contribution of time, energy, and talent to gain access to the opportunities offered by the Foundation.

The Interactive Message Center (IMC) provided by the Gulf Coast Community Foundation of Venice offers another good example. The IMC is an online forum designed for board members, staff members, and other stakeholders of the organization to post and receive messages, exchange ideas, and engage in discussions. The Claremont Community Foundation similarly provides an online forum / extranet for its volunteers (“Volunteer Log In”).

### **THE ORGANIZATIONAL DETERMINANTS OF THE USE OF THE WEB AS AN ACCOUNTABILITY TOOL**

Ebrahim (2003) broadly defined accountability as “the means through which individuals and organizations are held *externally* to account for their actions and as the means by which they take *internal* responsibility for continuously shaping and scrutinizing organizational mission, goals, and performance” (p.194; emphasis added). Consistent with this definition, we explore in this section both the external and internal factors that are associated with the extent to which the Internet is used to improve accountability along each of the three dimensions, namely accountability for finances, accountability for performance, and accountability through participation.

#### **External Factors – Institutional Influences and Cyber Accountability**

Nonprofit organizations operate in institutional environments where legitimacy is critical to an organization’s ability to secure vital resources (Biglow and Stone 1995). Institutional theory provides one of the prominent frameworks for studying nonprofit response to externally driven accountability (Bies, 2001). Drawing upon institutional theory (Meyer and Rowan, 1977;

Meyer and Scott, 1992), we posit that a community foundation web-based accountability is reflective of its conformity to the norms and social expectations of the institutional environment. More specifically, we follow Luoma and Goodstein (1999) to examine the institutional effects on three levels: society level (legal influences), industry level (industry regulation), and organizational level (organizational size).

On the society level, an organization is less likely to resist institutional pressures that constrain its action when the organization is heavily dependent on the source of these pressures (Oliver, 1991). Traditionally, community foundations relied on permanent, unrestricted funds as their main source of funding. In recent years donor-advised funds have grown in popularity as a major funding type for community foundations (Luke and Feurt, 2002). This more restrictive type of funds, while offering hope of accumulating assets at a much faster pace than unrestricted funds, allows donors to have stronger control over the use of funds. It is thus reasonable to expect that, a foundation that relies on donor-advised funds is more likely to demonstrate a higher level of online accountability than a foundation that relies on permanent endowments.

*Hypothesis 1:*

*A higher level of online accountability is associated with a higher percentage of donor-advised funds (i.e., a lower percentage of unrestricted funds).*

On the industry level, industry standards are important for improving the accountability of community foundations for several reasons: they guide sound policies and accountability practices, distinguish the field from others, and build the capacity of community foundations to carry out their missions (COF, 2004; Herman & Renz, 1997). Founded in 1964, the Council on Foundations (COF) is the main voice for the field of organized philanthropy. COF took the initiative to develop the National Standards for Community Foundations in order to strengthen

the effectiveness of the community foundation field (COF 2002; Minter 1989). The National Standards were compiled and approved the Community Foundations Leadership Team in June 2000. This document covers seven major sections, including the definition of a U.S. community foundation; mission, structure, and governance; resource development; stewardship and accountability; grant-making and community leadership; donor relations; and communication. As of December 2004, about two-thirds of U.S. Community Foundations have elected to comply with the National Standards. Consistent with the institutional theory, we expect that those foundations that have adopted the National Standards will demonstrate a higher level of online accountability than those that have not.

*Hypothesis 2:*

*A higher level of online accountability is associated with the adoption of the National Standards.*

The central importance and relevance of public accountability and visibility can also be extended to the organizational level. In particular, organizational size is an important determinant of nonprofit accountability. By virtue of their size, large organizations are more visible and hence subject to greater attention from such external constituencies as the state, the media, professional groups, and the general public (Goodstein, 1994; Powell, 1991). Researchers have found a positive relationship between organization size and level of corporate social responsibility (e.g., Miles, 1987; Waddock & Graves, 1997) and responsiveness to legal environments (Dobbin et al., 1993; Edelman, 1990).

*Hypothesis 3:*

*A higher level of online accountability is associated with a larger organizational size .*

## Internal Factors: Board of Directors and Cyber Accountability

Brody (2002: 476) describes the role of a nonprofit's board of directors as the "classical model of nonprofit accountability." In the United States, the law ultimately holds the board of a nonprofit organization accountable for the affairs and conduct of the organization. The moral assumption is that a board will conduct the affairs of the charity as a public steward and will ensure that the organization serves the interests of its constituents and the larger community. As Murray (1998) stated, "It is the [board of directors] to whom the rest of the organization is accountable and that, in turn, is accountable for the organization to the community, for which it acts as 'trustee.' It follows that the board must be both legally and morally responsible for establishing the organization's mission and ensuring that it is carried out" (p.994). The board of directors of a community foundation in particular is regarded as an independent governing body that should be "broadly representative of the community it serves" and responsible for the mission, direction and policies of the foundation (Council on Foundations, 2002; see also Bothwell, 1989). Along this line of reasoning, we expect that those foundations with a high performing board will demonstrate a higher level of online accountability than those with a low performing board.

### *Hypothesis 4:*

*A higher level of online accountability is associated with higher board performance.*

Next, we present the results of our statistical analyses that will allow us to conduct a preliminary test of the above hypotheses.

## **Dependent Variables**

Four dependent variables are used to examine the online accountability of the 117 community foundations—one each for the financial and performance dimensions of

accountability, and two for the participatory dimension of accountability. All are summative indexes derived from the information presented in the figures above.

*Accountability for Finances.* This dependent variable is designed as a categorical variable and measured by a Financial Disclosure Index that we created. The Financial Disclosure Index includes the following nine indicators that derived from the services and content on a community foundation's website: Code of Ethics; Accountability Statement; Donor Bill of Rights; Investment Pool Performance; Administrative Costs for Funds; Investment Policy and/or Strategy; any indication of Overhead Costs; Annual Report; and any posted Financial Statement. A community foundation receives a score of as high as 9 if it covers all the nine items in its online services and content, and as low as 0 if it covers none of the above items.

*Accountability for Performance.* This dependent variable is similarly designed as a categorical variable and measured by a Mission & Impact Transparency Index that we created. The Mission & Impact Transparency Index includes seven mission-focused transparency indicators (i.e., Strategic Plan; Goals; Values; Vision; "What is a Community Foundation?" Foundation History; and Mission) and nine impact-focused transparency indicators (i.e., Grant Recipient Evaluation Forms; "Report to the Community;" "Grantee Stories;" Community Impact; Program or Grant Impact; Links to Awardees' Sites; Summaries of funded projects; \$ Amounts of Grants Awarded; and Recent Grants Awards). A community foundation receives a score of as high as 16 if it covers all the sixteen items in its online services and content, and as low as 0 if it covers none of the above items.

*General Transparency.* This variable examines the transparency and accessibility aspect of a community foundation's accountability for openness and participation. Designed as a categorical variable, it is measured by a General Transparency Index that includes the following

thirteen indicators: About Us; Board Member Names; Board Member Professional Job Titles; Board e-mail; Other Board contact information; Board bios; Staff Member Names & Job Titles; Staff e-mail; Staff phone number; Staff bios; Other Staff Information; Community Foundation Address; Community Foundation Phone number; and Map or Directions. A community foundation receives a score of 13 if it covers all the thirteen items in its online services and content, and 0 if it covers none.

*Interaction and Participation.* This variable examines the interaction and participation aspect of a community foundation's accountability for openness, deliberation, and participation. More specifically, it examines the prominence and variety of interactive services provided to key stakeholder groups (i.e., donors, grantseekers, and the community) on the foundation websites. Designed as a categorical variable, it is measured by the addition of three Interaction & Participation Scales (IPSs), namely the donor IPS, the grantseeker IPS, and the community IPS. For each IPS, we divide the website content according to the level of interaction and participation afforded by the services. The lowest level of interaction is *information* (including basic communication), followed by low-level *transactions* (such as downloading a form), higher-level transactions (e.g., submitting a form online or making a donation) and then, lastly, by *interactions* and *participation*, such as that available through interactive message boards or volunteer extranets. In terms of donor IPS, for instance, a community foundation receives a score of 3 if it provides any service on its website that allow for interaction and participation, such as donor extranet or advisor extranet; it receives a score of 2 if it provides services that allow for transactions, such as E-mail Sign-up, E Newsletter, Donor Forms, and Cash Donations; it receives a score of 1 if it only provides basic information to donors and advisors. The

grantseeker IPS and community IPS are similarly created. Taken together, this variable denotes a value of as high as 9 if it provides services that allow for interaction and participation.

### **Independent and Control Variables**

*Percentage of Unrestricted Funds.* This variable is measured by the actual percentage of permanent unrestricted funds in a foundation's total assets as reported by the chief executive.

*Compliance with National Standards.* This variable examines the institutional effect of operating in the community foundation industry and more specifically conforming to norms of the industry. It is defined as a binary variable and takes on two values: 1, indicating that a foundation elects to adopt the National Standards for Community Foundations developed by Council on

Foundations; otherwise 0. *Organizational Size.* This variable is measured by the natural log of a

given foundation's asset size for the most recent fiscal year. *Board Performance.* This variable examines the performance of the board of a community foundation as perceived by its chief executive. Measured on a scale of 1 to 5, it is a composite measure that covers resource acquisition, donor service, grant making, mission and strategy, marketing, and stewardship.

*Organizational Age.* This variable is measured by the difference between the year of 2004 and the year when a given community foundation was founded. *Annual Revenue.* This variable is

measured by the natural log of a given foundation's revenue for the most recent fiscal year. *Size*

*of Service Area.* This variable examines the size of geographical area that a community foundation serves. It is defined as a binary variable and takes on one of two values: 1, indicating that a foundation serves a small-sized community (i.e., local community such as city or county); 2, indicating that a foundation serves a medium-to-large-sized community (i.e., a regional or state-wide foundation).

## RESULTS OF STATISTICAL ANALYSES

The dependent variables in this study involve counts of services and content on a community foundation's website. In this case, the ordinary least squares (OLS) method for count data tends to result in biased, inefficient, and inconsistent estimates (Long 1997). To deal with this problem, researchers have developed various nonlinear models that are based on the Poisson distribution and negative binomial distribution. In a Poisson distribution, the mean and variance are equal. When the variance is greater than the mean the distribution is said to display overdispersion. And when the Poisson estimation is inappropriate due to overdispersion, a negative binomial regression model would fit better with the count data.

In this study, both analyses were conducted and produced similar results; the subsequent likelihood ratio test showed that the negative binomial regression model is not a significantly better fit than the Poisson regression model. Therefore, we only present the results (see Table 1 below) from the Poisson regression analysis for the purpose of this study.

*[Insert Table 1 here]*

Interestingly, organizational size (asset size) stands out as the most significant factor associated with the extent to which the Internet is used as an accountability-building tool by community foundations. The regression analysis revealed that there was a positive relationship between organizational size (asset size) and all the dependent variables. It seems to suggest that the larger the assets that a community foundation has, the more it will use the Internet to improve accountability along all the three accountability dimensions.

The results also showed a significant positive relationship between the percentage of donor funds and three dependent variables—those that examine accountability for finances, accountability for performance, and the general transparency aspect of participatory

accountability. This suggests that a community foundation with a higher percentage of donor funds tends to make better use of its website to promote accountability along these three major dimensions. Compliance with National Standards was found to be negatively associated with the general transparency aspect of participatory accountability, but not with the other three dependent variables. The regression analysis further revealed a significant positive relationship between board performance and the two dependent variables that examine the financial and performance dimensions of accountability, yet no relationship between board performance and participatory accountability.

Among the control variables, a negative relationship was found between the size of a community foundation's service area and the two dependent variables that examine the financial and performance dimensions of accountability. This indicates that a community foundation that specializes in a local area (e.g., city or county) tends to make better use of the Internet to improve accountability along the financial and performance dimensions than broad-based regional or statewide community foundations.

## **DISCUSSION AND CONCLUSIONS**

In this paper we have examined the use of Internet-based technology as a promising strategy for pursuing nonprofit accountability along three major dimensions, namely accountability for finances, accountability for performance, and accountability for openness and participation. Our findings show that community foundations vary greatly in the extent to which they are using the Internet as an accountability-building tool along the three dimensions. While promising practices are found along all these dimensions, overall the website has been more effectively used to improve accountability for finances and performance than for participation. It

is safe to say that community foundations websites are mostly “brochureware” in the sense of providing few interactive services to facilitate the input from their core stakeholders beyond the presentation of basic information on fund-raising, grant-making and community activities. The participatory dimension of accountability, in effect, is almost non-existent—except in a very basic way—in these community foundations’ websites. There is thus especially great untapped potential in this area.

Our findings also show that, among the various organizational and contextual factors associated with the extent to which the Internet is used as an accountability-building tool by community foundations, organizational size (asset size) stands out as the most important factor. The regression analysis suggested that the larger the assets of a community foundation, the more likely it is to use the Internet to improve accountability along all the three dimensions. The analysis also suggested that higher percentages of donor funds (i.e., lower percentages of unrestricted funds) are associated with higher online accountability along all the three dimensions. Board performance is also found to be associated with the use of the Internet along the financial and performance dimensions of accountability. Finally, single city- or county-based foundations tend to make better use of the Internet to improve accountability (at least along the financial and performance dimensions) than regional or statewide community foundations.

This study makes important contributions to the existing literature. In spite of the growing literature on this subject, we know relatively little about the efforts of nonprofit organizations to enhance their accountability and the challenges they face, especially in the online environment. In order to bridge this gap, we first helped clarify the conceptual understanding of nonprofit accountability by focusing on three key dimensions, namely finances, performance, and participation. We then explored the prevalence of the use of the Internet as a

tool to enhance organizational accountability along the three key dimensions through an examination of the content of 117 diverse community foundation websites. We further examined the organizational and contextual determinants of web-based accountability tools along these dimensions. In so doing, this study carries significant potential to inform both the academic and practitioner literatures on how to successfully utilize Internet-based technologies to achieve a truly accountable organization.

We would like to conclude the paper with a few observations about the limitations of the study as well as suggestions for future research on nonprofit online accountability. First of all, the empirical part of the study was based on a sample of community foundations, which represent a small subsector of nonprofit organizations in the United States. Notwithstanding the influence of community foundations in their communities and their similarity with other types of nonprofit organizations along several key criteria (e.g., tax-exempt status, multiple-constituency nature, independent governing board, etc.), the applicability of conclusions drawn from this study to other subsectors of nonprofit organizations deserves further investigation.

The study was predicated on the increasingly powerful belief that organizational transparency and the democratization of information can go hand-in-hand with enhanced organizational performance—including but not limited to improved fundraising and asset development. Accordingly, future research might examine in-depth the connection between communication of the organizational mission and asset development. Future research should also concentrate on the link between philanthropic fundraising and public trust in philanthropic communities and the role of information technology in bolstering that trust. Such research should ultimately strive to inform both the academic and practitioner literatures on how community foundations and nonprofit organizations more generally can successfully utilize Internet-based

technologies to simultaneously maximize fund-raising capacity while building a truly accountable organization.

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**Appendix:  
Descriptive Statistics**

| Definition                         | Population Data |       |        | Survey Data |       |        |
|------------------------------------|-----------------|-------|--------|-------------|-------|--------|
|                                    | N               | M     | SD     | N           | M     | SD     |
| Organizational age                 | 655             | 22.43 | 18.43  | 117         | 27.66 | 21.39  |
| Asset size                         | 638             | 43.25 | 121.48 | 117         | 58.58 | 167.02 |
| Natural log of asset size          | --              | --    | --     | 117         | 16.51 | 1.72   |
| Revenue                            | 641             | 5.21  | 12.27  | 117         | 5.66  | 13.54  |
| Size of service area               | --              | --    | --     | 114         | 1.46  | .50    |
| Percentage of unrestricted funds   | --              | --    | --     | 117         | 24.40 | 22.10  |
| Compliance with national standards | --              | --    | --     | 117         | .53   | .50    |
| Board performance                  | --              | --    | --     | 117         | 3.83  | .55    |

**Table 1. Factors associated with Online Accountability of Community Foundations: Poisson Regression Analysis**

|                                | <u>Model 1</u>              | <u>Model 2</u>                 |
|--------------------------------|-----------------------------|--------------------------------|
|                                | Accountability for Finances | Accountability for Performance |
| Independent Variables          |                             |                                |
| Organizational age             | -0.003 (0.004)              | -0.003 (0.004)                 |
| Asset size                     | 0.252 (0.050)***            | 0.249 (0.051)***               |
| Size of service area           | -0.299 (0.133)**            | -0.297 (0.133)**               |
| Compliance with                | -0.033 (0.12)               | -0.020 (0.122)                 |
| National Standards             |                             |                                |
| Percent. of unrestricted funds | -0.108(0.048)**             | -0.106 (0.048)**               |
| Annual revenue                 | -0.054 (0.036)              | -0.052 (0.035)                 |
| Board performance              | 0.262 (0.128)***            | 0.259 (0.128)**                |
| intercept                      | -3.370 (0.812)***           | -3.330 (0.809)***              |
|                                | Number of obs. = 114        | Number of obs. = 114           |
|                                | Log likelihood = -210.65549 | Prob > F = 0.0059              |

\* p < .1

\*\* p < .05

\*\*\* p < .01

**Table 1. Factors associated with Online Accountability of Community Foundations: Poisson Regression Analysis (continued)**

|                                | <u>Model 3</u>                                      | <u>Model 4</u>   |
|--------------------------------|---|--|
|                                | Accountability through participation (Transparency) | Accountability through participation (Interaction & Participation) |
| Independent Variables          |   |  |
| Organizational age             | -0.000 (0.002)                                      | -0.001 (0.003)   |
| Asset size                     | 0.125 (0.032)***                                    | 0.120 (0.038)***   |
| Size of service area           | -0.040 (0.087)                                      | -0.111 (0.102)   |
| Compliance with                | 0.155 (0.081)**                                     | 0.041 (0.094)  |
| National Standards             |   |  |
| Percent. of unrestricted funds | -0.053 (0.033)*                                     | -0.015 (0.039)   |
| Annual revenue                 | -0.031 (0.023)                                      | -0.019 (0.030)   |
| Board performance              | 0.068 (0.079)                                       | 0.113 (0.094)  |
| intercept                      | -0.411 (0.0.493)                                    | -0.739 (0.582)   |
|                                | Number of obs. = 114                                | Number of obs. = 114   |
|                                | Log likelihood = -210.65549                         | Log likelihood = -220.66464  |

\* p < .1

\*\* p < .05

\*\*\* p < .01