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Charting new waters:
Building for the future, responding to the unknown

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Theme: Management and Governance of Third Sector Organizations

Introduction

The context for non-profit organization development has changed significantly over the past 50 years. In the 1970s, there was a strong emphasis on community development. This changed in the 1980s, with the rise of focused advocacy campaigns. Government policies during this decade also gave rise to an increased devolution of services to community groups. In the 1990s and 2000s, we saw a proliferation of organizations with differing fortunes (see Anheier & Salamon 2006; Bode 2003). What the next 10 to 20 years will look like for the third sector is uncertain.

One thing we do know is that within a turbulent political and economic context, organizational sustainability becomes a strategic imperative. Unable to control, or even anticipate imminent change, non-profits have to generate radically new approaches to the situations they find themselves in, and build the resilience and resources to respond to new, and mostly unanticipated, issues. In such circumstances, the strategic responses that organizations choose will reflect: (a) how deep a societal contribution they want to make; (b) how they identify and balance organizational strengths and constraints; and (c) the theories of change they use to discern the appropriate courses of action.

Organizations navigate through increasing complexity in different ways and with different means. To chart 'new waters' an organization must undertake research and environmental scanning, exercise due diligence in the search for new opportunities, make prudent assessment of risk, and use considerable strategic imagination, leadership and courage to go beyond the readily known. Such change requires exploring what their 'strategic identity' might be in these wider places. Non-profits may adapt to scarcity of resources by becoming more centralised, or may choose to diversify in order to respond to the specific needs and aspirations of different communities. Responses may also involve developing a wider range of services, appealing to different audiences or beneficiaries or forming relationships with other players, in the sector, at a national or international level.

In this paper we seek to understand the major challenges faced by non-profit organizations moving beyond the familiar as they navigate uncharted challenges. In particular, we explore the issues of organizational capacity (structures and processes) and the individual and collective capabilities needed to explore new strategic opportunities. The paper is organized into four sections. We begin with a focused literature review highlighting the most relevant research for our study. The second and third sections describe the method

and present the findings, respectively. We conclude the paper with a discussion about the major issues organizations confront in this stage of their development.

Literature review

There is a considerable range of studies across disciplines focusing on non-profits' strategic initiatives. Some authors emphasize the importance of umbrella association structures at the national level (see for example Young, Bania & Bailey, 1995), others stress the value of within-sector and cross-sectoral collaborations (for example, Guo & Acar 2005; Sowa 2009), while a third group of authors discusses the conditions and consequences of non-profits' engagement in various income generating activities (for example, Kerlin & Pollak 2011; Tuckman & Chang 2006).

In this literature review we embrace the above 'general' strategic initiatives, but concentrate on areas directly relevant to our study. Specifically we review studies which highlight changes in *organizational form* as a major driver of an organization's strategic repositioning. From the studies focusing on inter-agency arrangements, we review those that examine the key process factors in the evolution of collaborative relationships. In the range of studies on non-profits' commercial activities we focus on those that discuss the major issues in the organization's adoption of and adjustment to market values.

Research on strategic changes in national non-profit associations and their *associational structures* is scarce. Scholars have focused primarily on governance issues in this type of non-profit configuration (see for example Cornforth & Spear, 2010; Friedman & Phillips, 2004; and Kreutzer, 2009), but the relationship between strategy and structure has been neglected. Elements of associational structures have been studied extensively by Young (1989, 1991, 1996), and Tschirhart (2006) has provided a useful overview of various structural issues in membership associations. One key structural aspect critical for an overall national strategy, namely, the level of autonomy a local branch can exercise in the face of centralised control by a national office, has been studied by Young (1989), Grossman and Rangan (2001) and Freeman (1979), among others. Their respective empirical studies show how the inevitable tensions between local organizations and national headquarters can be 'regulated' through different structural forms - from federated, loosely-coupled, structures to more centralized, corporate-like forms. If strategy defines structure then, according to Freeman (1979), control over the local entities is critical to a national association which aims to achieve goals at the national level. A national office without the mandate of its constituent

associations is, however, an empty shell. How to manage this relationship is, then, itself a strategic issue.

An interesting angle on structural issues in membership associations has been provided by Kushner and Poole (1996), in their exploratory study on the effectiveness of organizational structures in arts organizations. The authors have emphasized the importance of choice of volunteers (members) and professional (paid) staff in operational and decision roles. Volunteers operate at multiple organizational levels and their role is critical to the operation of many non-profits. The choice of volunteers or staff is “a fundamental design issue because of both the operational areas affected and the influence on decision making that volunteers may wield in a non-profit structure” (Kushner & Poole 1996, p. 121).

Many studies have focused on strategic choices beyond organizational boundaries. Several address purposes, processes and structures of non-profit organizations’ *collaborative efforts* with other community groups, business organizations, and government agencies. Formal collaborations often evolve from pre-existing, less formal joint efforts and partnerships. Through management and staff interactions over time, such as inter-agency information sharing and service delivery cooperation, organizations build the trust and confidence required to move to more complex types of joint actions (Austin, 2000; Guo & Acar 2005; Tsasis, 2009). There is a range of different types of collaboration, each with their own motives and objectives, from the provision of superior/ more holistic services, increased access to services through to issues of organizational survival, sustainable development and systemic change (Sowa, 2009).

Factors which contribute to successful collaborations are discussed in a number of studies (see for example, Austin 2000; Selden, Sowa & Sandfort, 2006; Takahashi & Smutny 2002; Thomson & Perry, 2006). In addition to strong social ties, these authors emphasise the vital importance of the individual and collective capabilities of organizational leaders. Active involvement and leadership in authorizing and legitimizing new activities proves crucial in building effective inter-agency relationships (Austin, 2000). Another key condition emphasized by some authors is the structural arrangement of organizations’ joint efforts. Takahashi and Smutny (2002) point out the importance of appropriate governance structures and management relationships. In their study on the collaborative effort of three small community-based organizations, the authors demonstrated the importance of shared vision and goals, appropriate working arrangements, well defined responsibility lines, planning and decision-making processes for the collaboration to be successful.

The strategy of non-profits to expand into commercial activities is as much an effort to neutralize dependence on government contracts as a response to the declining trend in traditional sources of funding - individual (and institutional) donations. Issues directly related to commercial activities of non-profit organizations concern ‘the potential loss of values distinctive to the non-profit sector’ (Froelich, 1999, p. 258). Several authors (for example, Bush, 1992; Eikenberry & Kluver, 2004; Weisbrod, 2004) point to the potential shift of attention from service-creating activities to an organization’s income generating capacity. The scope of attention stretches from the creation of commercially viable social services to the development of ‘independent’ commercial activities and establishment of supporting organizational structures (charitable companies or social enterprises). If services must first pass a test of commercial viability, essential aspects of non-profits’ activities - meeting the requirements of those in need - might be threatened (Froelich, 1999; Weisbrod, 1998). Conversely, services that are not financially viable are a threat to an organization’s sustainability.

A key question in any organizational efforts to generate commercial revenue is how organizational goals and mission can be upheld and preserved (Eikenberry & Kluver, 2004; Tuckman & Chang, 2006). Organizations’ social, moral, or religious values and their purpose, what they stand for, might be compromised by market values and measurements. Empirical studies (Guo, 2006; Young, 2002) have shown how an increased involvement in commercial ventures affects non-profits’ original mission and influences the direction and future of the organization. Furthermore, ‘marketization’, according to Eikenberry and Kluver (2004), creates the tension between service and advocacy. As the authors underline, non-profit organizations are the voice of society; it is their primary task to mobilize public attention to social problems and needs (p. 136). By being involved in commercial activities, through the provision of competitive services and/or competitive bids for government contracts non-profits might reduce their efforts in advocating for community and public good (Skloot, 2000).

Using these approaches as a framework, our study explores strategic initiatives in non-profit organizations as they prepare themselves for long-term sustainability. We focus on how they use new internal organizational design, external collaborations and entrepreneurial initiatives to access new resources, and extend their strategic intentions into a longer term, wider societal contribution. In particular, we examine the following research question: What

are the major challenges that non-profit organizations need to address in developing and implementing new strategic initiatives?

This paper builds on an earlier organizational analysis (McMorland and Eraković, 2013) where we sought to learn how non-profits, operating at a high level of complexity, interpret the strategic opportunities open to them, in the context of making a societal impact. Organizational development at this stage is about providing strategic imagination for the future – a future that embraces 5 to 10 years and beyond, and typically shifts an organization's perspective on its contribution and sphere of influence from a local to a societal level. This requires building generative capacity and capability, and working creatively with the complexity that inevitably, and necessarily, emerges.

Method

According to the most recent estimates (Grant Thornton, 2011) there are more than 100,000 non-profit organizations in New Zealand, of which over 27,000 are charitable organizations (Department of Internal Affairs, June 2014). With such a large number of organizations, New Zealand has one of the highest ratios of charities per capita in the world: one per 172 people versus one per 297 people in the UK or 427 people in Canada (Bentley, 2011). An estimate by the Department of Internal Affairs (2007) sets funding to the community and voluntary sector at over \$NZ 1.3 billion through payments from various government departments and Crown entities. The largest amounts of governmental payments are made to non-profits in the social services, education and health activity sectors. Contract payments for services (93% of all payments) dominate over grant funding. Philanthropic contributions to NP organizations in New Zealand are also significant. According to Philanthropy New Zealand (2007) the total philanthropic (monetary) giving reached \$1.27 billion in 2006. The major donors were trusts and foundations (58%), whereas business and private donors contributed 7% and 34.8% respectively. The increasing sophistication of agencies, and the size of their budgets, has meant that many New Zealand non-profit organizations are now large business enterprises in their own right. There are, thus, heightened expectations amongst government, service users and the public at large, of performance standards and transparent accountability (Cordery and Morley 2005).

We collected our data from six large New Zealand non-profit organizations. Our case organizations were highly dependent on three major sources of income: government grants, community trusts and lotteries, and membership fees. The largest organizations (those with

revenues between NZ\$1 million and NZ\$5 million) were tapping in to more sources of income. We observed their transitional development (constitutional changes, amalgamation, establishment of commercial activities, professionalization of services, and inter-organizational collaborations) throughout the 2009-2012 period.

Data were collected via interviews with members of the boards and strategic management teams. In total we conducted more than 20 interviews. The interview data were analysed using thematic analysis (Huberman & Miles, 2002; Wolcott, 1994). We also analysed relevant organizational documents. Our research process was iterative: interviews were all taped and transcribed. With many readings of the transcripts and much discussion we both became very familiar with the data. This provided us opportunity to identify recurrent themes, make comparisons, see patterns, draw out threads that hold organizations faithful to their mission and see the issues that challenged them at particular transition points. This paper focuses on our interpretation of the emergence and development of the organizations' strategic initiatives.

Research findings: In search of generativity

Growing environmental complexity challenges organizations to find novel ways to sustain funding, avoid political dependency, and adapt to changes in economic and social conditions. Among the organizations we researched, several had successfully established strong management and effective governance, and were on the cusp of moving to the next stage of development. They were taking steps to future-proof and strategically reposition themselves to meet the challenges of their contexts, stages of development and levels of complexity. We identified three strategic approaches (see Figure 1.) that these organizations were trialling:

- structural
- relational
- entrepreneurial.

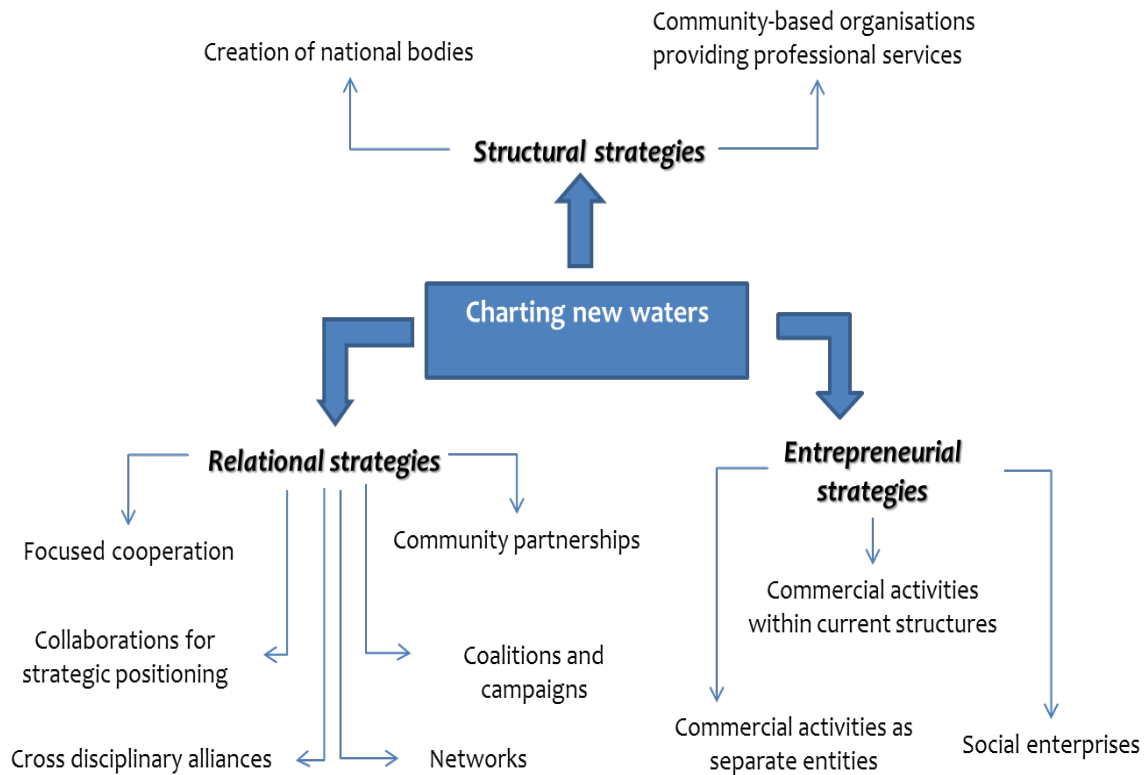


Figure 1. Charting new waters: Strategic approaches

These approaches are by no means discrete. They are often used in combination, or progressively, as change rolls out. Nor are all anticipatory. For some organizations facing draconian change in funding, for example, reactive strategies may be essential for survival.

Structural strategies

A great deal could be written about the structural approaches that organizations adopt in their evolution towards sustainable organizational arrangements. Here we discuss two approaches that organizations in our study were contending with:

- aligning loosely affiliated associations into a single national body
- blending community-based work with professional service.

Flotillas and squadrons: Aligning loosely affiliated associations into a single national body

One example of radical repositioning and reorganization is when numerous independent (regional and local) associations are brought together into a national organization, with a branch structure (non-independent local units), in order to increase the organization's

influence and advocacy at a national level. The development of such a national body is like transforming a flotilla of little boats into a squadron.

Disruptive change of this nature is generative: it provides a stronger single voice at national and international levels, or significant economies of scale. In the deliberate process of radical change, non-profit organization leaders adopt the principle that structure follows strategy. That is to say, purpose, intention and mission (all important components of strategy) drive the search for the appropriate capacity and composition (structural components) for action.

Recent constitutional and structural rearrangements in Diabetes New Zealand provide a good example. Diabetes New Zealand started as an advocacy organization, but its arrangement of small independent local groups muted that voice, and obscured the organization's size and potential impact. By 2009, Diabetes New Zealand consisted of 39 separate incorporated societies and more than 13000 members. A national office was established in 1962. The organization offered educational, informational and specialist product services to members, but access to these services and resources was not uniform throughout the country. Relationships amongst the various local associations were fragmented and uncoordinated. Recognition of the growing epidemic of diabetes (especially Type 2) across the nation stimulated the need to strengthen Diabetes New Zealand's advocacy voice and led to a radical redefinition of structural roles and relationships. Constitutional change was required to establish the National Office as a governance body with clearly articulated imperatives to raise resources. The local associations were encouraged to come on board as branches of the national association. The then General Manager of the Diabetes Auckland branch pointed out:

“What the users need is a united voice so that we can pressure authorities, and that's all sorts of authorities, into changing things...we are really talking about health in all policies, which is quite a big vision which is where it has to go to overcome the diabetes problem...there is also the need for [new] legislation, I'd suggest, to get things changed...”

The driver for the structural changes that occurred within Diabetes New Zealand was the context of the disease itself: the rapid escalation of diabetes in New Zealand (and globally), affecting not only sufferers, but their families and the health service as a whole. These changes are ongoing in the organization's quest to build its capacity and capability. Because the old arrangements of locally based (and often under-resourced) societies were no

longer sufficient in the face of the growing diabetes epidemic, the National Office had to use considerable persuasion to demonstrate that affiliation added value to the local societies by extending the overall impact of Diabetes NZ.

Hovercraft or high-speed amphibians: Blending community-based work with professional service

A different structural dilemma faces some large incorporated societies that provide professional services. Increased complexity arises when the demands of volunteers and professionals within the same organization require different organizational arrangements.

Organizations that are simultaneously community-based associations and professional service agencies employing large numbers of staff are usually governed by volunteers. They depend on organized voluntary support at a local level, but increasingly employ professionals to fulfil national provider contracts. The challenge is how to hold these components together; how to retain a single organizational identity, and the value of community reputation and outreach, while at the same time having the flexibility needed to provide services and advocacy at a national level. What structural arrangements can such organizations adopt to enable this?

The Royal New Zealand Plunket Society (Plunket), one of the largest and oldest organizations in New Zealand, is a very good example of such organizational challenges. Grounded in community voluntary effort, from when it was established in 1907, Plunket has managed to overcome a number of political, economic and social challenges. It remains a genuinely community-based organization, while at the same time developing its national service of professional Plunket nurses. Strong, trusting relationships with the community are the *raison d'être* of its existence, and the protective shield for its survival. In 2012, Plunket had 700 employees and an army of volunteers. The organization has a very complex structure, with over 400 branches and sub-branches, almost two dozen regional organizations (areas), and two layers of governance bodies – National Council (representative body) and Board of Governors (strategic governance body). Local branches have a high degree of autonomy for some matters – from providing services to young parents and engaging with local communities, to providing information to international institutions. In 2011, with the aim of simplifying coordination within the organization and strengthening interaction with various stakeholders, Plunket undertook a major revision of its structure. The dual priorities of child health and a focus on family required Plunket to reconsider its capacity (governance

and management structures, and sources of funding) and capability (professionals' and volunteers' knowledge and abilities) to provide integrated services at local and national levels. This organizational redesign is not going to be a linear or simple change. It is an incremental process, which requires intensive communications across the range of internal and external stakeholders. As Plunket's Chief Operations Officer explained:

"I don't think, with these changes, it's about when people are ready to change, and as we move forward and people move on. It's not a '1st of July you're going to do this'; it's about bringing people on the journey. And some are more than ready and others are worried...It's about volunteers [who] are a scarce resource, and we want them volunteering for the things that they want to do and we want to support them. I mean without the volunteer component we are just another health service. And our point of difference is actually the bringing of these two [volunteers and professionals] together. So, it keeps us really grounded around what a community wants, which may not be the clinicians' view of what they think they want. And these are the discussions that go on, and that might cause some of the tension about how resource would be used."

Recognising and maintaining its point of difference (and the power of its reputation) is crucial to Plunket's long-term strategy (as it will be to other non-profit organizations facing similar issues at this stage of their development). Without its volunteers, Plunket would become just another adjunct of a government department. In effect, Plunket's voluntary association and its nursing agency are disparate organizations. Holding them together in one structure requires very clear communication between the two strands, at every level of the organization.

Relational strategies

Relationship building provides a range of strategies that organizations can pursue. Relationships in the non-profit sector have usually been built up over many years. Time spent investing in and sustaining these relationships is a valuable part of senior management's work.

Relational strategies include management and governance efforts to step outside the organizational boundaries and develop mutual interests with other non-profit organizations. This strategic approach accommodates individual and organizational needs for cooperation, collaboration and partnership, as a means of responding to challenges in complex situations and building more effective non-profit organizations.

We identified six of the main relational strategies through our research – focused cooperation, collaborations for strategic positioning, community partnerships, coalitions and campaigns, cross-disciplinary alliances, and networks (McMorland & Erakovic, 2013). In this section we discuss two of these strategies: cross-disciplinary alliances and networks as emerging strategies for building resources to confront uncertain futures.

Cross-disciplinary alliances

One organization in our study, NZ Landcare Trust, showed the attributes of a generative organization charting new waters through cross-disciplinary alliances at a national strategic level. NZ Landcare Trust is an environmental organization based in Hamilton dedicated to ‘Sustainable land management through community involvement’. A common passion for the environment has enabled unlikely bedfellows with a diversity of interests to work collectively for regional and national interests.

At the governance level, the trust has representatives from Federated Farmers, Rural Women, Federation of Māori Authorities; Federation of Mountain Clubs, Fish and Game, Ecologic (Maruia Society) and Royal Forest and Bird Society (that is, trustees from the agri-business, recreation, tangata whenua, sports and environmental watchdog sectors). This diversity enables the trust to forge links across disparate communities of interest to accomplish practical changes at a national and community level. Quite quickly, the board has broadened its strategic overview to encompass various activities nationwide.

Organizationally lean, NZ Landcare Trust works through regional coordinators who act as catalysts for community action, brokering projects specific to the needs and conditions of particular communities. Staff work with rural communities, landowners, land care groups, community groups, local authorities, scientific organizations, the Ministry for the Environment, government agencies, and iwi. Success at the community level has led to a strong knowledge base of practice, as well as a reputation for independence. In this way, NZ Landcare Trust has demonstrated its value as a community catalyst. The CEO pointed out:

“It’s a hard game to play and if you’re not independent there’s a lot of concern about where you’re coming from in terms of your agenda. If you come from local government there are worries about what it all means, at the farm level as well as the community level. If you come from agri-business, not everyone loves Dairy NZ and Fonterra and all the rest of it, there are issues there as well. So we can come in and basically say, ‘well, you know we’ve got trustee organizations that do hold quite strong views, but they have

to abide by a kind of Deed that says you have to work in a collaborative way'. So at the board meeting they have to drop their kind of vested interest as best they can and try to collaborate and cooperate..."

While success at a local level builds NZ Landcare Trust's credibility and positive reputation, it seeks to have a wider influence on policy and practice at a national level, for example by being an active contributor to the Ministry of Environment-initiated Land and Water Forum. The Trust's strategic intent of sustainable land management is a long term, higher order goal. In bringing together representatives of vested-interested organizations as trustees, the board requires them to commit to a goal that transcends their individual concerns.

Networks

Perhaps the most relevant emerging relational strategy for the non-profit sector is the power of networks. The potential for collective capability is clearly seen in new generation internet campaigns and self-organizing, emergent, social networks. In this subsection we discuss three of the main types: umbrella networks, virtual organizations and international networks.

An umbrella network (a loose association of member organizations) has a coordinating and information-disseminating function. It provides a formal platform through which organizations with common concerns can join together in collective action and advocacy. Examples are the Council for Christian Social Service, the Association of NGOs in Aotearoa, and Action for Children and Youth Aotearoa. Umbrella groups coordinate their activities through specific events like conferences, workshops or research projects and submissions. Such events express the specific purpose of the umbrella group, transcending the specific interests of members.

An umbrella network usually has a very small administrative capacity of its own, but can draw on the capabilities of members to have influence and presence in relation to the government. It provides the fabric for relationship-building across the sector, the government and internationally-related bodies. Umbrella networks enable members to punch well above their weight. By sheltering under the umbrella, organizations can participate strongly in advocacy and policy determination in ways that may not be otherwise possible due to contractual or constitutional constraints.

A virtual organization is usually held together by the energies and capabilities of a very small team of senior management and board. This group is able to mobilise extensive

capacity and capability for specific projects and events, through the strength of their relationships, and the complex networks of mutual support and obligation that the governance and leadership group is able to draw on.

In virtual organizations, the composition of this group is a key consideration, as is well-demonstrated by the example of Leadership NZ. The formal organization of Leadership NZ is very lean. Its virtual strength lies in its ability to call on the skills and experience of a very wide network of New Zealand leaders in the commerce, government, local government, public and non-profit sectors, all of whom are committed to the cause of developing leadership skills in young New Zealanders. The programmes that Leadership NZ runs depend on the ability of the CEO and board members to keep this web of relationships alive and regenerated.

New technologies play an important role in enabling and sustaining virtual organizations. Although the relationships among various parties working on leadership programmes are tangible enough, the organization itself exists in virtual reality, with the CEO at its hub. She sees technological platforms having far-reaching implications for the ways in which links can be made amongst dispersed and cross-discipline groups. These developments will challenge us to rethink definitions of organization, and the skills needed to run them, as well as signalling new opportunities to be explored.

Being part of **international networks** is a strategic imperative for many New Zealand non-profit organizations. There are a number of avenues through which organizations develop and formalise their international linkages – conferences, meetings, visits, research connections, internships etc. Such formal international relationships may help New Zealand organizations improve their position nationally. Involvement in international practice-fields can also help with developing policy, especially when this is founded in internationally agreed conventions and principles, providing a lever for advocacy in New Zealand. A General Manager, Diabetes NZ, explained:

“[T]he International Diabetes Federation is talking to World Heart and World Cancer, because of the nutritional element in cancer...last year they all got together and pushed at the UN and they passed a special resolution...on NCD's [non-communicable diseases]...There was a major resolution passed in September last year in New York and countries signed up to it including New Zealand so that's a sort of another weapon that we can start to put pressure on New Zealand Government to make sure it is acting.”

New Zealand non-profits are also able to demonstrate leadership and best practice to organizations overseas. Youthline, for example, is recognised as a world leader in text counselling and has provided training to similar international organizations. International connections are rewarding as they facilitate individual and organizational learning, broaden perspectives and bring people with different capabilities together. The CEO of Youthline elaborated:

“If you want to develop a mature organization that is able to work with others, to develop depth to its own understanding, you need people who have big horizons, big visions, big capacity and you can get that by encouraging people to be involved externally, you can get that encouraging them to be involved regionally, then internationally and them being involved. It’s about the individual’s development but it’s also about developing the organization’s capacity. One of our team is going to Kathmandu, to help with an international Helpline. Last year we had people go to England, San Francisco, Virginia, Australia, year before Malaysia, Africa. How do you build a big enough horizon aligned to your vision, mission and values that can keep breathing fire and passion into your work? And skills? For me it’s a very intentional thing.”

Entrepreneurial strategies

The third type of strategic approach we identified concerned financial (as opposed to service) elaboration through entrepreneurial activity. For most large non-profit organizations, it is a major strategic imperative to become more financially independent from government contracts. Organizations may engage in a variety of activities to achieve this.

When organizations embrace the idea that they have to be more commercially or entrepreneurially focused, two issues arise: the first concerns alignment of business and mission values; the second alignment with ‘shareholder’ aspirations. A key strategic decision to be taken, at this point, is whether to keep business development endeavours under the auspices of current operational management, or to establish entrepreneurial activities as separate entities.

Entrepreneurial activities that are not part of the mission of an organization have the potential to transform non-profit organizations from agencies to quasi-businesses. Strategically, this requires developing new capacity (through generation of financial and social capital) and becoming more economically savvy. This, in turn, requires more elaborate

infrastructure and new types of capability (economic analysis, risk-management and business acumen) in the board and senior management alike.

Entrepreneurial activities within current structures: Happy marriage or uneasy bedfellows?

The development of commercial activities within an established organizational structure is akin to the diversification of services, but with one notable difference. It is the responsibility of leadership to ensure that these internal businesses stay aligned to core organizational values and purpose. Mission-drift can too easily occur: if organizational resources get unduly absorbed into making money, means become ends in themselves.

Accountability for charitable activities requires tight financial control and transparency of costs and cross-subsidies. As an organization becomes more elaborate, there are serious risks of economic failure, misalignment of goals, and even of theft and misappropriation of funds. There is also need, especially in service agencies, to clarify the relationship between professional and clinical leadership and financial control. We heard examples of over-zealous business-oriented managers and board members losing sight of the purpose of their non-profit organization, and of board members lacking the strategic imagination to take financial risks, when strategic investment might ensure sustainability.

Commercial activities as a separate entity

It is becoming more common practice for non-profit organizations to establish income-generating activities as separate entities: either as limited liability companies or charitable companies, with their own independent governance and management structures. A commercial board is appointed, or approved by the principal non-profit organization shareholder board, and commercial and service activities are kept operationally separate.

Further down the track, a major problem can arise if such a commercial entity outgrows the stage of development of its 'shareholder'. Depending on its legal relationship with the 'shareholder', successful entrepreneurial ventures are able to appoint chief executives and board members of the highest calibre, and elaborate their own services and products to address their own strategic imperatives for sustainability.

If the 'shareholder' body is still at the associational stage (member or volunteer-directed activities) there can be a major conflict of strategic intention. Potentially, the non-profit organization shareholder board can overturn strategic decisions by the commercial entity if such decisions are not seen to be in the (more narrow) interests of the shareholder.

This was the case when Stellar (a registered company with charitable status) sought to modernise and bring greater accountability into a flagship service subsidised by its shareholder, OPQ. The ensuing conflict created a crisis in service delivery to member families and staff walked off the job. Affected parents (who were members of OPQ) lobbied the OPQ board directly. The OPQ board exercised its constitutional right and instructed the Stellar board to reverse its decision. The professional trustees resigned in protest at such blatant interference in their decision-making. Management took steps to mitigate the perceived risk to Stellar's credibility, but the issue of the damaged relationship between the two organizations remains. The very considerable disparity in the development of the two organizations means that there will always be tensions between the highly successful commercial enterprise, and the incorporated society shareholder body to whom it pays a substantial dividend.

Discussion

The organizations we have discussed above are all moving toward the unknown waters of forming new strategic intentions. They are in the transition phase – busy responding to greater complexity than they encountered in the previous stages of their development, but without yet having developed the internal organizational structures, processes and systems needed to keep pace with their aspirations. These organizations have the wider and longer-term vision representative of generative thinking, but have not yet established the capacity and capability required to respond on their own to increased complexity.

Typical structural issues that organizations we talked to were addressing included:

- balancing the autonomy of local associations with the need for strong capacity at the agency's regional and national levels;
- mitigating the risk of dominance by urban regions over rural constituencies;
- articulating and finding people with the new skills and capabilities needed for whole-of-organizational (national) governance, within a philosophy of regional representation;
- putting appropriate levels of capacity and capability in place within local, regional and national bodies, and establishing patterns of vertical and lateral relationships where none had formerly existed;
- honouring community origins and the worth of volunteers in the face of professionalization of services;

- establishing or revitalising identity, credibility and position within the community as a strategic statement of intent (rather than selling a brand).

The transitional challenges demonstrated by the Diabetes New Zealand example are to find and sustain governance capability at a national strategic level, and to create the strong united advocacy voice needed to address attitudinal and behavioural change at a population (and political) level. On the ground this will mean that the governing body's composition must be able to provide the skills needed for the new challenge. Unless there is adequate management capacity at a national level, and a clearly articulated rationale for a new level of governance (with commensurate levels of capability), the value of the national office to affiliated associations may be questioned. The new branches will need to feel they have continued importance in creating momentum for change throughout the whole organization. And the branch management committees will need to be willing to embrace a new way of working, where the benefits of collective action (and the part that each branch plays in that) are seen, and old adherence to the societies' autonomy is let go.

Typical relational issues that organizations we talked to were addressing included:

- understanding the purpose of inter-agency relations from the very start: joint efforts on a single (and simple) purpose project, and long term collaboration in building societal awareness, require different resources, which the organizations involved must be able and willing to contribute;
- having insight into and accepting each organization's strengths and weaknesses, and individual missions;
- negotiating interests and expectations in order to articulate the vision for a collaborative project;
- ensuring matching and comparable strengths in management and governance systems;
- having conflicts of interest disclosed (e.g., organizations should be aware if they are competing for the same sources of funding);
- investing efforts into community relationship building, rather than joining resources to provide more services or more efficient services;
- contributing to a larger vision, which requires the development of collective capability at the inter-agency level;

- pushing for collaboration (even amalgamation) in response to changes in the government's funding regulations and arrangements (in order to save and maintain the services for their clients and members or to keep the jobs), without considering the fundamental questions associated with such ventures.

In order to take their organizations forward through relational strategies, CEOs and boards need the key capabilities of generative and systemic thinking. First, they need the ability to understand complexity in relationships amongst different parts of the system (e.g., understanding the impact of demographic changes on a range of government policies or tax regimes; or conflicts of interest in collaborative projects). Second, they should be able to juggle information three-dimensionally and consequentially, across different timeframes and levels of input (e.g., seeing what has to be done today, to start processes of change that interrelate to and impact on other changes that are already in train, or are mooted for some distant opportunity). Third, they need spontaneity to create new approaches when the way forward is not known (trusting individual and collective capability and experience to make sound judgements).

Typical entrepreneurial issues that organizations we talked to were addressing included:

- aligning commercial activities and organizational mission;
- establishing appropriate organizational arrangements for commercial activities
- retaining credibility with current beneficiaries and consumers;
- finding people (board and management) with appropriate business acumen and commitment to work in the non-profit organization environment ;
- selling the need for changes in ways of working and expressions of mission to diverse stakeholders.

The success of entrepreneurial strategies depends on the strength of the alignment between the values and mission of the shareholder and those of the business-development component of the organization. Robust governance and management is a prerequisite for financial elaboration. Our research highlighted that many revenue-generating activities were established quite pragmatically, without taking into account their sustainability or long term implications for the organizations' capacity and capability. While new initiatives are potentially lucrative, they are never cost or effort neutral. Appropriate structures and processes have to be in place to ensure initiatives provide real added value. The greater the complexity of commercial activity, the greater the need for strategic oversight to ensure new initiatives align with organizational values and have commercial integrity. There are

commercial, professional and mission-related risks when entrepreneurial activities depend solely on voluntary labour. Strategic oversight has to mitigate any risks to the non-sustainability of these activities.

Conclusion

As non-profit organizations move into uncharted situations through growth of internal and external complexity and rapid social and economic change, they are challenged to devise new strategic responses and make decisions for a future yet unencountered. To do this, organizations have to become strategically creative, and make choices that impact the breadth of their influence, the integrity of identity and mission, and the extent of the societal contribution they are able to make. They also have to build appropriate infrastructures to ensure tangible outcomes in both the long and short term, which keep pace with the rate of organizational change.

From our research, we identified three areas (structural, relational and entrepreneurial) for morphological change, and gave examples of some typical adaptations. Different theories of action underly each of these strategic initiatives. Each has to be supported by appropriately generative capacity (structures and processes) and capability (individual and collective) to take the organization into an emerging and emergent future. This requires much more than the efficient and effective use of assets and the setting of policies. Frequently it requires non-profits to re-think the very notion of what being an ‘organization’ means in the context of new challenges and new expressions of work and mission. It also requires recognition of the need to re-configure our measures of effectiveness, for at this level of complexity, and this cusp of transition, the outcomes organizations may achieve and the societal changes they are able to effect, may take a long time to be fully recognized. It is this courage and adventurous spirit that energizes the non-profit sector to build and to ‘become’, intentionally, for a better future.

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