Elements of governance reform

Politics

Elements of Governance Reform

The Investor Protection Act and Public Company Accounting Reform were passed in 2002 in through a commonly Act named Sarbanes Oxley Act 2002 or SOX 2002. This act was formed in the wake of corporate scandal of Enron. The name of this was given as Sarbanes Oxley by collaborating surnames of two of its main sponsors, Senator Paul Sarbanes and Michael Oxley (Jackson, 2006, p. 7). Although main intention behind formulating this Act was initially to strengthen the obligations for competence and integrity for public traded companies, but it has substantial effect on both profit making companies and non-profit organizations. This act is the latest most effective regulatory reform intended to rectify major corporate misleads in future. Arthur Andersen LLP's role in revolutionary scandal of Enron is reflected in one important part of SOX Act which standardized requirements to ensure independence of the auditors.

Major failure in accountability and disclosure of few leading nonprofit firms and penetrated media coverage of this failure by nonprofit organizations cast the nonprofit sector in an unethical and unfavorable light. This also damaged the integrity and trust of people across the world on the nonprofit organizations along with the benefit of the nonprofits organizations. Although most of the provisions of Sarbanes Oxley Act have currently been applied to only publicly traded companies but nonprofit organizations could benefit by adopting these provisions. Apart from this, voluntarily adhering to the Sarbanes Oxley Gold standards would generate more ability and credibility to appoint more efficient members in the boards of nonprofit organizations. This also can attract many potential fund donors, foundations and many other potential financial funding resources.

Strategic issues currently facing nonprofits, and the necessity for planning and implementing new ways of thinking and operating

The nonprofit sector that enjoyed light oversight and little regulations has now highly focused on the new demand of standardized corporate governance. If the nonprofit sector wishes to retain its higher extent of self regulation, the board and top management of the organizations need to put accountable effort to improve the organizations in terms of corporate governance and financial transparency. If the current situation does not improve the whole sector may comes down under unwanted regulations of government. Some attorneys general of states already criticized that additional SOCK provisions need to be applied to nonprofits. Therefore, in order to avoid further imposition of legal obligation on nonprofit, the organizations need to show public as well as government that it can efficiently regulate independent nonprofit governance (BoardSource, 2010, p. 168).

Sarban Oxley Act had dramatic effect on the nonprofit along with public companies. Today, there is rising pressure on the board of members to focus on clear nonprofit mission and activities need to target the mission of the organization. With a rising competition in this sector boar are striving to confidently justify empirical activities and achievements through positive outcomes from past activities. Therefore, the board, top management and staffs need to adopt transparent decision making processes and detailed financial and operating information need to available to the government as well as other organizational stakeholders. Higher attention to the accuracy and completeness of detailed operations and financials of the organization has become most important and highly focused part of corporate governance of the nonprofit organizations.

References

BoardSource. 2010. The Handbook of Nonprofit Governance. John Wiley & Sons.

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